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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.

The ambivalence of Latin American agriculture

*Enrique V. Iglesias**

What has happened in rural development in recent years means that one must be very chary of the traditional view that agriculture lacks dynamism and is incapable of responding effectively to economic stimuli. On the contrary, output has grown steadily, export agriculture has expanded, the level of technology used has risen and the organization of production has been changing, and all this is closely linked to substantial changes in the make-up and outlook of the agents of production, and notably to the presence of a new rural entrepreneurial class.

At the same time, the other side of the coin should not be ignored, showing as it does the continued existence of large areas of traditional agriculture and long-standing, stubborn problems such as rural poverty, unemployment and underemployment, malnutrition, the improper use of the soil and other problems, which moreover help to maintain high rates of migration to the cities.

The author emphasizes that greater efforts should be made to overcome this ambivalence in Latin American agricultural development, and concludes with a number of suggestions to guide action in this field, including the need to tackle agricultural problems within the general framework of development, the important role which the State must play, and the necessity of facing realistically the problems of access to the land.

*Executive Secretary of CEPAL.

1. *Difficulties of the topic*

This topic is undoubtedly a very complicated one. It is not easy nowadays to speak of the social problems of agriculture; indeed, it never has been, largely for three reasons which make discussion of the subject very delicate.

Firstly, it is not possible to speak of the social situation of agriculture without referring to the problems of the economy as a whole, since the problem of agriculture in isolation does not exist, just as the problem of the "social situation of agriculture" does not exist in isolation.

This topic, more than any other, forms part of an overall view of, or approach to, the economies of our countries, the sectoralization of which has limits that are clear to all of us. Hence the need to avoid piecemeal analyses, since each of the topics must necessarily fall within a global view of national problems.

The second important limitation is the existence of a wide range of political and economic approaches to development. There is no single route for countries to follow in the field of economic and social policies. The ideological diversity of Latin America in this regard is well known, and this, together with the region's no less varied experience, shows that there are no universal solutions.

In line with their political, philosophical and ideological leanings, the countries have opted for diverse solutions, all of which are encountered within the Latin American spectrum, and which arise with still greater variety in the world taken as a whole. As a result, it is only normal to assume that the special features of each country and its political or philosophical orientation should have a very special place

Note: This article reproduces the main lines of the statement I made at the CEPAL/FAO Technical Meeting held in Montevideo in August 1978.

in the analysis of social problems, and particularly of the social problems of agriculture.

Finally, the third limitation, which we must also mention at the outset in order to prepare the ground properly, is that Latin America is not a single unit as regards the approach to these problems, any more than it is a unit in many other respects. It is increasingly difficult to lump together data in Latin America, and it is increasingly necessary to beware of sweeping generalizations which may lead us into serious error.

The agricultural situations in the countries are very specific and different, both as regards the share of agriculture in total output and as regards the relative importance of rural social problems. Therefore any attempt to generalize suffers from considerable limitations. We are fully aware of course, that common denominators do exist in Latin America, but in identifying and highlighting them we must not be so naive as to think that we can tackle the problems of the region with a degree of generality incompatible with the diversity of actual situations in the Latin America of today.

2. The nature of the topics under discussion

Having pointed out these limits, I should like to make a few reflections stemming from a review we have carried out in the secretariat concerning the work of the CEPAL/FAO Agriculture Division, the main conclusions of which were collected in a recent publication¹.

More than once CEPAL has emphasized the extraordinary evolution of Latin

America in the past 25 years. The Latin America of today is very different from that of the 1950s. This appears to be a truism for those of us who have been fortunate enough to have lived through these 25 years, but it ceases to seem so when one takes a calm look at the differences between the Latin America of the post-war period and the Latin America which is emerging today, on the threshold of the 1980s. It is a new Latin America in the productive sphere, four or five times as large as the Latin America of the 1950s; it is a new Latin America in terms of its external relations, for it is making vigorous progress in its policies of expanding and diversifying its exports; it is a new Latin America as regards the main agents of its process of economic development. New entrepreneurs, new bureaucrats, new development agents, new international bodies and enterprises are operating in the region. It is a new Latin America, too, as far as its society is concerned: there is a new Latin American society, new in the volume of its population and in its qualitative features and distinct class structures. In short, we have before us a new region. It is very important to understand this in order not to repeat mistakes and, above all, not to reiterate concepts and judgements which have in many cases been overtaken by progress.

Because of this, the region is today capable of showing exceptional capacity for economic growth: if we had been told in the 1950s what the Latin America of today would be like, we would certainly have had serious doubts about such assumptions of growth. Nevertheless, this Latin America, which has made this extraordinary effort to develop its productive forces, which has achieved such an appreciable structural transformation, and which may possibly achieve even more in the years to come, is showing at the same

¹ *25 años en la agricultura de América Latina: Rasgos principales 1950-1975*, Cuadernos de la CEPAL, N° 21 (Santiago, Chile, CEPAL, 1978).

time profound and violent ambivalences at the social level.

Economic development has not filtered through to the whole structure of society and, as we have pointed out on more than one occasion, major, acute social problems still persist today, fundamentally rooted in the situation of critical poverty in which a third of the population of Latin America is living, the persistence of high rates of unemployment and underemployment, and especially the fact that economic progress has a significant impact only on certain levels of society, with a bare residual effect on other sectors or strata.

This is a real and objective fact which is perhaps the most characteristic feature of Latin America today: the profound ambivalence embodied by the contrast between the potential for growth which the region has shown and its incapacity to solve its social problems in a reasonable time, before expectations are frustrated by reality.

Within this framework comes the complex of rural social problems, which are basically one aspect of the ambivalent situation prevailing in the region: an extremely vigorous capacity for growth and considerable objective achievements in the economic field, coexisting with slowness in the solution of the severest social problems.

Thus we may say that the central problem lies in analysing how we can extend to the entire agricultural sector this process of modernization which has already, to a substantial degree, reached certain sectors of Latin American agriculture, and how, by this means, we can tackle the severe social and cultural problems which agriculture must face in the coming years.

3. The vigour of Latin American agriculture

In this context, I should like to mention in

the first place what CEPAL has termed in its documents the vigour of the agricultural sector in Latin America. Over a period of many years we have become accustomed to interpreting agricultural development using definitions which we have accepted more or less passively but which have now begun to be challenged by the facts.

Firstly, it used to be asserted that the agricultural sector was the least dynamic sector, the sector least capable of responding to the stimuli of economic policy. Another interpretation held that the fundamental problem of Latin American agriculture was inadequate demand: demand from consumers was not an incentive capable of provoking an adequate response from Latin American agriculture. Finally, yet another interpretation told us that agriculture suffered from a degree of inability to respond to stimuli because of shortcomings in agricultural supply, which were fundamentally due to problems of a structural nature, land tenure and size, which prevented the sector from responding to the dynamic stimuli of government policy.

These three interpretations contain some truth, and they are certain to be brought forward, with various degrees of applicability, when specific cases in the region are analysed. However, we are convinced that they are not sufficient to explain what has been taking place in agriculture. Furthermore, they must be situated within the context of the growth which has actually taken place in Latin American agriculture, and we must begin by highlighting this vigour in order to do justice to the facts.

I do not think we can say, in absolute terms, that agriculture in Latin America has suffered from dynamic-structural inadequacy; at least, the figures do not say so clearly.

In the first place, as far as output is concerned — leaving aside the different

situations in individual countries — the growth rate of Latin American agriculture over the past 25 years has been sufficient to meet the effective demand arising from consumption in the region as a whole, although of course this does not mean that such demand should constitute our maximum aspirations. This demand could undoubtedly be much higher, especially if we placed agriculture at the service of much more dynamic processes aimed at solving social problems. However, we must admit that we cannot speak of a “lack of vigour” in Latin American agriculture when it has recorded sustained expansion of more than 3% a year over the past 25 years, particularly if we compare this record with the performance for the world as a whole.

Secondly, if we examine Latin American agriculture, especially in the last 15 years, we must recognize that it has generated a highly vigorous, though selective, response as regards export agriculture. In a short space of years, some countries of the region have come to occupy pre-eminent places in the export of products of fundamental importance for the rest of the world. Whatever the initial assumption, the foregoing means that agriculture has been able to react and respond to the stimulus of government policies in the field of exports, and that it is, and will continue to be for a long time, one of the essential props of Latin America's exporting capacity. If the response has not been greater, that is largely due to the fact that agriculture has not been allowed to expand; or, to put it another way, the fact that the protectionist policies of the industrial countries — to which I shall refer below — have limited the capacity of Latin American export-oriented agriculture to expand.

Nor can we say that Latin American agriculture has manifested serious shortcomings as far as imports are concerned, since these have remained at more or less

reasonable levels, as CEPAL demonstrates in its documents. Where sharp increases in traditional agricultural imports have been necessary, I would say that the main reason for this has been climatic and similar influences. Even so, in general terms Latin America's external dependence on agricultural imports has not worsened.

Nor does there appear to have been technological stagnation. If the figures are correct, we must accept that in the last 25 years Latin America has increased its consumption of fertilizers twelvefold and its use of tractors fivefold, and that these facts indicate a considerable penetration of technology into the region; indeed, these technological inputs have been an important factor in the process of growth.

Finally, the annual expansion in cultivated area — one of the traditionally important elements in the growth of agricultural output — dropped from 2.7% in the 1950s to 1.9% in recent years, which means that expansion of the agricultural frontier has not been the key factor in the rises in output recorded during the period.

If agriculture is viewed in this way, it cannot be said that it has lacked vigour; broadly speaking, we may say that it has risen to the challenge and that in response to the stimuli of government policies it has in one way or another shown a substantial capacity to mobilize its productive forces.

Together with this vigour, the region has also witnessed a significant transformation in the social structure of agriculture. CEPAL is currently carrying out a project with the specific aim of thoroughly analysing changes in the social structure of Latin American agriculture. These changes may be summed up in three or four main points which indicate the salient elements that have emerged in Latin America's social spectrum as regards agriculture and the rural scene.

First of all, it is clear that a new kind of Latin American agricultural entrepreneur

has emerged. These form only a small group, but one of great importance as far as productive capacity is concerned. Thus, the traditional entrepreneur, linked to agriculture by traditional ties of land tenure, has given way in many cases to dynamic entrepreneurs whose enterprises are based on the criterion of profitability and efficient expansion of production. There is a new agricultural entrepreneurial class, undoubtedly as yet in a minority, which bears all the characteristics of the mercantile entrepreneur — the “Schumpeterian” entrepreneurial class, to put it in economic terms — and is a phenomenon that cannot be ignored in a description of Latin American rural society.

It is also obvious that the transnational corporations have appeared on the Latin American agricultural scene and have come to play a very important role — in some cases becoming one of the principal productive agents, especially in export agriculture. Behind their presence as a part of this new profile of Latin American society, however, stand the ambivalent activities of these firms, which are already well enough known.

We have also witnessed the emergence in the region of an important group of administrators, intermediaries, officials and technocrats who, together, have given rise to the creation of an “intermediate social sector” which has responded specifically to the dynamic stimuli of agricultural expansion.

The rural wage earner has also appeared with new characteristics. These workers are the principal result of the types and forms of farming which have arisen, and while this class already existed a long while previously, it appears to have grown considerably in number in recent years. The large enterprises have created the need for increasingly large numbers of employees and workers, and this has led to the emergence of a considerable new wage-

earning class in the rural social structure of Latin America. At the same time, these changes coexist with the continuance, and even growth, of large sectors of traditional agriculture in Latin America, employing millions of families and persons who continue to live in primitive conditions, barely touched by the benefits of technical progress. The break-up of the traditional structure of rural society in Latin America has, in most of the countries of the region, led to persistent severe social imbalances.

4. *The other side of the coin*

These considerations mean that we must look at the other side of the coin: the vigorous process of growth in agriculture in relative terms, and the appreciable transformation in rural society in Latin America, have been accompanied by the persistence of the old social problems, which have not only not been solved, but in some cases have even worsened. These features are highlighted in various studies prepared by CEPAL.

Firstly, we must record the regrettable fact that rural poverty continues to be the dominant feature of the region as a whole. According to World Bank statistics, about 38% of the population of Latin America, or about 45 million people, were living in rural poverty in 1975. In other words, if we estimate that critical poverty in Latin America affects some 100 million people, half of the poor are in the countryside. This fact is one of those which highlight the contrast between material progress and the situation in which large segments of the rural population are living.

A second, no less important element is unemployment, and above all the high levels of underemployment, which affect a quarter or a fifth of the rural population in some cases. In other words, between 20 and 25% of those who live and should be working in the countryside are unemployed

or underemployed, meaning that a huge mass of people and a remarkable set of human skills are being wasted not only from the economic viewpoint, but also, of course, from the point of view of their ability to help in building Latin American society.

Equally serious have been the problems of migration, which are more acute in some countries than in others but are encountered in all of them. This constant migration from the countryside to the towns has attained really extraordinary levels, and in the past 25 years, 40 million peasants have emigrated to our towns — practically 50% of the increase in the agricultural population. This migration helps to create the belts of poverty which may now be observed around the towns, and which have created a sort of subhuman structure that often accompanies their growth. All this reveals a serious problem: the incapacity of the system to grow sufficiently to absorb these groups from the countryside in productive and dynamic urban activities.

Malnutrition also continues to be an important problem in the region, and in some countries an acute one. Despite government programmes, many of them successful, we are fully aware that, according to the statistics, there are many millions of people at present suffering from nutritional deficiencies.

Nor can we overlook another important factor: poor use of the soil. The special forms of traditional agriculture, or in other cases the bringing into use of new land, have not always respected ecological conditions or borne in mind the need to preserve the soil and the elements which accompany it as a fundamental resource of our economic structure. This means that social problems have also had some impact on the use of the soil in Latin America.

The subjects mentioned above are all of vital importance. Responses and approaches to them at the national level will undoubtedly be very different and contrast-

ing, since not all countries have similar situations in agriculture, nor the same proportions of persons living in critical poverty, nor modern sectors with similar characteristics. Nevertheless, apart from these differences Latin American agriculture displays much more markedly than in the economy as a whole the same ambivalence caused by progress in certain sectors side by side with the persistence of acute social problems.

This is the typical feature of Latin America today. These reflections lead one to reaffirm that, today more than ever, Latin America is facing a great challenge, because it now has the opportunity to solve its fundamental social problems in a way which would have been unthinkable 15 or 20 years ago.

5. Economic and social ambivalence

To put it another way: if we emphasize the ambivalence created by potential for development on the one hand and a set of social problems on the other, it is because we are convinced that the region, taken as a whole, and without denying its diversity, is in a position to solve its severest social problems within a time-span which should not exceed a generation.

Even though these reflections may not be equally valid for all cases, we may still ask why the traditional explanations on rural development are now beginning to seem too narrow and restrictive.

We cannot explain all this ambivalent development exclusively in terms of structural problems, or inadequate demand, or the inelasticity of agricultural supply. I believe that the matter goes much further, and has to do with the type of economic development which has taken place in Latin America in recent years.

To a large extent, the economic development of agriculture has followed the same general characteristics and impulses

as the general system of development, the general style of growth.

On the one hand, the agricultural sector has received its impulse fundamentally from the emergence of new urban structures conditioning the type and level of demand for agricultural products. The structure of agriculture has also been strongly promoted by the external sector, the types of demand arising from it, and its tendency towards internationalization, all of which have imposed certain special features on the development of agriculture.

These two facts have encouraged the emergence of a very important and very necessary modern sector, which has been the main beneficiary of economic policies and of the allocation of resources, as well as of technical progress. However, this modern sector has not been capable of solving the social problems of agriculture, since the traditional sector, where the major social problems I have just mentioned are rooted, has remained outside the range of government policies, and even outside the dynamic context of the economy.

In other words, a social structure has gradually been created in which there exists a modern sector which responds to the dynamic stimuli of a consumer society, and which fundamentally depends on the middle and high strata and on changes and growth in international demand, but there has not been any growth structure capable of stimulating the transformation of so-called traditional agriculture, which, in many countries of the region, remains one of the great and painful challenges to the policies and imagination of governments.

Finally, we might suppose that the problem is one of time, and that if the process of agricultural modernization continues all that is necessary is to wait until it reaches sufficiently high growth rate to solve the problem of traditional agriculture. This attitude, however, seems totally inadequate in view of the magnitude of the

problem and its urgency, both in political and in social and economic terms.

The central problem lies precisely in seeking that governments, in line with their capacity for action, should make it possible for this duality to be resolved not only through the passage of time, but through action and vigorous policies whereby the problem can be tackled much more rapidly and effectively than has been the case to date.

Thinking in these terms means returning once again to what I said earlier. The problem of agriculture cannot be analysed except in the context of all-round social transformation and of the problem of the economy as a whole, and especially of the main factors which have stimulated it. Latin America cannot be built exclusively on the basis of the consumption of the medium and high social strata, nor of the major trends which may arise from international trade.

Furthermore, it is very important that in one way or another the traditional peasant sector should begin to play an active role in the development of Latin America. In this way it will be possible to solve both the economic problem and the social problem involved in the ambivalence to which we refer.

6. Reflections on lines of action

What are the broad lines along which politicians should think, bearing in mind that it is not a question of laying down universal guidelines or advice — since individual situations are markedly different — but of thinking aloud in the light of the facts observed in recent years?

First of all, I should like to point out that the persistence of this imbalance between the urban and rural population cannot continue in its present form in Latin America; this issue must inevitably evoke increasing concern on the part of governments.

We cannot consider the agricultural problem, especially in its social dimension, as a merely residual element in national policies.

For many years agriculture has been the poor relation in overall policies. The predominance of other types of policy has been very marked, and the approach based on social imbalance, or imbalance between the countryside and the towns, has not always served as a basis for the formulation of the policies followed in the region.

A further important reflection arises from the above: the problem cannot be tackled in a piecemeal way, but must be dealt with as part of a set of measures encompassing the entire economy. Having said this, we must not forget that we are not starting from scratch. Governments have a variety of experience going back many years and ranging from thorough agrarian reform programmes, which basically centred the topic around the problems of size and tenure, to the settlement programmes, passing through a whole range of intermediate policies such as technical assistance to agriculture or credit or integrated rural development programmes. In short, we have a broad range of extremely valuable experience, and in some cases the programmes have had decisive effects on the transformation of agriculture. We also have other experience, which has not always been successful, or which has not fulfilled all the expectations placed in it, but which for that very reason furnish a very important basis for thought and reflection.

Bearing in mind a number of general conclusions concerning these policies, I should like to highlight five or six major issues.

A first reflection has to do with the responsibility of the State. I believe that these problems cannot be tackled exclusively on the basis of the dynamics of the market: in some way there must be deliberate action by the State.

This does not mean that I am advocating mere bureaucratic intervention or the stifling of private activity. What I wish to point out is that the issue of social conditions in the countryside must of itself be a central concern for any State, be it developed or developing. This means, today more than ever, that the State's capacity for planning, understood as the need to look ahead, to make provision in advance, and especially to give continuity to agricultural policy, is a fundamental factor in any type of economic strategy. The extent and form of State intervention obviously depends on each country, which will have to define how to approach it and how far to take it; but I am convinced that exclusive reliance on the rules of the market might extend the time perspective to limits which are certainly incompatible with the urgency of many of the problems. Hence I feel it is more necessary than ever to ensure the adoption of policies which are rational and above all consistent and continuous in order to make it possible to carry out programmes with a clear and firm basis, free of improvisation or the hazards of constant changes of approach.

Another reflection is that the long-standing problems of agrarian structures, size and tenure, which for so long have been a matter of concern to CEPAL and FAO, are still with us. We cannot but be aware that 60% of the agricultural population at present have problems of shortage of land in countries where such problems could be solved, since land is abundant. This is a question which each country will have to deal with in its own way; but it is necessary to adopt a realistic approach to the problem of rural agricultural structures, and especially the problem of the existence of large numbers of families lacking access to the land and needing some form of action by the State. Rural development is not possible if the problems are not tackled at their roots, and in many cases this means beginning with

changes in land tenure and other institutional structures which in the past have acted as a brake on development.

A third reflection derives from something which has been demonstrated by the experience of recent years: in countries where the market plays a fundamental role in the allocation of resources, there must be consistency in the application of the rules of the market where agriculture is concerned. Many years have been spent on experiments with partial policies which were very often contradictory and of short duration. Due weight has not perhaps been given to the fact that a very substantial sector of agriculture will respond and increase its output, provided it is given consistent stimuli. If we have economic systems based on a market economy, they must play their role properly, and consequently the management of relative prices or of rates of return is part of a sphere which must be given due importance. In other words, rationality and continuity of the stimuli remain another of the main objectives of any agricultural policy.

Another problem which arises in any national strategy has to do with the reorientation by governments of the allocation of resources. The dynamics of the modern sectors, both in agriculture and in industry, mean that they have a very high capacity to absorb resources: the natural tendency is for the modern sector of our economies to become the major source of demand and to monopolize the resources of society, and as a result, in agricultural programmes, traditional agriculture has to compete with considerable demands from modern urban and agricultural sectors which have greater relative weight, greater bargaining power and greater political weight. Consequently, persistent competition for the use of resources has usually resulted in the past in their benefiting fundamentally the modern part of the Latin American economy, to the detriment of the traditional sectors

which need them in order to offset the disparities existing in our region. The concentration of technical progress in a few focal points, both in the towns and in the countryside, means that the reallocation of resources towards the agricultural sectors must, in coming years, be one of the major imperatives of Latin American governments.

I believe that there is also a technological problem, which arises in all the fields with which we are dealing. Technology has been highlighted as a very important factor for growth in Latin America — and technological progress is very welcome. But we must also recognize that on many occasions foreign technologies have been adopted which are not compatible with either the endowment of resources or the type of social problems which we have in Latin American agriculture. Reconsideration of the subject of technology, an endeavour to reflect on the types of technology which are in keeping with our resource endowment, is another variable without which no programme dealing with these topics can be really viable.

Finally, we should remember an aspect which has been frequently emphasized in CEPAL's thinking: the need to free resources to meet much more diversified and vigorous agricultural demand. Income distribution policies of all types will in fact mean greater dynamic capacity to impel the growth of agricultural demand, so that in this way they offer a renewed stimulus to agriculture.

I shall not dwell on this problem, however, which permeates the whole economic and social basis of Latin American development.

7. Conclusions

We are of course at a difficult moment in both world and Latin American circumstances. Over many years we became ac-

customed to programming our economies within the context of a stable world, and now we must accustom ourselves to a situation which is all the contrary and thus makes our task much more difficult.

Moreover, the situation is even more difficult because we are entering a stage where Latin American society as a whole has become aware of its situation, and the demands facing official policies and governments are becoming increasingly complex.

All this will certainly mean that in coming years Latin America's great challenge will be the transformation of the Latin American State in order to make it capable of responding to these difficulties, both domestic and external, and surmounting the not always easy moments of a complex and capricious international situation.

The old idea of the antithesis between industrial development and agricultural development has been left a long way behind. Today no-one doubts that we must maintain rapid industrial development, but at the same time no-one doubts that, without a vigorous response on the part of Latin American agriculture, this industrial development will sooner or later be held back. In other words, it is not possible to conceive a dynamic and vigorous Latin America in the year 2000 if there is an imbalance between these two aspects. There is a growing conviction that in the Latin America of coming decades the agricultural sector will be a basic pillar of development and that unless this issue is tackled decisively, industrial development itself will run up against considerable obstacles. At the last FAO meeting in Lima we discussed Latin America's agricultural potential, the region's enormous capacity to respond to the challenges posed by its growing population and to turn itself incontestably into one of the world's greatest suppliers of food. This dynamic agriculture is an essential pillar of industrial development,

and thereby of national development. In that context, then, the first point I should like to emphasize is that agriculture will continue to be the major challenge for the development strategy of Latin America and any individual country.

The second point is that agricultural development is, fundamentally, a basic support for the solution of the main social problems of many countries in Latin America.

In many of our countries we are facing problems of poverty, problems of exceptional population growth, and a challenge which no other capitalist, under-developed or socialist region has had to face: by the end of the century we have to double the number of jobs available. I am not talking about the countries of the Southern Cone, which have low population growth rates; in the region as a whole, the 100 million jobs needed to keep the population employed now will have increased to 220 million by the end of the century. It must not be forgotten that, whatever population policies or social policies may be adopted, this population has already been born. This means a demand for jobs which is completely unheard-of in the experience of any of the world's economic systems. I believe we must be aware that there will be no solution to the problem of employment unless some solution is found for the rural social problem, in which employment is fundamental. If agriculture is not enabled to retain the population in a productive way — and with much higher levels of productivity than at present — the whole problem of employment in Latin America will be absolutely impossible to solve. This issue does not only raise a problem of an economic nature, or the raising of productivity: it is necessary to face up to the major challenge which has arisen in some of our countries — the problem of employment.

The third point I should like to make — and which Hernán Santa Cruz empha-

sized many times— is the connexion between all these issues and the international situation. In recent years we have seen a number of political actions, and substantial growth in international meetings, designed to build a new international economic order. CEPAL has associated itself with these efforts, because we believe that it is morally and politically imperative to endeavour to build a new international economic order which is much fairer and much better in the distribution of opportunities. Recently, new issues have emerged, and the whole world has become alarmed and surprised at the poverty of the developing world. Dr. Raúl Prebisch has said that the industrial countries of the North have discovered rather belatedly the acute problem of the existence of large numbers of poor people in our countries. I would add that it is important that the international community, which now appears to be aware of these social issues, should understand that large-scale action by the developed world in favour of our countries, its large-scale co-operation with our efforts to solve our social problems, must begin with a policy to ensure worth-while prices for basic commodities. One dollar more for coffee,

or a hundred dollars more for a ton of meat, will do much more than any rhetoric or any technical and financial assistance for farmers who produce coffee or meat in the countries of Latin America.

It is good to understand that the key to real justice in international terms lies in this problem of remunerative prices, at least as far as this issue of social justice in Latin American agriculture is concerned. Consequently, there can be no effective co-operation by the international community in our efforts if this issue of justice in the prices paid for basic commodities is not tackled decisively, and especially if the protectionist barriers which are still one of the fundamental obstacles to the growth of our output are not eliminated. This must be the focus of our international dialogue.

In conclusion, I should like to repeat that we must not devote ourselves only to invigorating our agriculture, but also to constructing an authentic Latin American society, in which the great masses of people at present excluded can act and participate, thereby involving themselves effectively in the great destiny which we all desire for Latin America.

Accumulation and creativity*

*Celso Furtado***

Surplus and creativity are two fundamental components of development whose relationships are complex and interdependent. If any new surplus broadens the horizon of life and calls for creative and innovative responses, the latter in turn need the surplus as the essential material medium through which they can come into being. Every culture, however, sets limits on the development of creativity which are in keeping with the process of reproduction of the society to which that culture belongs. The limits of the creativity specific to the culture which stemmed from the bourgeois revolution are fixed by the predominance of instrumental rationality, by the progressive subordination of all forms of creativity, and particularly science and art, to the process of accumulation.

After making a general analysis of the consequences of those limits for man's creative possibilities, the author concentrates on the process of creation of new social relations, whose driving force is the mechanism of accumulation. These new social relations, whose creation is triggered off by political activity, take on different forms according to the modality adopted by development, from which stem the various constraints upon social creativity.

*From the Book *Acumulacao, Criatividade, Dependencia num Mundo Unificado*, due to appear shortly.

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Whatever the contradictions which may exist between the different views of history which arise in a society, the process of social change which we call development gains sharper definition when related to the idea of creativity. To reproduce their traditional structures alone, societies need means of defence and adaptation whose effectiveness reflects the capacity of its members to formulate hypotheses, solve problems and take decisions in the face of uncertainty. Now, the appearance of an extra surplus, as a result of contact with other groups of people or simply of access to more abundant natural resources, opens up a range of choices for the members of the society. It is no longer a question of reproducing what already exists, that interval between being and nothingness to which a philosopher has referred, but rather of extending the field of what is immediately possible, in which human potential becomes fact. Consequently, the new surplus is a challenge to inventiveness. From another standpoint, it should be pointed out that if human groups everywhere strive to gain access to a new surplus it is because social life creates a potential energy which can only be released through additional resources. In this double role as the generator of the new surplus and of the creative drive towards new cultural values, this process which releases man's energies is the ultimate source of what we understand by development.

The wonderful range of cultures which have appeared on earth bears witness to the tremendous potential of human inventiveness. If we know anything of the process of cultural creativity, it is precisely that man's potential is unfathomable: levels of accumulation which appear extremely low to us today generated civilizations which, in many respects, have not yet been surpassed. We also know that this creativity acts within a discontinuous space which expands suddenly and tends towards saturation. It is as if the initial message contained a programme which fixes the pattern for the future course of the creative process.

The fact that Greek tragedy appeared and developed over less than a century to reach its final expression, never surpassed —as Hegel, that impassioned translator of Sophocles, argues with conviction— is an indication that a given culture can pass through periods of furious creativity. By allowing the Greeks to deepen their cultural identity and penetrate the mythical roots of their collective subconscious, the theatre enriched their lives from the standpoint of their *weltanschauung* and their self-knowledge. Herodotus, who earned his daily bread by reciting chapters of the Persian Wars in the public square —as a historian he fought against the chauvinism of the Greeks and tried to induce them to discover the rich cultural heritage of the “barbarians”— is an excellent example of the appearance of critical awareness in a culture.

Although we know very little of the laws governing cultural creativity, there is broad evidence that its range of possibilities is much vaster than we are inclined to believe, influenced as we are by our religious and philosophical tradition. With respect to the moral conflict inherent in the human condition, a comparison, however superficial, between Greek philosophy which has so deeply influenced the formation of modern man and is essentially oriented towards the observation of the physical world, and Hindu philosophy oriented towards subjective experience, should suffice to give us an idea of the breadth of the horizon within which man's creativity develops. That development is not haphazard, however: the essence of creative activity develops, as we have suggested, within a structured space. Society, above all, reproduces itself, and in so doing ensures its coherence at the cultural level. Here are to be found the limits to the dialectics of inventiveness, from which it only exceptionally frees itself.

In the culture which emerged from the bourgeois revolution, rationality is one of

these implicit modes or structures which order and subject creativity. An important demarcation line has been drawn to distinguish between creativity connected with the *means* of social activity and creativity relating to the *ends* of human action. This bifurcation of rationality, of which Cartesian dualism is one of the first and clearest manifestations, very probably originated in the co-existence of two cultural systems, the feudal and the bourgeois, in the formative process of modern European civilization. Thanks to it, creative energy could be progressively channelled and placed at the service of the development of productive forces. The history of industrial civilization is nothing but the story of the advance of technology, or in other words, of the increasing subordination of all forms of creative activity instrumental rationality.

Thus scientific research was progressively placed at the service of the creation of technology, which in turn serves to obtain the utmost efficiency in human work. Over a long period, however, scientific investigation had been a higher flight of man's spirit —an expression of that “absolute spirit” which for Hegel was manifested through the forms of artistic, religious, and philosophical experience— an answer to man's desire to gain a better knowledge and understanding of the physical world and of himself. Since the understanding of the physical world is the *sine qua non* for man to be able to transform the world in which he lives and thus continue to press forward with the process of accumulation, it is only natural that science has attained pre-eminence in the culture derived from the bourgeois revolution. Nevertheless, inasmuch as it becomes an ancillary activity for technology, it loses its scope as a fundamental human experience. Much the same is true of artistic creativity, progressively placed at the service of the process of diversification of consumption.

Man's most basic drives, starting from

the need to discover his own identity and situate himself in the universe —drives which constitute the matrix of philosophical reflection, of mystical meditation, of artistic creation and of basic scientific investigation— were subordinated in one way or another to the process of transformation of the physical world required by accumulation. The links between creativity and human life viewed as an end in itself atrophied, while its links with the tools man uses to transform the world hypertrophied. By asserting that science, *by virtue of its very method* and concepts projected and fostered a universe in which the domination of nature was linked with the domination of man, Marcuse shed light on an important aspect of the question, but he also gave a distorted picture of science. It is a manifestation of creativity which can only be understood fully when placed in its cultural context. The methods it uses, which often do not follow the model laid down by the epistemologists, are not wholly independent of the problems it tackles and of the way in which scientists perceive reality.

In the capitalist economy, the process of accumulation walks on two legs: innovation, which makes it possible to discriminate between consumers, and dissemination, which tends to standardize certain forms of consumption. The consumer plays an essentially passive role: his *rationality* consists only in responding “correctly” to every stimulus to which he is subjected. Innovations tend towards a higher level of expenditure, which is the hallmark of the privileged consumer. However, the initially restrictive pattern must be surpassed and spread for the market to grow in all its dimensions. The laws of that growth condition creativity.

Every object of final use which does not proceed directly from nature is the food of human invention, is an *art object*. Its purpose is to enrich the existence of man; the

person who builds his own house devotes his inventiveness to the creation of an environment which makes his life more interesting. The same may be said with respect to clothing, food, and in fact everything which serves as an immediate expression of one’s personality. If these objects are purchased in the market place, the person’s participation in the orientation of his own life is reduced to a minimum, or takes the form of mere social mimetism. His chances are reduced of creating something for himself or within the framework of personal relationships: life as an original project tends to be replaced by a process of adaptation to external stimuli. A person may surround himself with countless objects, but his participation in their invention will have been nil. The objects he acquires and replaces at any time may provide him with *comfort*, but they lack any closer link with his personality. The production of these objects is subordinated to the process of accumulation, for which standardized patterns of consumption are a great boom. Some of these objects may be extraordinarily “sophisticated” and yet short-lived, since the counterpart of intensity of innovation is rapidity of obsolescence. To understand exactly how these articles work requires so high a level of knowledge that the ordinary user will view them as mysterious objects. Furthermore, these objects of consumption are mostly designed bearing in mind their subsequent distribution, although in less expensive models. Thus a set of norms stemming from the process of accumulation is superposed upon creative activity in its most universal expression, i.e., the invention of the life style of a society.

We are not postulating the existence of a transcendental subject which exists prior to any social reality; our purpose is to identify the space within which creativity, in the broad sense of the invention of culture, develops. What we are calling the process of

secularization is not a natural "maturity" of the spirit, as H. Cox and other idealistic supporters of Technopolis would have us think. Secularization is one of the manifestations —at the level of a person's *weltanschauung*— of the subordination of man's inventive activity to *means*. Inasmuch as creativity is placed at the service of the process of accumulation, means tend to be viewed as ends, which leads to the illusion that any advance of "rationality" in the economic sphere helps to liberate man or reduce his alienation. However, this progress does not necessarily lead to a shrinking of the sphere of the irrational in social life, since the ordinary man is not in a position to *understand* the artefacts placed at his disposal, or his *weltanschauung*, nurtured as it is by the communication media, and less populated with mythical elements than in earlier times.

Broadly speaking, all the forms which man's creativity assumes may be placed at the service of the process of accumulation. However, those whose results are by their very nature accumulative, such as science and technology, best meet the needs of the process, which gives them their title to the privileged position they occupy in industrial civilization. *Mutatis mutandis*, without the subordination of science and technology to the process of accumulation, the latter would never have gained the momentum which characterizes it in industrial civilization. The convergence of these two effects causes man's creative energy to tend to be channelled towards areas which are circumscribed and progressively subordinated to the logic of means.

Placed at the service of accumulation and oriented towards the production of accumulative ends, creativity undergoes tremendous growth and gives rise to a civilization in which men, during a fraction of their lives, are exposed to a greater number of inventions than all those known by mankind throughout history. This creative

frenzy, however, takes place within a space delimited by formal rationality; within it man exists principally as an object which can be *analysed*, conditioned, programmed. Non-accumulative creation —which by nature is more dependent on the awareness of final values— has tended to decline in this cultural context dominated by a fragmentary view of man. Thus in the artistic world the tendency to subordinate ends to means led to the replacement of the overall view connected with the concept of style by the analytical approach which led to the concept of language. Formalized languages in an analytical terminology adapted from mathematics invaded manuals of musical composition. A view of investigation based on scientific reductionism has tended to gain more and more ground in the academies of art. In addition, the artistic creations of former times have been isolated from their context, divorced from the spirit of the times which produced them, in accordance with the demands of the processes of commercial distribution.

Romanticism was perhaps the last global view of man to have existed in the western world. It projects a personality which courageously forges its own destiny while at the same time striving to remain in harmony with nature. In his *Iphigenia*, by inverting the spirit of Euripides' tragedy and placing man above the transcendental forces of destiny, Goethe made the foremost work of classicism the vehicle for the new image of man which would set the course of artistic creativity in Europe for century.

Social forms are a sphere of cultural creation in which it is particularly difficult to draw a demarcatory line between ends and means. The invention of new types of association among members of a society and the institutionalization of relations (of cooperation or conflict) among individuals are the highest expression of the inventive capacity of man. Thus in the development of modern capitalism, the invention of the

limited company — the creation by a group of natural persons of an entity with its own autonomous personality and indefinite life — represented a genuine mutation. The invention of the strike — a *sui generis* institution which makes possible the controlled use of violence outside the State— is a mutation of no less significance. As the highest expression of *political life*, the creation of new social forms is inseparable from a system of values; and nowhere are operational aspects of greater importance. Political activity may be placed directly at the service of means: a new legislation on limited companies designed to facilitate the concentration of capital, a law governing patents, etc. It may also contribute to increasing the administrative power, which tends to place itself above the political power through the regulation of legislation. However, in social life nothing is more indicative of the channelling of creative forces towards *ends* than the existence of political activity.

It is precisely in this field that the societies born of the bourgeois revolution revealed exceptional possibilities. The process of accumulation acts as the driving force of a system of highly complex social forces. If at the level of material civilization creativity may concern relationships of cause and effect, at the level of social forms it must be projected against the backcloth of the conflicts and contradictions inherent in social life. The advances and retreats of a decentralized process of accumulation are projected in the social structure in the form of antagonisms and tend towards the self-awareness of groups and classes. This is where the roots of the institutional pluralism of these societies are to be found. Political activation is the necessary condition for creativity to exist at the institutional level, i.e., for social forms to be renewed in such a way that the tension generated by the process of accumulation may be eased. It should not be forgotten that accumulation is inseparable from social

transformations, since it is based on innovation. A summary glance at the development of commercial law shows that the invention of new social forms plays an important role in the process of accumulation, thus channelling energies which otherwise would have caused serious upheavals. However, this would not prevent the expansion of the channels of accumulation —the possibility of creating large productive units— from leading to the formation of great associations of workers with common interests which opens the way to new forms of political action. The crossfire of competition and class struggle —the latter fuelled by the growing relative shortage of labour— gives rise to a complex system of arbitration and a wealth of laws and regulations, for which complex political activity is required merely to keep them up to date. Together with ideological pluralism —the source of the intense political activity characteristic of capitalist societies— there are “super-ideologies” whose function is essentially to moderate. “Nationalism”, “national security”, “the defence of the family” or of “Christian civilization”, are examples of these “super-ideologies” which are invoked over and above the class structure in order to impose greater social discipline or to slow a process of change threatening interests which are no longer legitimated within the framework of ideological pluralism.

In societies where the dissemination of industrial civilization is based on rigid social control and centralized planning of economic activity, accumulation must be in line with an explicit social project (the interest of the toiling masses, closing the gap with the capitalist societies). Social conflicts will be reduced with the growth of a “classless society”. According to the Saint Simonian prophecy, taken up by Marx, “the government of men will be replaced by the administration of things”. Behind this doctrine is the idea that politi-

cal activity is inseparable from the struggle to control the State and with the exercise of power by the State. The building of the new social forms necessary for a society where an increasingly large surplus is generated, is likened to the administration of things, and relegated to the administrative power. Social conflicts are then no more than the expression of the struggles produced by the unequal appropriation of the surplus, the reflection of the exploitation of man by man. However, while ends may also create conflicts in social life, the field of political activity is much broader and more permanent. Conflicts arise earlier than expected, although in new forms, simply because the system of incentives leads to the reproduction of types of behaviour believed to be in keeping with capitalist society. In the absence of a political space in which the antagonisms which are surfacing can manifest themselves, surreptitious forms of political activity tend to emerge, often leading to the dissipation of creative energy. Furthermore, if these conflicts are not confined at the local or the sectoral level, the confrontation tends to take the form of a break with the system as a whole, thus becoming sterile as a source of cultural invention. The historical experience of those countries is an extreme case of the rarefaction of political activity. Under the control of a centralized bureaucratic power, the social forms tend to become fossilized, and finally become an obstacle for the process of accumulation itself. In addition, the passivity to which the population is reduced is reflected in the loss of initiative at all levels where individuals exercise creative activity. In sum, the creation of a political vacuum leads to nihilism, and not to the liberation of man.

Where industrial civilization is transplanted in a context of dependence, the social contradictions spawned by the acceleration of accumulation lead to situations which have their own specific character-

istics. In the case of an indirect transplant, i.e., through the export of primary commodities, the accumulation in the productive system amounts to little, which means that the bulk of the population remains within the limits of the traditional system of social domination. Even slavery may remain in existence for a long time in the production of raw materials, in the framework of the system of the international division of labour. Political activity in this case is reduced to confrontation between groups which share out the surplus among themselves, especially between those which exercise power over the workers through their control of access to land and those which control marketing channels and have access to the metropolitan power centres.

Situations of this type produce caricatures of the political régimes created by genuine social dynamism. Thus in the nineteenth century forms of party-political pluralism existed, operating with elaborate parliamentary systems in countries whose working population remained in conditions of slavery or worse. In such cases little creativity was called for to develop institutions, which does not mean that the transplanted institutions were of no value at all for the evolution of social forms. In the phase of acceleration of accumulation — of dependent industrialization — problems of great significance arise. The social structures are affected by the lack of accumulation in comparison with the technology adopted. Technological diversity is maintained, and therewith the elasticity of the supply of labour continues and even tends to increase. Objectively speaking, this type of accumulation creates more serious contradictions than those which characterized the development of capitalism in the countries that underwent the bourgeois revolution. Their projections on the political level, however, are far from having the same importance. In one way or another, the bulk of the population is kept under

control: the participation of the wage-earning masses in the political process takes place under the control of groups belonging to the traditional power structure. Occasional dislocations of that structure lead to the appearance of 'populist' leaders whose excesses bring about authoritarian purges. It is true that both the populist and the authoritarian paths bring structural reforms or institutional innovations, sometimes of real importance. Even when they

correspond to needs of the process of accumulation, however, these reforms are the result more of cultural mimetism than of genuine political creativity. Given the specific nature of the intensification of accumulation in those countries, inventiveness in the field of social forms is quite as important as in other contexts, or more so. Mimetism, fuelled by ideological domination, replaces one form of immobilism by another.

False dilemmas and real options in current Latin American debate

*Aníbal Pinto**

This article points out the apparent inevitability that any controversy will lead to a *reductio ad absurdum*, that is to say that the points of view under discussion will be carried to an extreme which distorts them and renders the discussion sterile. This seems to apply to a number of dilemmas which taken to their opposing extremes, become false dilemmas or disjunctive propositions which do not reflect the true nature of the options and causes at the heart of the real controversy.

In developing his argument the author selects four highly topical subjects of current debate in Latin America. The first is the controversy concerning the roles of the State and the market in the economic process, a distinction being drawn between the situations which arise in the central economies and those in the developing and socialist economies. The second section contains an analysis of the opposed criteria relating to protectionism, and outlines the form these take in the industrialized and in the developing economies. The third deals with accepted views and disagreements concerning comparative advantages, with emphasis on the specific form in which these are found in Latin America. Finally, the author considers the problem of the opening up of economies to external trade and identifies the different meanings which are attributed to this phenomenon, citing the Brazilian experience in this regard.

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I

The market versus the State, planning, interventionism, and so forth**

Of course, this choice between alternatives is essentially fictitious, since the terms in question have coexisted, influenced, reinforced or contrasted with each other ever since they became crystallized in history. Whether in the capitalist or in the socialist structure, the *institution of the State* necessarily influences the *mechanism of the market*, just as the market influences the specific behaviour of the State —and all this occurs in different forms, directions and degrees depending on specific social circumstances, as will be illustrated below.

Although it is not the main purpose of this paper to embark on an examination of the nature of these concepts and the relations between them, a number of basic elements must be borne in mind.

To begin with, it is well known that the market —independently and in spite of the forces bearing upon it— fundamentally follows the dictates of “economic power”, in other words the purchasing power of individuals or of groups of persons organized in various forms. The so-called “sovereignty of the consumer” is exercised strictly in relation to the purchasing power available, in other words the distribution of income. To paraphrase Orwell, although all are sovereign some are more sovereign than others (and some, the underprivileged, have no sovereignty at all). The set of circumstances which influence their decisions

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—publicity, the demonstration effect, natural or cultural characteristics, and so on— affect this basic rule but do not contradict it. Thus, though some hold that the market's function is to satisfy needs, they often forget to add that this is true only for needs which are backed up by purchasing power. Moreover, in a capitalist (and not a mere barter) society, this will occur only on condition that the operation is profitable for those involved. There is therefore a *double mediation* between the functioning of the mechanism and the overall objective of satisfying demand.¹

Of course, these are obvious and familiar points, but that has not prevented them from being avoided and scorned in the orthodox approach which focuses attention on the abstract *homo oeconomicus* of traditional legend.

The State is a more complex organism, whose purposes and motivations go beyond

¹An opposing view of the market, which could in some respects be described as "starry-eyed", can be gained from this description by an orthodox economist:

"As everyone knows, the economic system is essentially based on the market: in other words, the volume of items produced (and their prices) and the factors of production used (and the amounts paid for them) are determined in the market. What does this mean? Simply that we citizens, through our purchasing power, make our preferences known in the market by giving "signals" to the producers — by means of the prices we are willing to pay for goods and services — indicating what items must be produced in greater quantities and what items in lesser quantities. "High" prices mean that more must be produced, and "low" prices that less must be produced. If prices are "high", the producers will make money, and this will give them an incentive to produce more. In sectors where prices are "high", production will increase and so will demand for productive resources, including labour. This will tend to raise wages and salaries in the sector in question, and this in turn will create the incentives needed to increase supply." (Rolf Lüders, in the newspaper *La Tercera de la Hora* (Santiago, Chile), 23 August 1978.)

the strictly economic in many senses. Its links with the market have changed considerably through time, from the all-embracing tutelage of the pre-capitalist State to the laissez-faire approach of the nineteenth-century liberal State, which gave the market free rein while providing it with substantial support. However, what is of interest to us is the modern capitalist State, and particularly the power groupings which affect its relations. Even though it is possible to discern here the decisive influence of the groups and interests which correspond to the "economic power" of the market, it is nonetheless true that these are offset by other focuses of influence — trade unions, churches, technical circles and the bureaucracy, the intelligentsia, and so on. The balance will depend on the different power groupings and the degree of representativeness of the system. The State, consequently, is not a mere reflection of the power which prevails in the market: there is a more ambiguous relationship, which does not oppose this mechanism but uses the authority of the State to achieve specific ends not promoted by the market or to prevent consequences which it does produce. There is no need to point out that the underlying purpose behind all this is to strengthen the capitalist system, and not to destroy it.²

1. The causes of intervention

The growing intervention of the State in the functioning of the market mechanism has well-known causes extending beyond the list of its "imperfections",³ which Dr.

²The problem understandably looks very different in the socialist economies, to which we will refer in the final part of this section.

³As H. Chenery pointed out some time ago, it would have been more useful if orthodox thinkers had started from the reality of an "imperfect" market, instead of becoming obsessed with the eventual (and impossible) elimination of the "imperfections" and persisting in speculation on the theoretical (?) premise of perfect competition.

Prebisch boiled down to two main elements: the lack of a social horizon, and the lack of a time or historical horizon, in other words a long-term view.

The first element, as already pointed out, is mainly due to the fundamental influence of income distribution and the derived effect of "circular and cumulative causation", according to the category established by G. Myrdal, but it extends further, to its economic and technocratic limitations, which undervalue or ignore a variety of ethical, cultural, psychological and other aspects crucial to living in society and often contradicted by the logic of the market.

The extensive critical literature on the traditional acceptance of the concept of growth and the contradictions of the "affluent society" offer sufficient evidence of this first of the market's vulnerable flanks.

The limitations of its temporal horizon are also transparent. To save argument it is perhaps sufficient to refer to another continuing discussion, on the "limits to growth". Whatever the particular assessment of the criteria involved, the various analyses have made clear the market's lack of sensitivity as regards taking account of damage to the natural environment and anticipating the many problems which inevitably accompany the historical pattern of development, particularly in those centres of population which are supposed to represent the pinnacles of progress.

The gap between the postulates of the orthodox approach concerning the nature, functions and effectiveness of the market mechanism and the real objective circumstances — those relating to economic, social and political issues, external links, and so

on— is even more flagrant if the actual situation in the peripheral countries is considered.

On this subject, in order not to dwell on already familiar side issues, it is useful to reread Dudley Seers' article on "The limitations of the special case".⁴ This article systematically sets out the characteristics which—in real or hypothetical terms— underpinned the orthodox theoretical edifice, and brings out their obvious contrasts with the context of the underdeveloped countries.

Moreover, the criticisms of the social indifference and the short-sightedness of the market mechanism which have been put forward in the central economies— precisely the scenarios where it has worked with the best results — are of even greater validity in the peripheral countries, where the problems which this mechanism creates or fails to solve (poverty, unfairness, destruction of natural resources, dehumanization at the national and cultural levels, and so on) are so much more serious.

These, then, are the reasons which have led to general agreement that it is the responsibility of the State —and, in current versions, of its most refined instrument, planning— to introduce or expand the time or social horizons of the market mechanism.

2. *The defence of the market*

Nevertheless, this clear trend has not prevented the orthodox ideology from persisting in its assertion of the supremacy of the market as the guiding force in the economic process and rejecting the idea of increasingly intensive and widespread participation by the authorities.

A most important fact stands out at the outset: that the present revival of the orthodox canons concerning the role of "market forces" is occurring in historical circumstances where the prevailing view is one of clear criticism not only of the sovereign market's effectiveness but even of its very

Bulletin of the Oxford Institute of Economics and Statistics, May 1963. This article forms part of the bibliography used for the courses given by the Latin American Institute for Economic and Social Planning (ILPES).

existence, at least in the original, "textual" theoretical conception. Going beyond the myriad arguments and proofs about the imperfections of the market and its remoteness from the pseudo-academic fiction of "perfect competition", some writers have even postulated, from various points of view, the existence of a "postmarket economy".⁵

Another striking fact is the growing concern in the central countries about the desirability, dangers and possibility of ad-

⁵One advocate of this concept, Ronald Muller of the American University in the United States, summarizes it in the following terms in his article on "National economic growth and stabilization policy in the age of multinational corporations: the challenge of our post-market economy":

"Let us reemphasize what is meant by a post-market economy. It is one in which the social function of the market, as an institution for equilibrating the economy, has been negated. Yes, there are markets in the sense of a 'commodity-space' indicating the total number of goods produced or consumed, but in the institutional, functional sense, which is explicit in the classical and neoclassical foundations of macro-policy, the market has largely been negated. The function of the market as a social institution is to generate price signals through the forces of supply and demand as carried out by independent buyers and sellers. In the Keynesian synthesis, these signals are relied upon by private business people, unions, and public policy-makers as indicators for decisions which govern the allocation of resources and the distribution of income. Where the market is operative, these decisions theoretically should result in full employment, price stability, and balance of payments equilibrium. Systematically, i.e., neither by intent nor design, but by the outcome of modern corporate competition, MNCs (multinational corporations) are a major source of market negation. They are so first, by the process of increasing aggregate concentration accompanying their expansion which increasingly distorts price signals. Second intracorporate transactions negate the market's social function, by definition, because they completely bypass the market. Market negation is another significant aspect of the Post World War II structural transformation of the United States political economy which has yet to be met by a transformed public policy outlook."

aptation of planning techniques in capitalist economies: a field in which, of course, the major corporations have already built up considerable experience. Not for nothing did J.K. Galbraith call them "private planning agencies". All this, as is obvious, implies a redefinition of the functions of the State and an increase in its already decisive influence on the management of the economic system.⁶

E pur si move... This clear trend has not, however, prevented the orthodox ideology on the subject from persisting, and although it has become weaker over the long term, it has temporarily gained strength from time to time in favourable economic and/or political circumstances. What is the reason for this contradiction?

A major reason is that the market mechanism which regulates the distribution of a society's resources, is very far from having reached —to use the Marxist metaphor— the moment of relegation, like some other institutions, to the "dustbin of history". And as long as an economy limited in some form and degree by scarcity exists, it appears certain that the market will continue to play a very important role, even though debate will continue on its relative significance and its ultimate fate if circumstances arise which are radically different from those characterizing the economy of the present and the foreseeable future.

A lesser explanation, but one which is nevertheless significant and reflects the influence of passing conditions, lies in the evident fact that the periods of "resurrection" of the market dogma —which like all dogmas is transitory— usually follow periods of crisis in heterodox policies. This is so, for example, in the case of the inadequacy or loss of momentum of the Key-

⁶See *Perspectivas económicas* (United States Information Agency, Washington), N° 15 (1976), issue devoted to "El debate de la planificación en los Estados Unidos".

nesian variant in some central countries, or the failure of some populist or revolutionary experiments elsewhere. The return to the theories of the past, which some advocates curiously describe as a step forward to the future, is reminiscent of a movement observable in the history of European culture, especially at the end of the last century, when the exhaustion of artistic creativity led to a new vogue for the Graeco-Roman heritage as a source of inspiration.

3. Possible forms of intervention

Leaving behind the previous discussions, and accepting as a fact the increasing regulation of the market mechanism, we must now briefly consider the forms which such regulation may take. Thus, we may say that the regulation takes place *through, outside or against* the market.

The terms involved, when put in this way, are to some extent artificial, since it is not at all difficult to imagine real situations where these possibilities exist or arise in combination. Furthermore, it can be held that whatever measure is taken the market will always be involved to some extent. Let us suppose, for example, that certain goods are directly distributed, free, to an underprivileged sector. Although it might be maintained that such an action avoids or goes against the market forces, it is nonetheless linked with such forces in reality, inasmuch as the products must be purchased, and this will have various effects on supply and demand, prices and so on.

Without prejudice to these objections, there is nevertheless a valid and significant difference between decisions by the authorities which encourage and are grounded in the "spontaneous" operation of the mechanism and those which, in different forms and degrees, deviate from or run counter to its inherent tendencies.

In order to illustrate this we may consider a capitalist economy and see how this non-

exclusive choice between distinct alternatives arises.

At the outset (and subject to the inclusion of other considerations later) let us note that, in a system of this type, the market falls within an institutional framework characterized by private or corporate ownership of the means of production. This framework is fundamental to its mode of operation.

Having established this basic premise, let us imagine the possible aims of a system of planning as conceived in some European countries. On the one hand, its dominant intention is *indicative*, that is, to make good or correct cases of temporary short-sightedness of the market by identifying signals and pointers towards the future which ease the task of decision-making and ensure that the decisions are consistent. On the other hand, however, the plans are *mandatory* as far as social expenditure and investment, for example, are concerned, and from this angle they correct or contradict the original scheme of distribution laid down by the market by its own "will" or, better, through the influence of the tendencies rooted in the existing structure of distribution.

The problem arises in a different way in the "developing" capitalist economies. The institutional basis may be similar, but there is fairly wide agreement that the market's imperfections are much greater and, as a result, its relative effectiveness substantially lower.⁷ In addition, while in the central countries the changes are planned within a context of relative continuity, in the others they generally involve discontinuities or breaks whose specific purpose

⁷ For a thorough discussion of this topic, see Raúl Prebisch, "A critique of peripheral capitalism", *CEPAL Review*, No. 1 (First half of 1976) (United Nations publication, Sales No.: E. 76. II. G.2) and the comments thereon in *CEPAL Review*, No. 4 (Second half of 1977) (United Nations publication, Sales No.: E. 77. II. G. 5).

is to eliminate the structural characteristics of underdevelopment. Thus, the allocation or reallocation of resources calls for mandatory changes when this aim is absent from, or runs counter to, the inclination of the market mechanism.

In order to illustrate this fundamental question it is sufficient to compare the very narrow margins of argument or disagreement involved in programmes for economic and social development in, for example, the countries of northern Europe, with those which are implied in principle *or in practice* by policies for Latin American development in such aspects as social implications, external linkages, and so on. The discussions concerning styles of development offer good evidence of this. In short, the mandatory component will tend to be larger than the indicative element in public policies which represent alternatives to the "free" operation of the market. At the same time, it is vital not to ignore or underestimate the complex and much discussed problems of the legitimacy and representativity of the forces which aim to offset or correct the logic of the market.

This argument does not imply, of course, that the desired transformation cannot, as far as is possible and necessary, be effected *through* the market, and still less that the latter's existence and power should be ignored; but the strategy of transformation will have a limited range of influence if it is not combined with action in two main directions.

The first of these directions is that of making some of the resources to be allocated more "independent" of the rule of the market. This is what happens in practice with the social expenditure and basic investment of the State. These are allocations which are *outside* and even, in a certain sense, *against* the market, but although their results will depend on the vigour, effectiveness and permanence of the decisions taken, they will nevertheless obviously

have limits deriving from the nature of the capitalist economy itself and also other more obvious restrictions, such as the availability of resources, consistency between action, dependence on external elements, and so on.

The second basic direction is aimed at a more radical purpose: that of modifying the structural conditions which determine the specific nature and functioning of the market.

Income distribution strategies may serve as an example to illustrate this issue. As already noted in some CEPAL works; it is essential in this area to distinguish measures with a redistributive purpose from those which are strictly distributive. "Distributive policies are those which have the aim or result of modifying the conditions which determine the "original" distribution of income. Redistributive policies imply only changes in this distribution effected after the fact. Of course, these are not watertight categories, and in reality policies of a mixed type may be identified."

Clearly, the distributive strategy goes beyond the economic framework. Consequently, the paper referred to above distinguishes three principal aspects. The first relates to the structures of production, which are characterized by the coexistence of technological strata ranging from the "primitive" (including even pre-Columbian) forms of existence to the modern sector, where productivity is similar to the averages achieved in the central countries. The second aspect relates to the nature of the typical social relationships in the various productive strata, which have to do with the

⁶See in this connexion Aníbal Pinto and Armando Di Filippo, "Notas sobre la estrategia de la distribución y la redistribución del ingreso en América Latina", *Trimestre Económico* (Mexico City), vol. XLI (2), N° 162 (April-June 1974). This paper was presented at the Seminar on income distribution and development, held in Santiago, Chile, in March 1973.

relationships of labour and ownership and the bargaining power of various groups and classes. The third aspect arises from the power structure, and can be seen first and foremost at the political level, involving as it does the representativeness and legitimacy of the institutional systems.

There is no need to repeat that actions aimed at achieving the transformation of these circumstances are not generally planned through the market, although they may make use of it. Indeed, it could hardly be otherwise, since they imply and demand both a modification of the very basis of the market mechanism, as it exists at a given moment, and a limitation of its application with the purpose of introducing certain social and time horizons, to which reference has already been made. These are the crucial responsibilities which must be assumed by the State and the planning machinery, to the extent, of course, that the political nature of the former and the efficiency of the latter make it possible to assume and discharge them.

Perhaps, on the basis of the above discussion, we can now reformulate the false dilemma between State and market in terms closer to the real situation in modern capitalist societies. On the one hand, it is clear that the State has an indispensable and unavoidable role to play in laying down major social objectives and ensuring that the market forces adjust as far as possible to them. On the other hand, in the efforts to secure this it is impossible to ignore the historical validity of the market in a society dominated by scarcity, so that what is done to modify its basis and redirect its thrust cannot reach the extreme of provoking what—in the light of various historical examples—might well be described as the “revenge” of the market.

4. The situation in the socialist economies

In order to round out the discussion and further clarify this complex problem, it

may be useful to refer briefly to the corresponding situation in the socialist economies, in order both to gauge the contrast and to indicate certain similarities.

If we take as an example the historical evolution of the Soviet Union, few will dispute that the basic instrument for the allocation of resources has been the five-year plans, backed by the absolute political power of the State and the Communist Party, and also by the public ownership of the means of production, subject to a few exceptions—as in certain minor aspects of agriculture—which do not alter the main fact. These were the institutional means used to achieve the priority economic and social objectives, and they made it possible to ensure consistency among these objectives in macroeconomic, technological and material terms to a degree compatible with the functioning and expansion of the system.

Income distribution and expenditure on consumption were also strictly controlled through drastic restriction of the “sovereign” operation of the market, partly by means of rationing but most importantly by “manipulation” of relative prices using indirect taxation and/or price fixing by administrative means. From this latter point of view it might well be said that secondary means were used for acting *through* the market.

It is fairly generally agreed that, more recently, the considerable diversification and greater complexity of the Soviet economy had led to a change in the relative importance of policies “independent” of the market—outside or against it—and those which make use of it within the parameters laid down by the plan and the institutional structure.

While we will leave aside discussion of the general significance of this change, it is worthwhile elaborating on this point in

the light of a recent study⁹ by a Soviet economist concerning the problems posed by, and means required for, adjustments to the structures of supply and demand, specifically in relation to the new circumstances in which this issue is arising in the USSR.

The author draws a distinction, of course, between questions relating to aggregate demand and questions of demand for specific goods or services. Concerning the former, there is no need to linger over criteria which are already quite familiar.¹⁰ Of greater relevance to the present discussion are those related to "the control of the microstructure of demand". According to the author, the task is not only to satisfy total effective demand; "the most important thing is the kind of commodities that the consumer will find in the store and the degree to which he will be satisfied with their assortment and quality". After referring to the extremely clear and crucial significance of transformations in the volume and

composition of supply and of technological progress — matters which are largely the responsibility of the planning system — he highlights the importance of the mechanism of retail prices, the use of which:

"is based on the interrelationship between the level of the retail price of a commodity and the magnitude of demand for it, which, as we know, is characterized by an inverse dependence... This circumstance makes it possible to stimulate (and sometimes to restrain) the demand for commodities through planned changes in the retail prices of individual commodities."

Finally, Levin draws attention to the important role of the means required to influence the choices of the individual consumer. In this context he states that:

"the task of controlling demand through social and indoctrinational measures boils down to influencing the consumer's choice by shaping the preferences, opinions and tastes of individual consumers and to directing this choice into a sensible framework for the satisfaction of the normal needs of the members of socialist society, in keeping with ethical and moral demands".

We find ourselves, as we can see, on familiar ground. Nevertheless, the similarity to the use of the market mechanism should not lead us to forget the substantial differences in the basic context in which processes operate. From this point of view one can certainly defend the view that this use of the market is complementary and subordinate to the State-Planning complex, in other words that the situation is more or less the reverse of that prevailing in a capitalist economy.

This particular type of relationship among the terms in question has often been the subject of criticism, even in socialist circles, as regards its efficiency in the allocation and proper administration of resources. Without lingering on this point,

⁹ A. Levin, "Problems in the control of consumer demand", *Problems of Economics*, vol. XVI, No 8 (December 1973), pp. 81-104.

¹⁰ In this regard Levin writes: "The control of aggregate effective demand is a part of the problem of controlling the process of socialist reproduction on the whole. In the given instance the most effective means of controlling demand is the mechanism of planned formation and alteration of the most important national economic proportions. The point is that the dynamics of aggregate effective demand and its quantitative dimensions and boundaries are largely the accumulation fund and the consumption fund, determined by the development of all social production, by the basic proportions of the national economy, and in particular, by the proportions between Group A and Group B in industry, between the accumulation fund and the consumption fund, between the growth of the production of consumer goods and the money incomes of the population, etc. Therefore, by shaping these key proportions in social production on a planned basis it is possible to control the dynamics of the aggregate effective demand of the population and to assure its correspondence to the supply of commodities" (*ibid.*, p. 84).

it is worth noting that the criticisms have largely concentrated on the so-called "microstructure of demand" referred to above. On the other hand, it would be difficult to extend them to the consistency of means and ends or to the overall adjustment of the system. As is generally accepted, the achievements are considerable, as regards both the development of the productive potential and the satisfaction of what are

known nowadays as "basic needs". In this last sense, with average income levels much lower than those in the advanced capitalist economies, the socialist countries have achieved standards of education and health, for example, which compare favourably with the highest in the capitalist world. In other words, they have undoubtedly been "efficient" from the social point of view.¹¹

II

Protectionism versus... what? Elimination of all protective barriers? Complete liberalization?

Unquestionably the dilemma has no meaning in the form given above, and what is actually involved — particularly in the developing economies — is the various ways and means of reconciling enlightened protectionism with the possible benefits of external links and the international division of labour.

As a start to the discussion it may be useful to introduce into the analysis a few relevant observations emanating from CEPAL, although these certainly do not add up to a general theory on the subject.

On the one hand stands the historical fact that the instruments of protection (tariffs, the exchange rate, administrative provisions) applied during the post-crisis period, which established the "protectionist situation", were on the whole not attributable to the aim of developing import-substituting industrialization, but were due to two intertwined elements: shortages arising from external imbalance, and discrimination in the use of absolutely or relatively scarce foreign exchange to meet domestic demand. From this point of view, this policy differed substantially from

the cases of spasmodic determination to impose "deliberate protectionism" for the benefit of certain industrial activities in the era of externally oriented growth. Consequently, the post-crisis practices constituted "protectionism by derivation", and became crystallized in a protective structure which was much more all-embracing and had very high defensive barriers

¹¹ Returning to an aspect mentioned above in passing (see page 4), it should not be forgotten that the element of profit or gain, although it has acquired greater importance with the growth and diversification of the socialist economies, is still not a decisive factor in the drawing up of objectives and priorities for the system. It has a clearly significant role, however, in assessing efficiency in the use of resources, contributing to adjustments in the microstructure of demand and serving as an additional incentive for managers and workers. Here, to use a classification by Pigou, there continues to be a fundamental difference between the "fact of profit" — as a basic guide for the allocation of resources in a capitalist or market economy — and the "profit motive", which signifies only the quest for personal benefit (see P. Sweezy, *The present as history*, New York, The Monthly Review Press, 1970).

which had little to do with the actual requirements of industrial promotion or other threatened activities. This general verdict is not invalidated by the existence of certain exceptions — as in Argentina and Brazil — which show a clear industrialization aim.

These facts were pointed out in numerous CEPAL documents as early as the 1950s.¹² From this viewpoint, then, there would be justification for efforts to “rationalize” the inherited protectionist system, as regards both tariffs and other measures permitting greater use of administrative discretion. However, this possible approach certainly does not imply the negation of the general protectionist argument, which has a solid and well-known basis, to which reference will be made below. To think otherwise would be equivalent to “throwing the baby out with the bath water”.

Another outstanding aspect is the old CEPAL argument concerning the difference in the nature and effects of protectionist measures as between industrialized and under-developed economies. To sum up: when applied on the periphery these measures have no overall restrictive effects on external trade, as is unequivocally demonstrated by the chronic tendency of the countries of the periphery to record a deficit on external transactions. In contrast, they usually do have such effects when they are introduced by the central economies. In other words, while in the latter they tend to reduce imports (and as an indirect consequence the exports of the affected parties), in the former they essentially affect not the *magnitude* but the *composition* of purchases abroad.

¹²See *En torno a las ideas de la CEPAL: Problemas de la industrialización en América Latina, Cuadernos de la CEPAL N° 14* (Santiago, Chile, CEPAL, 1977), especially chapter II, “Industrialización y protección”.

A rather extreme case which illustrates the contradictions that arise when this distinction is ignored may be found in recent statements by United States representatives concerning the need for Brazil to “liberalize” its import policies.¹³ It is obvious that this demand cannot be linked with any restrictive impact — the usual pretext in this type of behaviour — in view of Brazil’s persistent large current account deficit in recent years, but must be linked rather to discrimination affecting the composition of purchases made abroad.

Looking at the same problem from another point of view, this failure to distinguish between the specific circumstances of the centre and the periphery leads to a paradoxical situation. While criticism of the protectionism (using unconventional means) practised in the industrialized economies is increasing and reviving, and is focusing on the economies with persistent surpluses (the Federal Republic of Germany and Japan), the anti-protectionist trend is also gaining strength in some Latin American circles, even though the circumstances are fundamentally different in the two cases.

As has been argued, here we have two trends with quite distinct origins and objectives. In the first case, it seems clear that the aim is to *increase* trade flows and to help to achieve a return to balance in transactions between the centre and the periphery and between the central countries themselves. In the second, it is difficult to imagine effects on the volume of foreign trade, but it is possible to see clearly the effects on the *composition* of imports, which would inevitably tend to reflect the “market forces” (i.e., income distribution) and to diverge

¹³For example, a speech by the Assistant Secretary of the Treasury of the United States, C. Fred Bergsten, to the American Chamber of Commerce in São Paulo on 8 December 1977.

from the aims of any deliberate effort in the field of socio-economic policy. The isolated attempts in this direction speak so clearly for themselves that further argument is unnecessary.

The mere fact that protectionist backsliding is persisting where it is most difficult to justify it — because of the high average productivity of the economies and their greater structural flexibility in adjusting to new circumstances — is a convincing argument in favour of the legitimacy of defensive measures in cases where the facts are appreciably different in these two respects.

Undoubtedly, behind the variety of excuses put forward, ranging from opportunities for infant industries to considerations of strategy and sovereignty, two fundamental interrelated facts stand out. One is the large “productivity gap” between the under-developed and the central economies, which justifies the principle of un-

equal conduct or treatment between non-equals. The other is the no less obvious fact that the activities where this gap is absent or minimal — and which therefore require no protection — are small segments of the economy, principally primary activities, which would not allow the system as a whole to be extended (even unequally) and would be incapable of absorbing the labour force. It goes without saying that these are two key points in CEPAL’s treatment of this subject.

It is clear, moreover, that these two points are not put forward to justify indiscriminate protectionism, but merely a rational application of the basic principle that the numerous economic, social and cultural influences and the historical and political context must be taken into account in each period or moment. This very general formulation can be greatly clarified if the following “dilemmas” are examined.

III

Comparative advantages versus... what? Non-comparability of advantages? Absence of coercion in the allocation of resources?

The *reductio ad absurdum* in this field has meant that a fundamental and extraordinarily complex issue threatens to become an ideological myth or oversimplification.

David Ricardo cannot be held in any way responsible for this. Like other great representatives of classical thinking, he carried out a highly abstract exercise in the light of assumptions and objective data which were clearly identified as regards their nature and historical setting. The

profound change in circumstances which has taken place does not negate the truth or relative accuracy of his deductions, though it does substantially reduce their explanatory and normative force.

In the course of this process of change, comparative advantages based on the natural environment or a specific historical (and static) situation were superseded (but not negated, in the dialectical sense) by the so-called acquired advantages. The

latter, which are a pre-eminently dynamic concept, are the product not only of technical progress and its spread, but also of political decisions which are essentially voluntaristic — not in the pejorative meaning of the term, but in the senses bounded by the limits of what is possible and desirable. Japan's experience is always cited as an example of this evolution, but in modern development there are many other cases where natural and acquired advantages combine in various forms and proportions. From this viewpoint, certainly, one must not forget many Latin American countries in which the relative proportions of innate and acquired advantages have changed radically, especially during the past 50 years.

So far we have not mentioned anything new, but the review is useful in bringing us closer to the nub of the discussion.

Whatever the relative importance of the components, it is certain that the problem of comparability — the problem of allocating resources in the future (or reallocating the use of existing capacity) in line with the criterion of differential advantages — remains in effect.

The most orthodox view upholds a guiding criterion which is very clear and categorical (at least in its ideological presentation): namely, that of comparison with international standards, which are basically determined by the levels of productivity and prices prevailing in the central economies. Greater or lesser competitiveness as compared with this point of reference will determine the "economic viability" or "efficiency" of the activities in question. "Comparability" with these levels will justify their existence; "comparative disadvantages", their elimination.¹⁴

¹⁴In certain ways this operation would appear to imply the "end of under-development", in so far as its fundamental features refer to the productivity (and income) gap compared with the

This is, of course, the extreme version of a "Darwinian" logic which has never actually prevailed. However, it would be a mistake to underestimate the past and present importance of this view in international economic development, particularly in the peripheral countries. Springing up as it did in the favourable soil of imperial Britain, it is another of those spectres which are still haunting the world.

In its literature CEPAL necessarily had to face up to this topic when advocating industrialization and criticizing the "outdated model" (Prebisch) of the international division of labour.¹⁵ In these notes it is not necessary to recapitulate the reasoning in detail, but it is worth while summing up the central argument, the essential point of which is not so much the productivity-price comparisons with alternative items from abroad as the contribution to domestic supply which can be made by labour which is unemployed, underemployed or vegetating in activities with insignificant productivity and social priority.

Clearly, this valid option does not mean that any kind of initiative whatever is permissible. Apart from physical, technological, market-size and other limitations, the predominant considerations will be those rooted in the different social marginal productivity of the aims¹⁶ or other criteria,

centre, and structural heterogeneity. Unfortunately, it is not very clear what would happen to the "inefficient" activities and the work force associated with them.

¹⁵See, for example, CEPAL, *Theoretical and practical problems of economic growth* (E/CN.12/221), chapters II and III.

¹⁶On this subject, Prebisch points out that: "The increment of capital should be utilized so as to maximize production, which is only possible when the marginal productivity of the different investments is equalized... "This criterion offers a basis on which to determine the best means of utilizing the limited capacity to import, that is, which

which may also be non-economic. Here, then, lies the principal criterion which defines "comparative advantages" and by derivation — and this must be borne in mind — also serves as a guide for rationalized protectionism.

The above considerations obviously correspond to the discussions on import-substituting industrialization in circumstances where the capacity to import is evolving unsatisfactorily. The extraordinary growth of international trade and/or external credit in the period beginning in the second half of the 1960s restated the problem of comparative advantages in terms of another pair of options: not so much the choice between the waste of idle or underused resources and the opportunities created by protected and "inefficient" industry as the choice between an allocation of resources which economizes on foreign exchange (and frees it for other purposes) through substitutive production, and the generation of foreign exchange by means of a rise in exports and in external loans and investment.

products that were formerly imported should be replaced by domestic production, and which it is more advisable to continue importing. The advantage of developing an iron and steel industry instead of a heavy chemical industry, or of developing domestic production of all the footwear required by the population, or of the cultivation of all the wheat at present imported, will depend on the comparative increases of production which can be obtained in the different activities, according to the diverse alternatives open to the investment of the available capital besides other conditions influencing productive efficiency. If the same amount of capital as is required by an iron and steel industry gives rise to higher productivity in that industry than that in other activities replacing imports, its development will be economic, despite the fact that its cost may be higher than that of the imported product. It may be higher, but not so high as in other cases, given the average level of productivity in the country." (E/CN.12/221, p. 42.)

Basically the change is very deceptive, since the second dilemma reconstructs the argument of the defenders of the "outdated model". Nevertheless, there is no doubt that the events of the past decade referred to above have put new life into the orthodox position. Moreover, since the much maligned import-substituting industrialization of the past has now made it possible to broaden the exporting base with various manufactures (which for Latin America already represent about a fifth of the total), its Victorian view of the international division of labour has in part been rejuvenated.

This new angle to the problem prompts many observations. First and foremost, the revised version rests on a record of world economic and commercial performance which has been modified considerably since the oil crisis, and even before, as a result of the difficulties encountered by the central countries in maintaining a stable high rate of activity; I refer, of course, to the phenomenon of "stagflation".

A second observation, which is probably more important for the discussion, lies in the fact that even if one takes a cautiously optimistic view of the matter, either concerning the prospects of the industrialized economies, or concerning the margins within which the peripheral countries are likely to have opportunities other than those referred to above to continue to increase and diversify their exports, questions of fundamental importance still remain concerning the nature and consequences of industrialization-oriented policies.

Two versions of this approach may immediately be imagined. In the first, the dilemma of whether to obtain foreign exchange by means of exports or through "internally oriented" industrialization is resolved and dissolved by the fusion of the terms of the choice, which instead of being mutually exclusive strengthen one another. It is recognized that an effort to industrial-

ize may have as a consequence a prompt or eventual increase in exports (as has usually happened in practice), in the same way that progress in exporting may also promote industrialization through its forward or backward linkages (as has also happened in some cases).

However, in the other version —situated at the opposite extreme— the dilemma tends not towards a synthesis of (relative) opposites but towards the full blooming of their antagonism. From this viewpoint, import-substituting industrialization (past and future) is rejected as a matter of principle — unless it meets the strict and limiting requirement of international competitiveness,¹⁷ which in many cases will imply foreign control. The backbone of the policy will therefore be promotion of exports, and particularly exports from the primary or mining sector where natural comparative advantages are greatest. For a substantial proportion of these exports —for example exports of mineral origin— foreign investment will be clearly predominant.

In summary, this second route would involve a revival of the classical model in broadened and modernized form, with roughly similar social and political consequences —insufficient employment, highly unequal distribution, a radical split be-

tween the structures of production and consumption, and considerable internal and external tensions.

As already noted, this is a choice between extremes, but it may be useful in identifying various specific models, depending on whether they approach or differ from the standard model.

In closing this brief examination it is worth noting a clear and fundamental aspect: analysis of these and other related issues cannot make much progress without considering the great differences in national circumstances. As is obvious —and this is confirmed by international experience — each of these dilemmas assumes very specific features depending on the present or potential size of the domestic market. There is little doubt that there is a clear, though variable, link between this factor and the degree of openness of the economies (including the levels and forms of protection and the nature of the options as far as comparative advantages are concerned). Even so, the most fortunate cases of countries with relatively small domestic markets (such as the Scandinavian countries) unequivocally show their closeness to the first version we described, i.e., that in which industrialization and openness to the exterior combine instead of clashing.¹⁸

¹⁷ It should be noted that this competitiveness may not depend solely on real or physical productivity, or at least not so much on this as on, for example, a level of wages so low that import-substituting industrialization becomes economic from the "competitive" business viewpoint.

¹⁸ In Sweden, for example, exports represent about a quarter of the DGDP, which demonstrates the importance of internally oriented industrialization. And even where the proportion of exports is much higher, as in Norway (about 40%), this goes hand in hand with, and is backed by, intensive industrialization aimed at the domestic market.

IV

“Openness” versus . . . what? Autarky?
Unwillingness to increase or diversify exports?
or to expand imports?¹⁹

Obviously, the controversy is not put in such uncompromising terms.

Basically, in spite of all claims to the contrary, almost everyone is a supporter of openness, for various reasons, to different extents and in different ways, and this was the traditional attitude adopted in work carried out in CEPAL.

It so happens that some views of this phenomenon fit it the straitjacket of the orthodox criteria concerning comparative advantages, and are thus merely used to legitimize those export activities founded on natural and other resources which are profitable because of derisory wage levels,²⁰ or because of the ubiquitous participation of foreign managers. Taking a different view, however, openness should be a means of simultaneously accentuating the diversification and specialization of production, raising standards of productivity and levels of income and taking advantage of opportunities offered by new forms of insertion in the international division of labour.

¹⁹Various very important aspects of this subject are dealt with by Héctor Assael in an article entitled “The internationalization of the Latin American economies: some reservations”, to be published in issue N° 7 of CEPAL *Review*.

²⁰It seems evident that wage levels will be lower than in the highly developed economies —as always happens with the so-called late-comers— but there is no valid reason why they should not eventually equal or exceed the averages in the original developed countries.

The position of the supporters of openness is based on very clearly justified considerations.

With regard principally to the countries with currently or potentially large domestic market, the expansion and resulting essential diversification of exports is a prerequisite for enjoying the growing volume of imports which are necessary for reasonably dynamic growth in the “internally oriented” product (which certainly does not mean ignoring the incentive effect of external demand). This may mean rises or falls in the import coefficient, depending on circumstances, which include the characteristics of the external market and the possibility of securing additional resources by means of loans or investment. The smaller the possibility of using the second option (or the less it is wished to rely on it), the greater will be the need to stimulate exports.

Moreover —and this relates principally to economies with a fairly small domestic market, although it is also true of the above-mentioned situation too— the fundamental fact is that external demand plays a decisive and *direct* role in the vitality of the system. To a greater or lesser extent it makes up for any unreliability of domestic support, and in this way permits activities to develop which could not have done so otherwise.²¹

²¹The general characteristics of the two types of economies reminds one of Professor Arthur Lewis’s penetrating observation to the effect that the “motor” of economic growth is technical prog-

Continuing this argument it might be held, and rightly so, that the size of the market is one of the principal comparative advantages, since it makes it easier to develop or assimilate the so-called acquired advantages. Expansion of domestic demand to the maximum and the creation of complementarities through regional agreements are options which are not incompatible with openness towards the rest of the world but on the contrary establish a firmer base of support for this objective, as is shown by experience in Europe, including the socialist countries.

The main disagreements emerge once one moves beyond these observations.

A principal disagreement —and one which has already been mentioned, though in a different context— arises from the relationship between export promotion and the nature of imports. For some, “openness” is desirable to the extent that it makes it possible to increase external purchases of goods and services of greater social productivity, be they for investment or consumption. For others, the principal ingredient of this policy is “liberalization”, that is, the drastic relaxation or abandonment of any measures which discriminate against this trend, thus implying the general and substantial reduction of all tariff or non-tariff obstacles to this objective.

In Latin America we have seen more or less pronounced varieties of both kinds of “openness”, and it is clear that the focus of the discussion lies in the assessment of the “developmental” or social repercussions of this type of policy. The

ress and that external trade should serve as its lubricant and not as its fuel, although obviously the relative importance of these functions will vary with the circumstances of the countries as regards size, variety of resources, geographical position, and so on (this theory was set out in his Janeway Lectures at Princeton in 1977).

dilemma, then, lies not in an abstract choice between whether to open up the economy or not (in the senses already indicated), but in the objectives and consequences of the different versions of the policy in question.

Asymmetry in openness: the Brazilian experience

Further aspects of the problem may be discerned when examining some particular cases in the region, such as that of Brazil, which is often considered a good example in this regard because of its well-timed and determined adaptation to the expansionary conditions which emerged in the world economy in the second half of the 1960s. I should like to refer here to a previous work²² in order to discuss the nature of this case and its lessons.

These favourable winds from outside were the basic support for what was termed an “outward-looking” policy of opening up to the outside, as opposed to the “inward-looking” policies of the past. The policy combined three closely related elements: vigorous promotion of non-traditional exports of both manufactures and raw materials; a substantial flow of foreign credit and capital; and a sustained increase in imports of intermediate and capital goods.²³

For the purposes of analysis it is necessary to bear in mind both the evolution of exports and imports and that of financial flows.²⁴

²² *Desarrollo, industrialización y comercio exterior, Cuadernos de la CEPAL*, N° 13 (Santiago, Chile, CEPAL, 1977).

²³ Brazil did not apply the criteria of “liberalization” of imports in the sense used earlier in the article, although purchases of consumer goods increased considerably in absolute terms.

²⁴ The data, which refer to the period 1970-1974, are taken from the work referred to above and from the *Economic Survey of Latin America, 1976* (United Nations publication, Sales N°: E.78.II.C.1).

It is well known that exports increased rapidly between 1970 and 1974, at an annual average rate of just over 10%. This rise was almost identical to the rise in the total product, so that the relation between the two magnitudes did not change. In other words, the respective importance of external and domestic demand did not alter, and as a result the principal "motor of growth" continued to be the domestic market, or "internally oriented development".

Another view is gained by examining the sectoral breakdown of the domestic product and of exports. The most interesting point here, for present purposes, is that the vigorous growth in the manufacturing product between 1970 and 1974, which reached 12% a year, was easily outstripped by the growth of exports from that sector, which rose by nearly 20% a year. In some particularly dynamic areas, such as metal manufactures and machinery and chemicals, the corresponding rises were 15 and 20% and 13 and 32%.

From this viewpoint, then, not only was there an opening up to external trade in both absolute and relative terms, but it was accompanied by a thrust towards industrialization aimed at the domestic market, to such an extent that —notwithstanding the advances recorded in the previous paragraph— in 1974 domestic demand absorbed 86% of an industrial product which had itself, as we have seen, grown considerably during the period under consideration.

To return to a point raised above, this experience appears to resemble one of the versions identified in connexion with the links between industrialization and export promotion. However, other elements arise when the performance of imports and external financing is taken into account.

Thus, if the growth rates of the domestic product and imports over this period are compared, the contrast is striking: imports increased by 22% a year compared with

10.7% for the product. Accordingly the relation of imports to GDP rose from 7% in 1970 to 10.4% in 1974 as against 5.5% in the period 1964-1969. There is no doubt, then, that from this point of view the trend was markedly outward-oriented.

The imbalance can be seen more clearly if one considers the manufacturing sector and some of its main branches. For the sector as a whole the relation of imports to the total product rose from 14% in 1970 to almost 24% in 1974, and more or less the same change occurred in branches such as metal manufactures and machinery and chemicals. At any rate, it is important to remember that exports of manufactures rose during this period at double the average rate for the economy as a whole.

Even so, it seems clear that in this case, which might be called a textbook instance of opening up of the economy, there emerged a contradiction which has been the subject of constant attention in CEPAL: namely, the more or less pronounced asymmetry between the demand for imports which is generated by, and characteristic of, the dominant mode of growth in Latin America, and the capacity of this mode of growth to create sufficient foreign exchange to fulfil foreign commitments.

Of course, Brazil took a well-known way out: foreign investment, and particularly borrowing. The latter (State-guaranteed private and public foreign debts) rose from US\$ 5,295 million in 1970 to US\$ 31,200 million in 1977.²⁵ However, not all countries were in or can achieve the same position; and in the case of Brazil itself, events after 1974 made it necessary to subject the asynchronous type of opening up practised until then to thorough revision, from which lessons were drawn which it is

²⁵ See *Economic Survey of Latin America, 1977* (E/CEPAL/1050).

worth recalling in discussions on this subject.²⁶

Of course, the propensity to external disequilibrium characterizing the countries which embark on expansion of their economies may be dealt with in different ways. From the most orthodox viewpoint, the prescribed treatment is well known: reduction of levels of activity, employment, investment, public expenditure, and so on, up to the limit dictated by the external position, and essentially by the capacity to import.²⁷

In general, Latin American countries did not follow this path in the phases of depression, war or external strangulation which they had to face in the 1930s, 1940s, 1950s and part of the 1960s. Instead of deflating their economies and resigning themselves to the vicissitudes and poor opportunities of external trade, the larger countries—with greater opportunities for proceeding thus—contrived to grow at reasonable rates as compared with the historical average, and certainly at rates higher than those which the traditional doctrine would have considered possible and appropriate. In practice, between

1950 and 1965; for example, while Latin America's domestic product increased by 5.2% a year, its capacity to import rose by only 1.9%.²⁸

Because of the oil crisis and the fall in some commodity prices, the problem arose in a very severe form in 1974-1975. While some countries strove to accommodate themselves to the situation, by doing their best to reconcile the somewhat conflicting basic objectives of growth, employment, stability and external equilibrium, others tended to give priority only to those objectives which were associated with the balance of payments and inflation, introducing restrictive policies in an exaggerated version of the orthodox remedy, which led to unusual drops in their levels of economic activity and employment. The first strategy, as is evident, involved rejecting the orthodox models already referred to, for example by discriminating in the use of foreign exchange in such a way as to achieve the greatest degree of reactivation of the economy and the least effect on the external imbalance. In other cases, ideological resistance inevitably led to the opposite result, with high social costs.

²⁶ It is obvious that the rise in oil prices in 1973-1974 had an appreciable impact on this process. However, this factor acted more as the spark igniting the process of disequilibrium which had already been building up. In reality, between 1970 and 1974 the value of petroleum imports rose from some US\$ 600 million to US\$ 2,600 million while total purchases increased from US\$ 6,200 million to US\$ 12,600 million. In other words, higher expenditure on petroleum made up less than a third

of the total increase (see *Economic Survey of Latin America, 1975*, United Nations publications, Sales No. E.77.II.G.1).

²⁷ Obviously, we are not talking here about what might be termed a "critical disequilibrium" in the external balance, such as that which is caused, for example, by a process of runaway inflation.

²⁸ See, *Desarrollo, industrialización y comercio exterior, op. cit.*

Economic trends in Central America

*Gert Rosenthal**

Development in the Central American countries in the past quarter-century has shown positive features, which are brought out by the author: an annual average rate of economic growth of more than 5%, a near-doubling of real income per capita, expansion and diversification of exports, a surge forward in industrialization, the extension and improvement of communications and social services, and so on. Nevertheless, long-standing problems have remained, and new ones have arisen: external dependence, a tendency towards external disequilibrium, uneven distribution of the benefits of economic growth, with its consequences of poverty, unemployment, underemployment and marginal status, growing difficulties encountered by the political systems in coping with the divergent pressures of a rapidly diversifying society, and inconsistencies and conflicts between the public and private sectors. To this has been added, in recent years, the problems caused by the rise in the price of oil, inflation and growing external indebtedness.

After considering these aspects, the author rapidly reviews the development of the Central American Common Market and the economic and political obstacles which it has had to face in the past decade. He concludes with a few realistic and pragmatic ideas for revitalizing CACM.

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Economic trends in Central America

Last week I had the opportunity to discuss with Alan Riding his excellent statement delivered here during the first meeting of the Discussion Group on Central America. During our conversation, Alan asked me what kind of future I thought was in store for the Central American countries, and I must say that I was hard pressed to reply. The steady drift towards political polarization and the presence in three countries of terrorist groups and increased repression to combat them raises serious doubt as to the viability of reasonably stable, free societies with at least a minimum amount of public participation in the conduct of public affairs. As Alan correctly stated in his presentation, changes are occurring in practically all countries. There was a routine — and, by Latin American standards, unusual — change of command last week in Costa Rica, but it is hard to say what direction events in Guatemala and Nicaragua will take, nor what the ultimate consequences of the deadlock in El Salvador will be, nor whether the Honduran grand strategy of a shift to “guided democracy” will be successful. To all these difficulties, furthermore, we must add serious doubts as to the economic viability of the Central American countries, at least taken individually, and I would like to address myself to this general topic today.

I

Although I was originally asked to talk about “the current economic situation in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, the current state of the Central American Common Market, and the prospects for both” this is a tall order for a statement of from 25 to 30 minutes, and I would therefore prefer to share

some thoughts with you on what the Central American economies have been doing over the long term. This will automatically lead me to the topic of the Central American Common Market (CACM), and I will end with some reflections about the present and the future. For obvious reasons, I will not burden you with figures and statistics—these are readily available in numerous publications—and I will only allude to specific countries when general statements about Central America clearly do not apply to them. This over-simplification, of course, hides the fact that Central America is not an economic unit, and that even when certain trends in all five countries point in the same direction, they usually evolve at differing rates and with different characteristics.

II

To begin, then, it can be said that the economic evolution of the five Central American countries since the end of World War II has been characterized by what we could describe as six dilemmas: (1) economic growth without economic justice; (2) expansion of production, but with insufficiencies; (3) increasing complexity of the countries' economies and societies without the corresponding political reforms; (4) growth and diversification of exports, but with continuing external vulnerability; (5) the deaf men's dialogue between the public and private sectors regarding their respective roles in promoting economic development, and (6) the stimuli and constraints of economic integration in Central America. All of these so-called dilemmas share a common trait threading through them: the pitfalls of making absolute statements about what is happening in Central America, due precisely to the increasing complexity of the countries' economies and societies. Let us explore further.

1. *Economic growth without economic justice*

As a case in point of what I have just said, it would be just as wrong to state that the Central American countries have experienced a dramatic process of economic development in the past quarter-century as it would be to state—as is often done—that nothing has happened since 1950. In point of fact, all five countries have experienced substantial economic expansion since that time, with an average rate of growth of the GDP of 5.3% in real terms over the 27 year period (the most dynamic economies were Nicaragua and Costa Rica, the least dynamic, Honduras). Even taking account of the high rate of population growth, per capita real income almost doubled during this period, which is an impressive long-run performance for countries that are not particularly well endowed with natural resources.

Even in the 1970s, a period in which the region confronted particularly severe problems—the increase in oil prices, the turbulence in international monetary and financial markets, the food and raw material shortages of 1974/1975, several droughts and, to boot, three major natural disasters (in Nicaragua, Honduras and Guatemala)—the average rate of growth exceeded 5.6% in real terms.

This period of expansion of the productive capacity of the five countries was accompanied by changes. There was a notable shift towards urbanization, the supply of certain basic services improved, communications were greatly developed, and the relative shares of secondary and tertiary activities increased in importance *vis-à-vis* primary activities. However, one of the crucial questions that must be raised is whether the benefits of growth and change in Central America have had a lasting effect on the majority of the region's inhabitants.

There are two alternative extreme scenarios in reply to this question. On the one hand, some persons would argue that there has indeed been a "trickle-down" effect, and in support of their position they point to the growing "middle class", especially in urban centres; to declining rates of illiteracy and mortality — especially infant mortality — and to rising life expectancy at birth; to the vastly improved communications and telecommunications networks in each country and, in general, to the process of "modernization"; and to the impressive increase in the consumption of non-durable consumer goods. On the other hand, others argue that for the majority of the population there has been no perceptible change in the standard of living during the past quarter-century. The defenders of this latter thesis argue that the Central American countries' model of development tends to concentrate income in the hands of a very few; that while it may be true that some socio-economic indicators show improvement, it is equally true that in absolute terms, for example, there are many more illiterates today than there were twenty years ago; that the expansion of physical infrastructure has only benefited a minority, and that the real income of the "poorest of the poor" may very well have declined due to the combined effects of the land tenure system and inflation.

Probably the truth lies somewhere in between these two extreme positions, but one fact is undeniable: economic growth in Central America has by no means benefited all groups in the same manner, and a significant segment of the population — possibly over 50% — lives in what would be described as extreme poverty by any reasonable criteria.

The highly inequitable income distribution in most of the countries — Costa Rica's situation is less acute than that in the others, but only relatively so — makes for

some striking contrasts, since the upper and middle income groups emulate the consumption patterns of more developed societies, especially the United States. It is therefore common, mostly in the capital cities, to see the most wretched slums located within blocks of spanking new shopping centres, stocked with the most exotic of consumer goods, and with parking lots overflowing with late-model Mercedes Benz and other luxury automobiles.

2. Expansion of production, but with insufficiencies

This brings us to the second dilemma. Maybe there is something to be said for Raúl Prebisch's theory about the "dynamic insufficiency" of most Latin American countries. As already noted, 27 years of impressive economic growth have brought scarcely any improvement in the material welfare of a significant proportion of Central America's population, and the economies have not grown at a rapid enough rate even to begin to offer full employment. On the average, open unemployment is anything between 8 and 15% of the economically active population, while it is estimated that underemployment probably ranges between 40 and 50%.

Possibly the demographic panorama is partly to blame for this situation. The Central American countries have some of the highest population growth rates in the world and, except for Costa Rica, there has been no clear decline in these rates during the past quarter-century. Thus, the region's population grew from 8.3 million inhabitants in 1950 to 19 million at the end of 1977, and it is estimated that it will reach 39 million by the year 2000. In addition, it is by and large a young population, with a high ratio of dependency on the economically active population.

But there is another aspect to the so-called insufficiencies. Like the boy who cried "wolf" once too often, economists have periodically predicted that the region's capacity for growth was exhausted, and that only profound transformations in the economic structure could get the engine of growth moving again. After all, how much more coffee, cotton, and bananas can the world consume? So far, these apocalyptic predictions have not been borne out and in the long run the countries have managed a fairly respectable performance as far as growth is concerned. However, two things can be said. In the first place, this economic expansion has obviously been uneven, and all countries have experienced periodical profound recessions, mostly coinciding with cyclical fluctuations in the prices of the basic commodities they export (or, in some instances, with crop failures). In the second place, during the past few years there have been some disturbing signs that the prophets of doom may yet have their day, and these signs have not been read clearly only because the extraordinarily high prices of coffee provoked a short-lived boom in 1976 and 1977. The industrialization rate has remained stagnant during the past seven years, after spectacular growth in the early 1960s, and imports of agricultural commodities—especially basic foodstuffs—have been increasing dramatically. More important, prospects on the international markets for most of the commodities the region exports are not good. With all these adverse signs, can the Central American countries maintain their past economic growth performance in the future? Only time will tell.

3. *Increasing complexity of the countries' economies and societies without the corresponding political reforms*

The process of growth and change described above has brought about increasing com-

plexity of the countries' societies and the establishment of new forms of organization. For example, the industrial development and urbanization stimulated by the Central American Common Market has created a small urban proletariat, while the increasing diversification of the agricultural sector—for example, the emergence of sugar as an important export crop—has also led to the strengthening of rural trade unions. At the same time, the agricultural co-operative movement has experienced an important expansion in some countries. The relatively new phenomenon (for Central America) of significant inflationary pressures in the 1970s certainly helped to make these movements more vociferous in their demands. Their emergence as new pressure groups over the past quarter-century has been viewed with mixed emotions by the so-called "establishment" or dominant groups of society. The labour movement has generally been regarded with great apprehension and has frequently been resisted, sometimes with extreme repressive measures. In other instances, efforts have been made to co-opt the union leadership in order to ensure a "tame" labour movement. Somewhat similar reactions have been observed *vis-à-vis* the co-operative movement, especially in the rural areas.

However, in spite of the efforts to suppress or at any rate control the emergence and growth of popular movements, and in spite of the hostile attitude that exists in at least three countries to any such developments, the dynamics of economic growth and the increasing complexity of the economies and societies—aided, as I have stated by inflation—have spawned numerous such movements. Is the political structure, still geared to the traditional power groups, ready to adapt to this new and potentially explosive development? Is further repression in store and, if so, will it be able to reverse the trend? Will these new pressure groups alter the power

structure in the long run? It is too early to tell, but those who argue that nothing has changed in Central America in the past 25 years would be well advised to examine the implications of the co-operative movement in Guatemala, the labour movement in Honduras, and the peasant/Catholic-action movement in El Salvador before coming in with their final verdicts.

4. Growth and diversification of exports, but with continuing external vulnerability

Economic growth in Central America has traditionally been a function of exports, aided, since the early 1960s, by industrial development resulting from the establishment of the Central American Common Market.

The days of monoculture in Central America—one of the prime characteristics of the region for centuries—are now more or less over, since in no country does the single most important export commodity account for more than 50% of exports (as against 80% to 90% in 1950), nor does any single import market absorb more than 50% of that product. The diversification and expansion of total exports is reflected eloquently in the figures: the value of exports increased from 325 million dollars in 1950 to 500 million in 1960, 1.3 billion in 1970, and 4.7 billion in 1977. This last figure is admittedly somewhat inflated due to the price of coffee prevailing at the time, but this more than fourteen-fold increase in the value of exports over a 27 year period is nevertheless impressive.

At the same time, considerable progress was made in import substitution, especially of manufactured consumer goods, as the integration process gave this sector a powerful boost. The relative share of industry in the GDP rose from 12.9% in 1960 to 15.6% in 1970, while the relative share of

consumer goods in the make-up of total imports declined. However—and here is my main point—in absolute terms imports of consumer goods continued to grow, while imports of intermediate and capital goods took the place of consumer goods as the main import commodities. In total, imports grew even quicker than exports, and in spite of diversification and growth of exports the region's balance-of-payments gap was not closed but on the contrary, grew. As a matter of fact, with the above-described growth and diversification, the region's dependence on imports increased markedly: in 1950, imports accounted for 15% of the GDP, a proportion which increased to around 20% in 1960 and remained there throughout the 1960s, but then gradually increased again in the 1970s until it reached the astounding level of 32% in 1977, due, in part, to the region's extreme dependence on imported oil.

The almost constant growth of the current account deficit has been financed by increasing capital inflows, consisting of both direct foreign investment and public and private borrowing. The book value of foreign investments in the region approximately doubled between 1960 and 1970, and doubled again between 1970 and 1976, to surpass the billion dollar mark. This gives rise to all the well-known polemics about the relative positive and adverse effects of the transnational corporations operating in the region. The public external debt has also risen markedly, although it is still within prudent limits, at least for three of the region's countries. The balance of the public external debt rose from practically zero in 1950 to almost 2.5 billion dollars at the end of 1977, and this trend will no doubt continue, raising the spectre of eventual debt-capacity problems.

In sum, in spite of impressive accomplishments on the export side and in imports substitution, Central America's external sector is more vulnerable today than ever,

due to its extreme dependence on: (1) export markets; (2) imports, especially of strategic items such as raw materials, petroleum, and capital goods, and (3) ever-increasing net capital inflows.

5. The deaf men's dialogue between the public and private sectors regarding their respective roles in promoting economic development

The direct involvement of the public sector in the Central American economies is very modest, and has only grown somewhat in the past few years. Public expenditure only represented between 13 and 14% of the GDP between 1950 and 1970, while in 1977 it has increased to 16.8%, partly on account of the abnormally high capital cost of reconstruction in Guatemala and Nicaragua. In addition to this very low ratio of public expenditure, the public sector is rarely involved in productive activities, and it was only during the 1960s that it took over most utilities.

The private sector, for its part, seems to have been nurtured by cold-war ideology, and it has never quite outgrown the consequences. Representative entrepreneurial groups, organized in Chambers of Commerce, Industry and Agriculture, defend the principles of free enterprise with religious fervour, extoll the virtues of capitalism, and rail against State intervention. The public sector, for its part, does not act as a monolithic unit. However, certain groups within this sector, which could be characterized as a Central American technocracy, have managed to influence governments to the point where they take a more reformist stance. As a consequence, there has been a deaf men's dialogue in the region — more intensive in some countries than others — on the relative merits and shortcomings of "intervencionismo" (which, in the eyes of some, is just a hair's breadth from com-

munism) and "liberalismo". In the shouting, what is generally not perceived is that neither the public nor the private sectors do a reasonably efficient job in fulfilling roles that each implicitly assumes for itself. The rate of capital formation in the region, for example — both public and private —, has been slow. The ratio of private investment to GDP barely changed between 1950 and 1970, and it has only increased slightly in the past few years, probably as a result of the vast accumulation of surpluses in the export sector. Thus, the ratio of total capital formation to GDP grew from 13.5% in 1950 to 15.1% in 1970 and 19.5% in 1977: still very low even for developing countries.

Furthermore, the private sector has a marked proclivity to invest in high-yield, short-risk ventures, especially real estate and commerce, which are not precisely the highest-priority areas for economic development. Nor are the economic agents quick to respond to the signals of the market economy, due to the natural imperfections of the functioning of capitalism in its underdeveloped form (what the Economic Commission for Latin America calls "capitalismo periférico"). Enterprises are usually organized at the family level, and efficiency is undoubtedly low.

As for the public sector, when it does get involved in nudging the economy along the path of some pre-conceived "strategy", it more often than not makes a mess of it. The frequent accusations of the private sector that the State is a "poor administrator" are unfortunately borne out with unbelievable persistency. The performance of public utilities is sometimes adequate, but usually sub-standard; the delivery of public services such as education and health is usually poor, and many State-run institutions such as port authorities, development banks, airlines and national lotteries seem to have a special bent for losing money.

In short, "messiness", by certain

standards, seems to be a characteristic of the Central American societies and neither the public nor the private sector perform very efficiently in making important contributions to the development process. Possibly if the deaf men's dialogue were replaced by a more constructive one, this general state of affairs could be gradually overcome.

6. *The stimuli and constraints of economic integration in Central America*

I would like to extend myself a bit on this topic —which is close to my heart and may

be of more than passing interest to you— so I will take it up again later. For now, I will limit myself to pointing out that the formation of the Central American Common Market gave industrial growth a very powerful stimulus during most of the 1960s, but that somewhere between 1967 and 1969 it apparently touched its ceiling. The process still exhibits great vitality, measured in terms of intra-regional trade and the survival of the CACM even after an armed conflict between two of its member States. Nevertheless, the question of how to continue the very dynamic progress observed, say, between 1960 and 1967 poses the sixth dilemma that I referred to.

III

At present, Central America seems to be marking time once again, at a quantitative and qualitative level very different from that of 1950, but with a number of constant problems —balance of payments, unemployment, low capital formation, extreme inequalities in income distribution— which have all continued to be present throughout this long period. As we have seen, the region now contains relatively stronger, more complex societies, whose economic importance, at least within the Latin American context, should by no means be minimized (after all, total imports of this small region are not very much lower than Mexico's). The many problems that are implicit in what I have said so far have been joined in the present decade by at least three new potential obstacles to development which were either not present or not of significant importance previously. These are: (1) the region's high dependence on imported fuel; (2) the new problem of inflation, and (3) potential debt burden problems. Just a few words on each of these topics.

Unfortunately for Central America, the low price and abundance of petroleum before 1972 meant that, a very significant part of the region's generating capacity is based on thermal power. Thus, the bill for imported petroleum, which was only 60 million dollars in 1970, rose to 430 million dollars in 1977. The only commercial find of petroleum in Central America has been in Guatemala, and it is too early to tell just how important this find is. The considerable hydroelectric potential of the region will therefore have to be developed, but the capital costs that this involves are staggering, and will no doubt skim away resources from other high-priority requirements. This poses at least another "mini-dilemma" for the countries of the region.

Inflation is a problem the countries are barely beginning to learn to cope with. Price stability was exemplary in the post-war period; between 1950 and 1970, the average price index only rose about 13% in

20 years. Between 1970 and 1977, however, the average price index increased 74%. Given the relative weakness of labour unions—in spite of their growing strength—and the dynamics of economic growth in Central America and almost everywhere else, the first important impact of inflation will no doubt be to aggravate the already inequitable structure of income. How to avoid this is an additional “mini-dilemma”.

Finally, the increased foreign debt of

most Central American countries comes at a time when access to international capital markets, and especially access to concessionary funds, is becoming increasingly difficult for so-called “middle-class countries”. Therefore, the final “mini-dilemma” I want to raise is how the Central American countries are going to continue to finance the level of imports required to maintain an acceptable level of growth.

IV

I would now like to return to the topic of the Central American Common Market. As most of you know, in the early and mid 1960s it was viewed both by Central Americans and by the international community as a highly successful programme of economic integration between developing countries; part of this success was reflected in the considerable increase in intra-regional trade, which passed from 32 million dollars in 1960 to 260 million in 1968. This spectacular growth in trade is a further reflection of the rapid expansion of productive capacity in the manufacturing sector, spurred on by the expanded regional market and by deliberate industrial development policies, including, of course, a uniform protective tariff. In the short span of five years an almost perfect common market was established and the institutional framework to promote integration was consolidated. There was further progress in aspects essential to free trade, such as the establishment of the Central American Clearing House to expedite the payment of intra-regional transactions and the construction of a regional highway network on which goods could be transported rapidly and at reasonable cost. In addition, there was an

aura of good will—even a kind of mystique—in the negotiations between governments on regional affairs, and a most important feature was that economic integration was successfully separated from political issues (hence the presence of the Ministers of Economy instead of the Ministers of Foreign Affairs in the inter-governmental bodies that took decisions at the regional level).

However, once the initial decisive measures had been taken, the process failed to expand in scope and in level: in other words, once the common market was formed and consolidated, the feeble efforts to subject an ever-widening number of economic activities to regional approaches did not produce significant results, nor were the governments willing to entrust greater executive responsibilities to the regional institutions.

Those of us schooled in neo-functional thinking were conditioned to look forward to the proverbial “spill-over effects” and the gradual evolution of the integration process along its pre-conceived path. When this did not happen, we began to suspect that something was amiss, and soon the word “crisis” crept into the lexicon of Central

American integration. To be sure, the process had serious problems: the unequal distribution of costs and benefits among member countries, the natural conflicts between national development policies and regional objectives, the very limited body of supporters that existed in the region in favour of integration, and the difficulties that retarded decision-making at the regional level. However, these problems could — and can — be coped with, and in fact it would be naive to think that economic integration between countries can evolve without this type of obstacles. The only real “crisis” afoot was one of *expectations*, since the process was not evolving as anticipated, but evolving it was, and in a quite satisfactory manner. Without denying that the process confronted obstacles by 1967-1968, I feel that the magnitude of them was often exaggerated and that somehow we had lost sight of the considerable degree of economic interdependence that had already been achieved at that time, in spite of those obstacles.

Then in 1969 a very significant event took place: for reasons we need not discuss here, an armed conflict broke out between two of the member countries of the CACM, with two major consequences. In the first place, and as a testimony to the degree of economic interdependence already achieved, the Common Market survived, albeit with some mutations (trade between El Salvador and Honduras was suspended, and Honduras withdrew from some of the inter-governmental regional organs). In the second place, the relative isolation of economic integration from political phenomena had ended; from now on, economic and political considerations would be indissolubly interrelated.

Since 1969, two major opposing tendencies have been at work. On the hand, the negative factors present before 1969 have continued manifesting themselves, together with some additional problems

that we need not go into now, thus giving the impression of a certain *impasse* in the integration process. On the other hand, notwithstanding the disturbance of its normal functioning the Common Market has shown a measure of vitality that is often ignored, especially outside of Central America. Intra-regional trade continues to expand every year and it has more than doubled in value in the present decade, moving from 300 million dollars in 1970 to over 700 million dollars in 1977: a respectable sum in anybody's book, and equivalent to almost 20% of the region's total foreign trade. Most of the regional institutions continue to operate with a semblance of normality, and with the participation of all five countries. The Central American Bank for Economic Integration has increased its level of lending activities year after year, and both El Salvador and Honduras signed an agreement to further monetary integration in Central America only weeks after the armed conflict. These two countervailing forces — *impasse* and vitality — have created certain tensions that could be productively exploited to provoke a new impetus in the integration process, but this possibility has so far come up against an insurmountable political barrier: the still unresolved conflict between El Salvador and Honduras.

Hence my statement about the interrelations between economic and political phenomena at the regional level. The first step required to resolve the tensions described above and tilt the balance in favour of the dynamic aspects of integration is to resolve the differences between these two countries, and fortunately a mediation process is already underway which hopefully will culminate in the signing of a treaty that would, in effect, bury those differences. Once this considerable hurdle is cleared, the second step would be to seek solutions to the main problems that integration has faced, rejecting any pre-conceived theoretical framework and approaching these prob-

lems with a large measure of realism and pragmatism. For example, we should recognize that integration is a complement to national development policies and that not all activities have to be subjected to common treatment; that the process will not necessarily culminate in the formation of an economic unit, so that we should abandon commitments that involve the fulfilling of time-tables or stages; and that the conceptual framework that might have been adequate for the 1950s is not necessarily suitable for tackling the different problems we face in the 1970s and in the future. The accent should be put on those areas of economic activity where integration makes sense, and where it becomes relevant to the national development effort of each country. I personally feel that much more emphasis should be placed on specific integration projects—in industry, energy and agriculture, for example—since these projects, in addition to increasing the level of economic interdependence between

countries, have an intrinsic value which is easily measurable for the participating countries.

In sum, maybe the Central American Common Market is not alive and well, but it most certainly is alive, and we should be able to make it well. In fact, the integration process has shown remarkable vitality. I do not share the opinion held by some that the CACM is and will remain stagnant: on the contrary, the type of difficulties that each of the countries will face in its economic development up to, say, the end of this century, makes integration more relevant than ever. In view of the efforts of the Governments of El Salvador and Honduras to settle their differences, I feel that we may be about to turn the corner on this matter, and that it is not excessive optimism on my part to believe that the possibilities that economic integration offers to further development in the region have barely begun to be explored.

V

To conclude, I should like to say a few words about the economic prospects of Central America in order to come full-circle back to the original query as to the viability of these countries, or at least their economic viability.

I am very reluctant to speak like an oracle, because every time I have done so in the past, when the future has looked very bleak, some unforeseen phenomenon—like a frost in Brazil which provoked price increases in coffee, to the benefit of Central American producers—has come along to alter the picture. In addition, as pointed out previously, the Central American economies have shown a greater capacity for diversification, growth and accommodation to changing international economic

conditions than one could normally expect. Having said all that, however, when one views the future one nevertheless cannot avoid harbouring serious doubts as to the prospects of small, “middle-income” underdeveloped countries, whose economies are so dependent on the export of basic commodities. It is really difficult to imagine how Central America can maintain the dynamism exhibited by its exports in the past 27 years, given world market conditions and the increasingly difficult access to external financing. It is also difficult to see how the persistent problems alluded to earlier can be overcome without a massive mobilization of resources.

One thing can be categorically stated, however. The ability of the Central

American countries to navigate the rather turbulent waters of the international economy in the future, as well as their ability to cope with many of the domestic problems I have enumerated, would improve markedly if the economic integration process were given new impetus. There is something to be said for the old proverb "in unity there is strength", and I feel that it is unnecessary to elaborate on the

many ways in which a regional approach would improve the viability of the Central American economies.

So, I finish my statement by really begging the issue, because I do not have an answer, but I do suggest that there is at least some hope for the economic future of these five small countries if they exploit the possibilities that common action holds out for them.

Some changes in United States attitudes towards CEPAL over the past 30 years

*David H. Pollock**

On the occasion of the 30th anniversary of CEPAL, the Director of the *Review* commissioned from Professor David Pollock an article analyzing the changing attitudes of the United States towards CEPAL since its establishment. Mr. Pollock is in an excellent position to write such an article, because of his knowledge of the subject and his long and important career in our organization. A Canadian, he joined CEPAL in the 1950s and has worked in Washington, Mexico City and Santiago, in addition to cooperating closely for some time with the Secretary-General of UNCTAD in Geneva.

In his view, these changes of attitude may be grouped into five periods. The United States entertained reservations concerning the very setting up of CEPAL. In its first 10 years, these reservations changed into open and continuous opposition. Then, just before and during President Kennedy's administration, a dramatic reversal occurred: the United States gave CEPAL if not an embrace, then at least a handshake. A further major shift took place after President Kennedy's assassination, leading to a decade of benign neglect. However, in more recent years yet another stage seems to have begun, marked by cautious reappraisal, on the part of the United States, of what is viewed as a "new" CEPAL.

The author concludes with a few personal reflections on the significance of the previous trends, and what they may portend for the future.

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Introduction

Doubts and reservations at CEPAL's creation

CEPAL* was established in February 1948 by the United Nations Economic and Social Council (ECOSOC). The birth was not easy. Under Article 68 of the United Nations Charter, ECOSOC had been given authority to set up commissions in the economic and social fields. Thus, when the first session of the United Nations General Assembly was convened in December 1946, the Assembly requested that, in order to help assist with "the economic reconstruction of devastated areas", ECOSOC should give prompt and favourable consideration to the establishment of an Economic Commission for Europe (ECE) and an Economic Commission for Asia and the Far East (ECAFE). Both such regional commissions were established almost immediately (in March 1947). The Latin American delegations were disgruntled, feeling that their region had been overlooked. Mindful of the fact that Latin America accounted for 20 out of the total United Nations membership of 51 countries at that time, noting the increasing role in world affairs that Latin American nations had begun to play as allies during World War II, and feeling that the Latin American region had many pressing economic development problems to resolve, even if such problems had not resulted directly from wartime devastation, the Latin American governments began an active campaign to set up their own regional commission. During the autumn of 1947, ECOSOC established an *Ad Hoc* Committee¹ for the special purpose of deter-

*Although the Spanish acronym CEPAL is now generally used even in English in the region to denote the Economic Commission for Latin America, the English acronym ECLA has also been used in this paper when quoting from published works.

¹Mr. Hernán Santa Cruz (Chilean representative to ECOSOC) presented the initial motion to set up this *Ad Hoc* Committee in August 1947, arguing that development should be fully as much a United Nations goal as reconstruction. In this

mining the advisability of creating an Economic Commission for Latin America analogous in structure and purpose with those already set up for Europe and Asia. The *Ad Hoc* Committee concluded its studies the following spring, with the presentation of three main arguments. One was that the Latin American republics had used up much of their capital goods at an abnormally rapid rate during World War II and therefore it was now essential to restore that depleted capital if the region's postwar levels of trade and production were to be adequate for its needs. This argument was of course analogous to (even though not identical with) the "wartime devastation" theme that had been utilized the year before to justify the creation of the ECE and ECAFE. Secondly, as a result of postwar price trends for manufactured goods, it was becoming increasingly more expensive for Latin American countries to repair and replace their capital goods. Thirdly, there was, at the early postwar stage, a generally insufficient rate of economic growth throughout the Latin American region. Hence many types of external assistance would be required if Latin America's own efforts at self-help were to be successful. On the basis of these three main arguments, the *Ad Hoc* Committee concluded that a regional economic commission would be helpful in facilitating Latin American development.

Some developed countries had initial doubts about all this. Canada and New Zealand felt, as a general principle, that ECOSOC should espouse a functional rather than a geographical approach to postwar problems of economic and social development. France had some queries about

regard he placed major emphasis on Latin America's need to industrialize and diversify, in order to reduce the region's long-standing sensitivity to cyclical fluctuations emanating from the developed countries.

establishing this new body, taking the view that too much stress on regionalism might run counter to the broad concept of multilateralism. Initially the USSR was also less than enthusiastic, on the grounds that such a commission would only confuse the ECOSOC structure (with its manifold functional commissions) and that furthermore it might unduly enhance Latin America's economic dependence upon the "imperialistic" member countries of CEPAL. But these reservations by developed countries were soon withdrawn, finally leaving only the United States as a major critic. In essence the misgivings of this country were two-fold. One reason was financial: namely, the fear that the creation of CEPAL would require new and additional financial contributions from the United Nations administrative budget at a time when the United States was paying 40% of that budget. The second and more fundamental reason, however, involved the United States' serious concern that CEPAL would overlap with the OAS. At Chapultepec, Mexico, only a few years earlier, an Inter-American Economic and Social Council (IA-ECOSOC, or "CIES" as it is very often called after its Spanish acronym) had been created within the OAS in order to co-ordinate all official inter-American economic and social activities. Consequently, in 1948 the United States delegation was concerned that a new and separate United Nations body, active in Latin American development matters, would unduly duplicate the work of CIES. The Latin Americans took strong issue with this argument, on the grounds that Latin American development must be conceived within a global rather than a hemispheric framework. In their view, the time had come for the Latin American economic system to broaden and diversify away from the extremely close economic ties with the United States that had been so characteristic of the wartime years. A new postwar relationship, they felt, should have

a global orientation within which the United Nations would play a more central role.² The United States stood its ground, however, and a temporary compromise was reached whereby ECOSOC agreed to establish CEPAL on only a three-year trial basis. Even though CEPAL was placed on a permanent footing in 1951, the complex issue of "globalism versus regionalism", which had already emerged within the United Nations political and security arrangements, now appeared in the economic and social development field as well. It was to remain a key issue during the 3 ensuing decades, as we shall see. At all events, from the very beginning the United States had placed itself in the position of being a major opponent, if not *the* major opponent, of CEPAL. Realizing that its dominant role within the OAS might be challenged by this new United Nations regional economic commission, the United States viewed its very birth with wariness and caution. This was not lost on the Latin Americans, and consequently even before CEPAL's creation the lines had been drawn on what was soon to become increasingly a relationship of confrontation.

²The geographic composition of CEPAL membership has always reflected this merging of regionalism and globalism. Thus, from the very outset, membership in the Commission has been open to any United Nations member state in North, Central and South America, including the West Indies, plus other non-regional United Nations member states with territorial possessions in the area. The current members of the Commission are Argentina, Bahamas, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, France, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Netherlands, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, United Kingdom, United States of America and Venezuela, while Belize and the West Indies Associated States are associate members.

I

1948-1958: A decade of conflictive relationships

The first session of the Commission, attended by high-ranking representatives of the member governments, took place three months after ECOSOC had voted for CEPAL's establishment.³ In the meantime, the secretariat of the Commission had been organized, and a team of professional-level staff members began its work. In view of the strong United States misgivings about possible duplication with the OAS, the first order of business was to effect co-ordination between CEPAL and the CIES. The result was a broad division of labour in which CEPAL's work was to be especially concerned with extra-continental aspects of Latin America's economic problems, including those arising from world economic maladjustments, but with continuous liaison between it and the CIES. From that time onward, the CEPAL sessions were to be concerned more and more with substantive issues of economic research and policy and progressively less with problems of co-ordination with the OAS. The second CEPAL session took place in 1949. After the third session in 1950, the United States representative stated that while his government continued to be concerned about the possibility of duplication with the CIES, it would nevertheless have no objections to establishing the Commission on a permanent basis in 1951, at least on the basis of the work undertaken by CEPAL to date.

During those first few years, CEPAL laid the groundwork for its two major initial lines of endeavour, namely, the assembly of basic economic and social statistics on the one hand, and the publication of a series of

³Since 1948, the Commission has met seventeen times at the Ministerial level. The first four sessions were held annually and thereafter biennially.

thoretical and policy-oriented studies on the other. As regards the former, CEPAL began to provide, for the first time in Latin America's history, comprehensive statistical data on both a country-by-country and regional basis encompassing trade, production, income, prices, employment, and a variety of other economic and social variables. The national income series were, in particular, to become a unique CEPAL contribution. Never before had data on income and product been available on a directly comparable basis, denominated in a common currency, and covering virtually all countries in the Latin American region. Nonetheless, despite the usefulness and importance of these statistical publications, their compilation and distribution was not to comprise CEPAL's major contribution. On the contrary, this was to lie in the realm of trailblazing and innovative theoretical studies: studies that were highly controversial when they were first presented but which subsequently were recognized as fundamental contributions to the postwar literature on economic and social development in Latin America and indeed internationally as well.

Several seminal publications of CEPAL rapidly made their appearance. The first was the *Economic Survey of Latin America* (1949), followed shortly afterwards by *The Economic Development of Latin America and its Principal Problems* (1950) and *Theoretical and Practical Problems of Economic Growth* (1951). After a brief lull, these were followed by *Economic Integration and Reciprocity in Central America* (1952), *Foreign Capital in Latin America* (1953), *International Co-operation in a Latin American Development Policy* (1954), and *An Introduction to the Techniques of Programming* (1955). Still more CEPAL publications were to emerge in prolific array throughout the remainder of the 1950s, but it was these early writings

which contained the basic tenets of what became known thereafter as "the CEPAL Doctrine".⁴ This paper is not the place to go into the many complex and inter-related elements contained in that doctrine. This has in any case been done by a host of other writers.⁵ Suffice it to say that the

⁴ Although the entire secretariat collaborated as a cohesive team in producing these and other CEPAL studies, it is common knowledge that the person largely responsible for their integral design and theoretical substance was Raúl Prebisch, CEPAL's Executive Secretary from 1949 through 1963. A hard-driving leader, a brilliant theoretician, and a skilled practical economist, Prebisch had been a professor and central banker in Argentina until forced to leave as a result of political differences with President Juan Perón. His team encompassed a number of gifted Latin American economists, including Victor Urquidí, Jorge Ahumada, and Celso Furtado, but Prebisch was unquestionably the central directing force throughout the initial 15 years of CEPAL's existence. Indeed, the words "CEPAL Doctrine" and "Prebisch Thesis" are often used interchangeably in development literature covering the work of the Commission during its first decade.

⁵ A comprehensive bibliography, covering both CEPAL documents and writings by outsiders on those documents, will be found in the Appendix to Octavio Rodríguez's article entitled "On the Conception of the Centre-Periphery System", published in *CEPAL Review*, First Semester 1977, pages 233-239. Additionally, three recent Ph.D. dissertations provide a very extensive series of bibliographical references and also reinterpret many aspects of the original CEPAL doctrine in the light of current developmental literature. These are *Regionalism and Functionalism in International Organizations: The United Nations Economic Commission for Latin America*, by Pierre Michel Fontaine, University of Denver, 1968; *Economic Ideology and Economic Integration in Latin America: the Impact of ECLA ON LAFTA*, by John David Edwards, University of Virginia, 1974; and *The United Nations Economic Commission for Latin America and National Development Policies: A Study of Non-coercive Influence*, by David Cameron Bruce, University of Michigan, 1977. All three dissertations are available from University Microfilms International, Ann Arbor, Michigan 48106.

CEPAL Doctrine, and the policy implications flowing from it, almost immediately exerted an extraordinary impact on economic thought and action, first of all in Latin America and later globally as well. But in this very process CEPAL was to disturb—indeed at times even to enrage—a number of important United States individuals and organizations concerned with Latin American affairs.

What was the central thrust of the CEPAL Doctrine and why did it arouse such strong and negative reactions among United States audiences? As stated above, this is not the place to review this in any detail. However, since some knowledge of the CEPAL Doctrine is required in order to show why it proved so provocative to United States readers in the early postwar era, I quoted briefly below from two books in which CEPAL staff members presented what they believed to be the essence of that doctrine. In the first book,⁶ nine separate but closely interrelated topics were singled out as encompassing the principal initial intellectual contributions of the Commission. As that book stated:

“In broad outline, these nine topics are as follows:

1. A criticism of traditional theories on foreign trade and, more specifically, on the nature of the economic relationships between the ‘centres’ and the ‘periphery’;

2. A justification of industrial development and an analysis of some of its main aspects in Latin America;

3. Planning as a *sine qua non* for development: its general content and technical direction, and regional planning experience;

4. The *raison d’être* of external financing and investment: ways of meeting economic growth requirements;

5. Regional integration as a primary means of getting away from the ‘closed’ type of economy in post-depression industrial development;

6. The nature of inflation in Latin America: an analysis of its underlying causes and of traditional stabilization policies;

7. The social dimension of economic development: social determinants and effects of the development process, and changes in the structure of employment and of the social sectors;

8. The position of Latin America *vis-à-vis* world trade policy, and trade between developed and developing countries, and

9. An overall and integrated view of development problems in Latin America and the structural changes needed to ensure more dynamic development and an equitable distribution of its benefits.”

“Although these central topics are dealt with separately, they are clearly interrelated and interdependent. Moreover, a certain sequence may be noted, for the knowledge gained in the first studies and its implications are naturally incorporated in the later ones, and give them greater depth. This does not mean that CEPAL started out with or ever had the intention of formulating a cut-and-dried general theory or scheme that would systematically cover all the economic, social and institutional aspects of Latin America’s development.

⁶ *Development Problems in Latin America: An Analysis by the United Nations Economic Commission for Latin America*, a special publication of the Institute of Latin American Studies, The University of Texas Press, Austin, 1970, pages XI–XII. In Professor David Bruce’s dissertation, cited in the preceding footnote, he has described in much detail each of the nine points mentioned above. Bruce’s presentation probably represents the most recent and comprehensive effort by a United States writer to delineate the main components of the original CEPAL Doctrine.

The main factors that have gradually broadened the outlook or sharpened subsequent thinking have been the actual facts, Latin America's experience of the problems and situations as they arose, and the development of the ideas themselves."

In the second book,⁷ the present author tried some time ago to make a short synthesis of the CEPAL Doctrine in a rather more simplified format for a student audience:

"In essence ECLA's influence rested on two main elements, one ideological and the other tactical. International trade flows based on comparative cost and advantage, said ECLA, do not necessarily lead to the most efficient utilization of world resources, and certainly not to their most equitable distribution. On the contrary, the rules of the game as they were put forward by the classical theory of international trade were biased against countries producing primary products in favour of those producing manufactured goods. Under such circumstances, ECLA maintained, many developing countries felt that trade had become a vehicle for global exploitation by a few countries rather than a means of maximizing welfare all around. This lack of *economic symmetry*—this bias favouring the 'central' (rich) nations at the expense of the 'peripheral' (poor) countries—had been overlooked, said ECLA, in traditional approaches to theories of trade and growth. Worse yet, this economic disadvantage was compounded by an additional element of *political asymmetry*. To redress the existing lack of balance in inter-

national commercial and financial policies, corrective negotiations were required between nations. Unfortunately, however, negotiations between sovereign nations did not necessarily imply negotiations between equals. Thus, peripheral countries felt they had been maintained in a continuously secondary relationship *vis-à-vis* nations of the centre, not only because of outmoded economic theories but also because singly they could not exert countervailing political pressures on the stronger and more unified industrial heartlands of the world."

"As is well known, ECLA encompasses within a single institutional framework, all the Latin American countries. Tactically, therefore, it came to provide a cohesive organizational framework for the (then 20) republics of the region. And simultaneously, as stated above, it synthesized into a single conceptual framework an indigenous developmental philosophy. ECLA provided, in short, for the first time in Latin America's history an *economic ideology plus a political forum*. Both were broad enough to encompass the region as a whole but flexible enough to encompass a wide variety of different national characteristics."

"Putting aside the institutional aspect, it will be seen that by the end of World War II Latin America's groping for a new and fundamental reorientation of its economic system had come to be satisfied by the so-called ECLA Thesis. The latter in turn rested essentially on a sequence of separate though interrelated ideas, which will next be briefly traced out".

"A basic goal of developmental policy should be to increase the rate of growth of product and progressively to diffuse the fruits of such growth. In so doing it was essential to reduce exter-

⁷ *Latin American Prospects for the 1970s: What Kinds of Revolutions?* edited by David H. Pollock and Arch R.M. Ritter, New York, Praeger Publishers, 1973, pages 37-38.

nal dependency. One way was to seek external financial commitments via targets for international public loan capital rather than rely so heavily on the spontaneous flow of private direct investment capital. A more basic avenue involved a shift in the structure of production away from primary products—whose trends were too stagnant in the long run and too unstable in the short term—and toward manufactured goods. This would enable a diversification of exports and (highly important to Latin America at that particular time) would accelerate the possibility of industrial import substitution. During the postwar era, however, unlike the decades of the 1930s and 1940s, such import substitution should take place in some rational planning context within individual countries and between groupings of them.”

“In all of this ECLA had clearly parted ways with the hitherto prevailing notion that the free play of market forces would somehow facilitate a more economically efficient system and a more socially equitable one. In fact neither the economic nor the social goals had thus far been attained by Latin America through the unfettered workings of the market mechanism. Nor were there grounds for assuming that this situation would now change in some spontaneous manner. ECLA did not oppose private enterprise. On the contrary its writings stressed from the very outset the need to strengthen the role of the private sector. But, said ECLA, the private sector would respond better to economic and social imperatives if the latter were clearly laid out within the context of an indicative development plan. And in so doing, said ECLA, it was basic that Latin American private initiative—not foreign—be strengthened through deliberate acts of policy. It was in this

context, among others, that ECLA stressed so often the need for intervention into the free and unfettered play of market forces.”

Today, the experts quoted from the two above-mentioned books will probably seem like rather conventional wisdom to most United States readers. But in the early 1950s the ideas inherent in the CEPAL Doctrine appeared to some of them as naive and to others as heretical and even dangerous. This was so for both political and economic reasons. It must be remembered that the Latin American countries had emerged from the Great Crisis of the 1930s and from World War II with certain reservations about their extremely close political and economic ties with the United States. Those ties had brought with them undoubted benefits, but also certain costs. The Latins, imbued with a desire to play a more active role in evolving their own postwar economic destiny, felt that they would have to join together in a tactically more unified manner if they were to change the existing hemispheric rules of the game and thereby reduce their long-standing dependency upon the United States, since individually they could exert very little leverage against their giant northern neighbour. And rightly or wrongly the Latins felt that, within the OAS, the United States was too often the tail that wagged the dog. In CEPAL, in contrast, they felt this situation might perhaps be reversed and that that organization could provide a caucusing forum wherein Latins could apply countervailing pressures *vis-à-vis* the United States for economic ends. It must also be remembered that the early 1950s marked the emergence of the “Cold War” syndrome, with its very powerful emotional connotations: connotations that led many United States policy-makers to view with concern those individuals or organizations not clearly aligned with them in the East-West conflict. CEPAL, which con-

centrated solely on economic development, did not align or otherwise associate itself one way or another on global military nor security issues. Thus, for the two reasons just mentioned — its lack of Cold War political involvement on the one hand, and its perceived role as a caucusing forum for applying economic countervailing pressures *vis-à-vis* the United States on the other— CEPAL aroused many apprehensions within the latter country.⁸

Important as were the political issues however, those involving economic ideology were to prove even more important. Indeed, it is no exaggeration to say that, in ideological terms alone, the CEPAL Doctrine acted like a virtual bombshell when it was first promulgated. As was inevitable in the atmosphere then existing, some United States spokesmen sought to defuse the bomb. For that reason, as stated earlier, the United States was to view CEPAL in conflictive terms throughout the organization's first decade.

The attacks on CEPAL's writings came quickly and from many important segments of the United States community: academic, governmental and business alike. Academic economists of that country, for instance, were not slow in firing off a series of counter-volleys aimed at theoretical chinks in the CEPAL armour. Their volleys were directed at many elements of the CEPAL Doctrine, but the critical attention of most United States' academicians seemed to be concentrated on a relatively few of these, namely the division of the world into a central-peripheral dichotomy based essentially on the commodity composition of interna-

tional trade flows; the structuralist-monetarist approaches to inflationary causes and cures; import-substitution-industrialization as a priority avenue for alleviating the external (balance of payments) constraint and for absorbing under— and unemployed labour, and the inadequacy of classical trade theory based on comparative advantage as the theoretical linchpin for a new international division of labour.

Important as these points were considered to be, however, undoubtedly the prime target of all was Prebisch's explanation of the factors tending to induce a secular deterioration in the terms of trade of countries that exported primary products in exchange for imports of manufactured goods. In retrospect it is interesting to note three things in this regard. One is that, although many academic criticisms were focussed heavily upon the terms-of-trade argument during the 1950s, nonetheless the latter was not unequivocally disproved, and although United States academics helped to keep it from being enthroned, they never quite banished it from the kingdom. The second is that the list of such academics who published critiques of the original CEPAL Doctrine represented a significant group in terms of numbers.⁹

⁹Including *inter alia* Professors Jacob Viner, Gottfried Van Haberler, Benjamin Rogge, P.T. Ellsworth, G.M. Meier, Theodore Morgan, C.M. Wright, V. Salera and Francis H. Schott. Professors Viner and Haberler were perhaps the most influential early critics. They, like several others during this period, criticised CEPAL for placing an undue emphasis upon industrialization at the expense of agriculture, often for reasons of "national prestige". In fact, however, the early CEPAL writings consistently urged that industry and agriculture expand hand-in-hand. CEPAL's principal reasoning in this context was that, as productivity rose in agriculture, surplus manpower would be released in the process. Hence industrial employment was essential to absorb the workers leaving the farms. See for instance Jacob Viner,

⁸In parentheses, it may be noted that almost exactly the same scenario was to recur, on a worldwide scale, approximately a decade later. Thus, by the mid-1960s UNCTAD's work programme (which in certain ways can be viewed as a global amplification of the original CEPAL Doctrine) was to arouse the same negative reactions from the developed world.

Thirdly, as time has passed a reverse trend has occurred, insofar as United States' academics appear to have become increasingly receptive to the ideas underlying the original CEPAL Doctrine. But more of this later.

As with the academic community, so too representatives of the United States business community reacted rapidly and negatively to CEPAL's publications during its first decade of existence. Unlike the academicians, however, they were blunter and less concerned with theoretical subtleties. In the main their ire was aroused by CEPAL's undisguised espousal of dirigiste policies; that is to say, by its explicit belief that the spontaneous play of market forces must be tempered by judicious but deliberate State intermediation, in order to move faster and more directly towards certain predefined goals of international co-operation for development. In particular, many United States businessmen considered that one of those goals—that of accelerated internal industrialization—was likely to jeopardize their exports of manufactures to the Latin American area as a result of import substitution.

This distrust of the CEPAL Doctrine by the United States business community was not surprising when considered in historical context. Private firms with large direct investments in Latin America felt that their short-term interests were furthered by the absence of governmental intervention and the presence of monetary stability in the countries of the region. In contrast, CEPAL's stress on structural transformation through an expanded role of the State, and especially its recommendations for deep-seated fiscal and agrarian reforms with concomitant repercussions on income distribution, seemed far more

likely to trouble Latin America's political waters than to calm them. Furthermore, in the 1950s CEPAL's insistence on the need for planning struck many United States business leaders as too technically complex and too ideologically dangerous. Today this may seem surprising, but in the general mood of the 1950s, when the "Free Market" syndrome flourished so openly and powerfully in the United States, it was not surprising at all.

Thus, there was a close intellectual nexus between the academic and business centres. As already noted, most academic writings of that era were heavily wedded to neo-classical economic doctrines, so it was not difficult for businessmen to find theoretical support in learned journals for their own pragmatic commercial beliefs, thereby strengthening businessmen's innate distrust of CEPAL and its espousal of so many statist concepts. Furthermore, given the powerful "Cold War" syndrome of the 1950s, those who advocated planning were often considered to be proposing something antithetical to the "American way of life" and certainly to the United States business way.

Finally, it will be remembered that, in the 1950s, CEPAL was not only in favour of national development planning, at a time when any kind of governmental planning carried with it overtones of centrally-controlled economic systems, but was also recommending target inflows of public capital rather than reliance on spontaneous inflows of private capital. Furthermore, CEPAL was urging Latin American protection against foreign manufactured imports while simultaneously recommending preferences for Latin American manufactured exports, and new rules of the game for foreign direct investment in order deliberately to foster indigenous Latin American entrepreneurship. Little wonder, then, that the initial distrust on the part of businessmen quickly changed to

open hostility, since they felt that CEPAL's writings were obviously not likely to create the kind of "investment climate" for foreign investment that the United States business community desired at that postwar juncture.

In previous paragraphs, I noted the doubts expressed by the United States government prior to the creation of CEPAL in 1948. Those doubts were to be magnified in the next few years, coming to a particularly volatile head in 1954. The OAS had requested CEPAL to prepare a report on the theme of development financing for the Inter-American Meeting of Ministers of Finance and Economy scheduled for Quitandinha, Brazil, in November 1954.

The resulting document entitled *International Co-operation in a Latin American Development Policy*,¹⁰ turned out to be, from the United States Government's point of view, perhaps the most controversial report CEPAL had produced since its creation. In essence, the Quitandinha report suggested that six goals must underlie any new and truly effective policy of international co-operation for Latin American development, namely, national development planning, accelerated internal industrialization, fiscal and agrarian reform, technical co-operation, international trade, and new approaches to international investment flows. The latter point was to prove especially unpalatable to the United States delegation at Quitandinha since it was based on the following line of thought. In the light of probable terms-of-trade and other external sector tendencies, the constraints imposed Latin American economic growth by balance-of-payments considerations could best be overcome by new United States policy initiatives *vis-à-vis* Latin America. One way of overcoming such constraints would be to significantly increase foreign

capital inflows. Although private investment would be welcomed, the emphasis should be on public capital since (i) the debt-servicing burden would be more predictable and less onerous than for private capital, (ii) public capital could be channelled directly towards certain vital end-uses, such as economic and social infrastructure projects that might not be attractive to private foreign investors, and most important of all (iii) since "certainty" is an essential element of any development plan, such certainty could best be ensured by setting public investment targets rather than by relying, as in the past, on unpredictable inflows of private capital. Consequently the CEPAL Quitandinha report postulated a target, after a three-year transitional period, of at least 1 billion dollars in foreign capital inflows per annum on average. Of this total, CEPAL suggested that private investment should provide one-third and international credit institutions the balance. To facilitate the latter, CEPAL recommended the creation of an Inter-American Development Fund (almost exactly the same in structure and goals as was to emerge five years later in the form of the present Inter-American Development Bank) as a new institution designed specifically for such ends. The United States delegation at Quitandinha was deeply disturbed by all this. For one thing, the 1 billion dollar financial target was double the average net United States investment in public and private funds for the three years preceding the Quitandinha meeting. More fundamentally, however, the CEPAL report was highly objectionable to Treasury Secretary George Humphrey on grounds of principle. It is well known that Secretary Humphrey wielded a tremendous influence within the Eisenhower Cabinet.¹¹ The

¹⁰ E/CN.12/359, September 1954, United Nations Publication, Sales No: 1954.II.G.2.

¹¹ "...even the most ardent admirers of President Eisenhower admit with readiness that the President to a large extent takes his cues on economic

significant point in this, for Latin America, was the fact that Mr. Humphrey

"...was morally convinced that private enterprise is a sacred thing, not only in the sense of being an essential foundation of a free and democratic society, but also in the sense that it is the only economic investment free people can rightly use to better their lives."¹²

Furthermore

"Secretary Humphrey believed the government was taking too active a role in the economic life of the nation; that taxes, especially in the upper corporate and individual income brackets, were so high as to stifle private incentive; that the government was spending too much; and that the public debt should be reduced. These positions led him to take a very cautious view of all government spending abroad, *especially for foreign aid programmes*. Many of the latter programmes, he felt, not only took the place of private capital abroad but also were a charge against the public debt, which the nation could ill afford."¹³

This conservative philosophy led Secretary Humphrey to strongly oppose the much more liberal policies contained in CEPAL's report to the Quitandinha meeting, where Mr. Humphrey headed the United States delegation. His views were shared by Assistant Secretary of State Henry Holland (deputy head of the delegation)

as well as by other observers from the IBRD and the United States Export-Import Bank. They felt that the report unduly played down the role of private direct investment, while insofar as public capital was concerned, they believed that the IBRD and Eximbank were fully adequate for the purpose, and since they were already in place no new inter-American lending machinery was necessary. Because of the strong United States opposition to the CEPAL report, nothing of consequence came of it at the Quitandinha meeting, but the Latin American governments unanimously rallied around that report as representing a reasoned and just expression of what they expected from the United States in the sense of a new approach to what the report called "international co-operation for Latin American development".

Thus, during the 1950s CEPAL's Quitandinha report, together with the earlier documents mentioned in paragraph 5, had come to epitomize a united Latin American economic policy position *vis-à-vis* the United States. Since the United States government viewed most of the policy implications of those documents as neither feasible nor desirable—as possessing dubious, radical, and even alien ideological underpinnings—this first decade of CEPAL's existence can at best be characterized as one in which the United States government viewed CEPAL *de jure* with caution and *de facto* with alarm. One scholar who analysed the United States government's attitude towards CEPAL during the 1950s sketched the general picture in the following way:

"Understandably, ECLA was an anathema to the Eisenhower Administration during its conservative years. The Commission stood for everything which the Administration did not support and it plagued the United States with logical economic arguments for changes in Latin American policy which the United States did not want to make.

policy from George Humphrey": *New York Times*, 15 January 1956, page 28.

¹² *New Republic*, 13 December 1954, page 13.

¹³ Yale H. Ferguson, ECLA, *Latin American Development and the United States: A Broad View*, Columbia University, International Organization, Autumn 1961, unpublished manuscript (underlining added).

But although there was considerable ill-will between the Commission and the Administration for many years, there was no open break between the two. ECLA's policies generally received kid-glove treatment and often even lip service from the United States. At the Commission sessions, United States economists and representatives were instructed to "try and keep the session in hand. By no means make any definite commitments. But act co-operative". Whenever the question of ECLA policies came up in the United Nations, the United States would merely applaud ECLA's hard work in the cause of Latin American development and say no more. All this was necessary because ECLA represented not only Latin America but also, in a sense, as a United Nations Commission, the rest of the underdeveloped world . . ."¹⁴

II

1958-1963: *A Cordial Handshake if not an Abrazo*

During the first decade after World War II, the United States had made few if any economic concessions to Latin America of the type which CEPAL had been recommending and which Latin American governments had increasingly begun to regard as representing their joint position *vis-à-vis* the United States. In the main those CEPAL recommendations had emphasized larger financial flows, especially in the form of "targeted" public loan capital; the need for more international commodity agreements covering primary products of particular export interest to Latin America; the importance of "implicit reciprocity" for trade in manufactured goods (i.e., some protection being permitted for Latin America on infant-in-

dustry grounds without a corresponding contraction of United States market access);¹⁵ direct support for new regional and subregional integration schemes; the fundamental need to prepare national development plans, plus the establishment of new consultative groups to help prepare those plans; and the creation of a new financing agency, the Inter-American Development Bank. As already pointed out, those requests had clearly been in contradiction to the philosophy of the Eisenhower Administration. Little wonder, therefore, that United States relations with Latin America, let alone with CEPAL, became progressively strained during the 1950s. A turning point came in the latter part of that decade, evidenced most dramatically and personally during Vice-President Nixon's visit to Latin America in 1958. The animosities epitomized by the stoning of a United States Vice-President came as a profound shock to the United States people and government alike. Indeed, in some ways this incident symbolized a political watershed in the postwar era, since it forced the United States to rethink its earlier approach to Latin American economic development. Clearly something had to be done by the United States, and quickly. President Kubitschek's recommendations for an Operation Pan-America, the second report by the United States President's brother Milton Eisenhower,¹⁶ the arrival of Mr. Douglas Dillon, a new Secretary of the Treasury who had a significantly dif-

¹⁵The rationale here was that lower United States tariffs would encourage larger Latin American exports to the United States, the proceeds of which would be spent on larger Latin American imports from that country. Latin American protection, on the other hand, would only change the composition but not the level of its imports from the United States.

¹⁶Subsequently published under the title *The Wine is Bitter: The United States and Latin America*, New York, Doubleday, 1963.

¹⁴Yale H. Ferguson, *op. cit.*, page 48.

ferent attitude to development from that of his immediate predecessors George Humphrey and Robert Anderson, and—perhaps most important of all in a political sense—the descent of Fidel Castro from the Sierra Maestra, all combined to initiate a fundamental reappraisal of United States economic policies towards Latin America. This was institutionalized by three important events: creation of the Inter-American Development Bank in 1959, the economic development programme adopted at the Bogotá Conference in 1960, and finally the emergence of the Alliance for Progress in 1961.

Almost immediately after his election in 1960; President Kennedy began to focus the attention of his Administration on Latin America. As early as the spring of 1961, in a formal White House address, he proposed that the United States should join forces with the Latin American republics in an "Alianza para el Progreso". To this end President Kennedy sought the views of experts from all parts of the hemisphere in order to draw up a long-term programme, for which he pledged substantial United States financial and technical assistance. Two elements in this new and bold initiative were of particular interest. One was the very goal itself: that of helping, through a hemispheric policy of development co-operation, to bring Latin America to the point of self-sustaining economic growth within a decade. The other was the idea of enlisting the aid of the inter-American system to such ends. CEPAL was to become directly involved in this process: indeed, a very interesting aspect of the Alianza was its endorsement of many ideas which CEPAL had been continuously advocating since 1948. As Professor Arthur Schlesinger, Jr., an architect of the Alianza, has stated "...in its ideas, the Alliance for Progress was essentially a Latin American product, drawing from

Raúl Prebisch of Argentina and the United Nations ECLA..."¹⁷ This was particularly so as regards the theoretical underpinnings of national development planning, targeted financial inflows, accelerated internal industrialization, international commodity agreements, and the strong emphasis on social reforms. These mirrored almost exactly the recommendations contained in CEPAL's 1954 Quitandinha Report: recommendations which, as noted earlier, has been conspicuous by their absence in prior United States policy on Latin America. Now, for the first time, the United States and CEPAL marched side by side in their pursuit of the common goal of furthering Latin American development. For the first time since its creation, CEPAL was being mentioned by name in favourable terms by the President of the United States and other senior United States government officials.¹⁸ The heads of the CEPAL,

¹⁷ See "The Alliance for Progress: A Retrospective" by Arthur Schlesinger, Jr. in *Latin America: The Search for a New International Role*, edited by R. Hellman and H.J. Rosenbaum, Halstead Press, 1974, page 163. In an article entitled "Experience in International Co-operation and Development" published in *Growth and Change*, University of Kentucky, April 1970, Professor L.A. Rodriguez also supports the thesis that the Charter of Punta del Este was predicated upon the same basic policy recommendations that had been previously put forth in CEPAL's 1954 Quitandinha Report. A similar thesis is presented by Jerome Levinson and Juan de Onis in *The Alliance that Lost its Way*, Twentieth Century Fund, 1970, where (in referring to the Task Force on Planning and Development set up to help prepare the Charter of Punta del Este) they state that this group "...basically followed the line laid down by ECLA at Quitandinha seven years earlier..." (page 63).

¹⁸ In his 1961 address formally inaugurating the Alliance, President Kennedy requested that "...a greatly strengthened IA-ECOSOC, working with the United Nations ECLA and the Inter-American Development Bank, should assemble leading experts of the hemisphere to help each

IDB and OAS secretariats formed themselves into an *Ad Hoc* Committee on Cooperation (commonly referred to as the "Tripartite Committee") and began to work in Washington on a joint "Economic Survey of Latin America", on new initiatives for regional integration, on common approaches to fiscal and agrarian reforms, and on new attempts to secure increased technical assistance. It was a heady moment in United States-Latin American relations, and above all in United States-CEPAL relations. After rebutting and rebuffing virtually all of CEPAL's policy recommendations since 1948, the United States government had now changed its tack by almost 180 degrees. With its tremendous material resources, it was now deliberately involving itself in a collaborative programme of hemispheric development that seemed to be taken *holus bolus* out of the pages of CEPAL's earlier writings. The paradox in all this was summarized by one perceptive scholar in the United States who noted that

"...those who drafted the Alliance commitments drew extensively on scholarly critiques of United States policy in framing their approach, and relied particularly on what prominent Latin American economists had been suggesting. ECLA doctrines, dismissed by official Washington for years, suddenly appeared to be accepted, as the United States government embraced such concepts as economic planning, regional trade agreements, and international commodity arrangements".¹⁹

country develop its own development plans and provide a continuing review of economic progress in the hemisphere".

¹⁹"Liberal, Radical and Bureaucratic Perspectives on United States-Latin American Policy: The Alliance for Progress in Retrospect", by Abraham F. Lowenthal in *Latin America and the*

However, although the United States government offered CEPAL a cordial handshake if not an abrazo during half a decade or so beginning in the late 1950s, this should not be interpreted as meaning that the earlier criticisms of CEPAL by United States academicians and businessmen had also undergone an equivalent *volte-face* during the same period. As regards the former, critical academic attention continued to be devoted to various aspects of the CEPAL Doctrine, including in particular its terms-of-trade presentation. Nevertheless, the rather tart tone that had characterized many such exchanges during the early 1950s, including those in learned journals, seemed now to be subsiding into a more conventional intellectual give-and-take that concentrated increasingly on statistical and analytical rigour rather than on ideology.²⁰ But if United States academicians seemed generally to be rethinking their earlier interpretations of the CEPAL Doctrine, this was not the case with the business community. On the contrary, their criticisms —of CEPAL in

United States: The Changing Political Realities, edited by Julio Cotler and Richard R. Fagen, Stanford, Stanford University Press, 1974, page 213.

²⁰This period was marked by the beginning of a series of learned articles much more favourable to the CEPAL Thesis. Some examples are "The Economics of Prebisch and ECLA" by Werner Baer in *Economic Development and Cultural Change*, January 1962; "The Prebisch Thesis: A Theory of Industrialism for Latin America" by Charles A. Frankenhoff in *Journal of Inter-American Studies*, April 1962, and especially the articles by Albert Hirschman, Joseph Grunwald and David Felix in *Latin American Issues, Essays and Comments*, edited by Albert O. Hirschman, New York, The Twentieth Century Fund, 1961. Professor Hirschman's paper entitled "Ideologies of Economic Development in Latin America" (and especially the chapter entitled "The Present Scene and the Commanding Position of ECLA") is particularly noteworthy in this context.

general and of Prebisch in particular—seemed if anything to have become increasingly bitter. As previously mentioned, during virtually the entire preceding decade the views of the United States business community had been at one with those of both the United States government and many academic economists. Now a quantum change seemed to have occurred, since the substance of the Punta del Este Charter contained so much of the original CEPAL Doctrine. The displeasure of businessmen over this changing state of affairs was clearly expressed by many spokesmen, perhaps most clearly of all in a lengthy article and related editorial that appeared in the February 1962 issue of *Fortune Magazine*, just a year after the Alianza had begun. According to that issue:

“The main burden (of the ECLA doctrine) is that Latin America is unfairly handicapped in its economic relations with the rest of the world. To achieve self-sustaining growth quickly it cannot rely on the free play of market forces but must resort to government-administered industrialization... The chief author (of the ECLA Doctrine) is ECLA’s Executive Secretary Raúl Prebisch, one of those politically-minded economists who tailor their economics to fit their objectives... Most of the rest of the ECLA Doctrine is, to say the least, debatable... (this Doctrine) implies heavy intervention by Latin American governments in economic programming. It puts little emphasis on exports, or on sound money, or on the role of private foreign investment... Suspicion of industrialized nations and especially of the United States, contempt for free markets, an emphasis on bureaucracy: none of these are ECLA inventions but ECLA has given all of them a more or less coherent rationale.”

And there were many others as well. Thus *Business Week* (11 November 1961), referring to the Punta del Este Conference, stated that:

“... at that Conference, Raúl Prebisch attempted to have himself established at the head of a committee that would oversee the Alliance economic planning. But Prebisch failed because... many North Americans are skeptical of the ideas held by Prebisch on economic planning and development, which place heavy reliance on government action.”

In the same vein the *Wall Street Journal* (6 June 1963) felt that:

“Mr. Prebisch’s ideas might not be especially noteworthy except that they also form the basic doctrine of President Kennedy’s much heralded Alliance for Progress. In fact, Mr. Prebisch is the Alliance’s intellectual godfather. But the methods Mr. Prebisch proposed strike many economists as poor alternatives... Some experts in fact believe the Alliance won’t get off the ground as long as it retains its fetish for government planning and United States aid... The evident lack of support from the wealthy few with ready investment resources is perhaps one of the greatest drawbacks in Mr. Prebisch’s economic programme.”

A few months later, the *Wall Street Journal* (16 October 1963) carried its criticisms to a more global and geo-political level by editorializing that:

“... another aspect of this reformist confusion is the insistence that Latin American nations draw up grand economic plans... as though our own affluence were the result of state planning. Naturally this encourages the socialist tendencies which are already abundant in the (Latin American) area”.

In a nutshell, then, whereas the first decade of CEPAL's existence had been one of strong opposition by the United States government, United States academics, and United States business sectors, the next half decade represented a complete turn-around by the government, and a quieter, more measured response by academics, although the antipathy of the business community remained largely unchanged. But even the partial honeymoon with the United States government during this period was to be short-lived. And soon none of it was to matter very much, one way or another. For within a few years after the Alianza was initiated, still another stage of United States-CEPAL relations had begun. In this fourth phase, lasting roughly another full decade, the United States neither opposed nor supported CEPAL but rather ignored it. An era of benign neglect had begun.

III

1963-1973: *A Decade of Benign Neglect*

Doubts at CEPAL's birth, strong opposition from 1948 through 1958, a reversal of this attitude until 1963, and then a decade of virtual indifference. What explains this fourth major epoch in the official United States attitude towards CEPAL? There are probably four main reasons. One relates to the fact that the Alianza itself soon began to "lose its way". Why this occurred when it did, for such a broadly and positively structured hemispheric initiative, is a complex story that has been widely analysed by many Latin American and United States specialists and need not be repeated here. By most accounts, however, the attainments of the Alianza quite soon began to fall short of the goals that had been originally set for it.²¹

²¹Two comprehensive accounts, from April United States and Latin American vantage points

As this began to take place, the links — both institutional and intellectual — that had just started to emerge between the United States government and CEPAL, began to unravel and finally parted completely. The second reason is quite a different one: namely, that CEPAL's earlier development ideology, which had so permeated the substance of the Punta del Este Charter, was not subjected to a continuous process of dynamic renovation within CEPAL itself. On the contrary, after so many years of acting as a crusading challenger *vis-à-vis* the United States, the very fact of being "accepted" by that country seemed to result in CEPAL becoming inward-looking and engrossed essentially in short-term day-to-day matters, to such a point, in fact, that its longer-term "think-tank" functions, which earlier had given it such strong ideological underpinnings, were now being given less attention. As an analogy, it might be said that before the Alianza, CEPAL had been engaged in a continuous process of building up a new stock of intellectual capital, whereas afterwards it was involved more in drawing from rather than in renovating that past accumulation. A third reason involved the growing role of other institutional elements of the inter-American system: for example, the rapid growth in size and influence of the IDB, the momentum given to the OAS by its new CIAP* country-review activities, the newly-emerging independent secretariats of the Central American and LAFTA integration movements, and even the creation of the Latin American for Economic and Social Planning Institute (ILPES) within the CEPAL structure itself.

respectively, are Levinson's and Onis' book *The Alliance that Lost its Way* (previously cited), and for article by the then President of Chile, Eduardo Frei Montalva, also entitled "The Alliance that Lost its Way", published in *Foreign Affairs* of April 1967.

*CIAP is the Spanish acronym — also generally used in English — for the Inter-American Committee of the Alliance for Progress.

The United States had become increasingly anxious to ensure rapid operational results in Latin America in order to make the Alianza a "success story". Hence it increasingly favoured those organizations such as the IDB and OAS which, with large staffs and budgets, seemed likely to provide pragmatic operational results in the short term. CEPAL, whose comparative advantage was still largely in the realm of generating ideas, was thus pushed further and further out of the limelight of the inter-American system. Fourthly, two incidents of much personal significance took place within a few months of each other during 1963: the tragic assassination of President Kennedy on the one hand, and Dr. Prebisch's departure from CEPAL to become the first Secretary-General of UNCTAD on the other. The disappearance of a United States President who had been such a personal supporter of the Alianza, and the concurrent creation of UNCTAD as a forum for the emerging "Third World" force, added new dimensions to an already complicated series of United States relationships within the hemisphere and especially with CEPAL.

As all these powerful forces interacted and spread, the United States development spotlight shifted inevitably from CEPAL to UNCTAD. To put this in a different way, CEPAL's dynamic impulses of the 1950s had begun to change in form and structure during the 1960s: partly due to the disintegration of the Alianza, partly because Vietnam diverted great-power priorities and resources away from issues of global development towards those of global security, and partly because of UNCTAD's very creation. It was a double paradox. On the one hand the emergence of UNCTAD had helped to transform the original CEPAL Doctrine from a regional to a global schema, but in so doing CEPAL's own institutional role diminished.²² From the view-point of

the United States—which is the theme of this paper—neither CEPAL nor UNCTAD ranked high in global priorities, since there was still no organic United States approach to international co-operation for development. Security considerations were obviously paramount in the wake of Vietnam, while between CEPAL and UNCTAD, CEPAL was definitely secondary. Equally paradoxically, Prebisch's very achievement in putting a Latin American imprint upon the new UNCTAD machinery added further to CEPAL's problem of maintaining, let alone enhancing, its own institutional dynamism. The global stage was changing constantly, as were the actors on it. But within this scenario of constant change and flux, CEPAL as an institutional entity gave a definite impression of moving from centre-stage into the wings. It continued with its regular work programmes, but while these were fully satisfactory for day-to-day purposes, this led some Latin American member governments to begin looking further afield towards new global policies, new global institutions, and perhaps most significant of all in the longer run, towards new private commercial and financial systems. The region was in the throes of some very fundamental economic transformations, not the least being a reorientation of the earlier import-substitution-industrialization thrust towards a steadily greater degree of openness to the world's major trade and financial markets. In these ever-changing circumstances, CEPAL gave the appearance of lagging behind, at least in comparison with earlier years.²³ This per-

see "Pearson and UNCTAD: A Comparison" by David H. Pollock, *International Development Review*, Society for International Development, Washington, D.C., Volume XII, No. 4, 1970, pp. 14-21.

²² For a more detailed examination of this point,

²³ Another factor at play during this period—of particular relevance to United States academic perceptions of CEPAL—was the emergence of

ception of reduced relevancy was not lost on the United States government. It no longer scorned, feared or distrusted CEPAL, and neither did it look to CEPAL for new ideas: it simply regarded it as an institutional entity of low priority in the emerging global scheme of things.

IV

1973-1978: A Cautious Reappraisal

This half decade marks the fifth in a series of "new looks" that the United States government has taken at CEPAL since the end of World War II. Although it is still too early to form a clear judgement about this particular era, which has in any case not yet fully run its course, a number of recent events—some symbolic and some substantive—suggest a cautious reawakening of interest by the United States Administration in what it perceives as a "new CEPAL".

If I am correct in this latter hypothesis, it is a relatively recent phenomenon, for during the major part of the Nixon/Ford Administrations the United States delegations to the various CEPAL ministerial sessions gave the impression of being somewhat defensive in their relations with both the Latin American member governments and with the CEPAL secretariat. Basically this was a carry-over from the broader hemispheric situation that had existed after the Alliance for Progress finally lost its way. Governments, like nature, abhor a vacuum. Hence, when the Alianza and its concomitant "special relationship" began to

weaken, and nothing new and substantive emerged to take its place, the ensuing policy vacuum was automatically filled by slogans (the "Low Profile", the "Mature Partnership", the "New Dialogue", the "New Community", the "Spirit of Tlatelolco", and others), by the creation of new committees, and by the convening of numerous meetings and conferences bilaterally or under the inter-American aegis.

But all this could not disguise the fact that, from the mid-1960s through the early 1970s, theory, policy and institutional machinery were no longer converging around the goal of United States-Latin American co-operation for development. Hence the defensiveness mentioned above largely originated from the question of whether the "Low Profile" policy was not in fact a "No Profile" policy. All this is highly subjective, of course, but my recollection is that a noticeable air of testiness permeated most United States-Latin American meetings on development policy after the demise of the Alianza. The CEPAL sessions were no exceptions to this general mood: indeed, an additional complication emerged there as a result of the 1971 session in Santiago when the Latin American members of the Commission created a new CEPAL subsidiary body called the "Committee of High-Level Government Experts" (CEGAN), with membership limited to representatives from the developing (i.e., Latin American) member countries only. According to the sponsoring governments, the reason for wishing to exclude the developed member countries was innate in CEGAN's very *raison d'être*: namely, that it was created solely to enable the Latin American countries to come together and evolve a common *regional* position within the *global* evaluation exercise underlying the United Nations Strategy for the Second Development Decade. However, although the Latin Americans felt they should be entitled to utilize CEPAL for such an exercise, the United

the new "dependency" school of development literature in Latin America. Although several CEPAL staff members figured prominently in this school, its membership was widely diversified throughout the region. In any case the writings emanating from the dependency school quickly began to generate a web of intellectual links with the United States academic community. This in turn was at least partly responsible for some deflection of attention away from CEPAL's earlier writings.

States resented, on both juridical and substantive grounds, being excluded from any subsidiary body of the CEPAL "club" of which they—together with the United Kingdom, Netherlands, France and Canada—had been full-fledged members ever since its creation. Thus, to the broader post-Alianza problem of "globalism" was added the narrower problem of "exclusivity", with the result that, once more, United States-CEPAL relations were not very convivial.

Yet despite this general atmosphere, which continued into the early 1970s, a change seems to have begun to take place recently and the United States appears to be looking afresh at its relations with CEPAL. One reason for this, surprisingly enough, may have resulted from the very issue of exclusivity itself. It could hardly escape the notice of the United States that CEPAL was the only organization in the inter-American system whose membership encompassed all the Latin American and Caribbean states (including Cuba) on the one hand, and that such diverse countries wished to use CEPAL as a forum to evolve a common regional position *vis-à-vis* the developed world as a whole and not merely the United States alone, on the other. All the Latin American member States of CEPAL—despite the wide variety of their respective economic and social systems—supported, through CEGAN, the new secretariat approaches to "integral development". This very fact could not help but attract the attention of those United States officials who were engaged in rethinking the entire matter of North-South relations.

One quite striking illustration of this was the first visit ever to be made by a United States Secretary of State to CEPAL headquarters in Santiago. The fact that this particular official was Secretary Henry Kissinger, that the visit took place at the peak of his power and influence (June 1976), and that Secretary Kissinger took

advantage of his visit both to make a formal address and then have an informal working lunch inside CEPAL headquarters with the Executive Secretary, Mr. Enrique Iglesias, and his senior staff, all combined to give that visit a great deal of public visibility. Additionally Dr. Kissinger's prepared text on that occasion:

"My colleagues and I have great respect for the work you have done and for the tremendous accomplishments of the Economic Commission for Latin America. This center of study and action has done much to ignite the consciences of men everywhere to take on the challenges of economic development. Your approach is progressive and, especially because it is non-political, it is effective"

drew attention to the fact that the United States Administration was both aware of, and apparently now once again receptive to, CEPAL's reputation in the realm of international development. The subsequent visit to Mr. Iglesias by Ambassador Terence Todman in 1977—another first, in the sense that no Assistant Secretary of State for Inter-American Affairs had ever before paid a formal call on the CEPAL Executive Secretary and his staff at their Santiago headquarters—provided a second illustration of the apparent new line of the Carter Administration. A third example involved President Jimmy Carter himself when he referred shortly after his inauguration (on the occasion of his first Pan-American Day Address in April 1976) to the fact that "The United Nations Economic Commission for Latin America is the source of many creative ideas on development throughout the world". Fourthly, an especially warm series of references to CEPAL was made during the 1977 seventeenth session of the Commission in Guatemala City. There, Mr. Andrew Young, United States Ambassador to the United Nations and Head of the

United States delegation to that session, said:

“The Economic Commission for Latin America has achieved a very special stature in the modern world. ECLA... has acted as a trail-blazer for the others... It has long been recognized as pace-setter in the still emerging vision of what a new international economic order would look like... ECLA has been particularly important for its fearlessness... It has done pioneering work on the inequalities of the world ... ECLA is a symbol of our need for... institutions that seek to integrate our separate visions... ECLA represents that thin but brave line of dedicated persons who represent the bridge from the contemporary world to the hoped-for world community... We need more ideas, more initiatives and more courage... And for one of the leading roles in this effort to develop new ideas and programmes, to lead the hemisphere in this effort, I propose ECLA... More initiatives should come from such groups as ECLA... ECLA is a community that can and in my opinion should take the lead in the melding of the concepts of social justice and economic development... To find the answers that we all need, we will have to broaden the dialogue —a dialogue that ECLA has been involved in now for many years... This process of setting priorities is an on-going one, and one in which ECLA has an important role. For ECLA is one of our principal “think-tanks”, and as such should be protected and encouraged...”

And finally, during the recent (June 1978) celebration of CEPAL's thirtieth anniversary, Secretary of State Cyrus Vance, in the name of President Carter, congratulated the Executive Secretary and the entire organization on having been “...a significant contributor to the still evolving

vision of a new international economic order (and) development with equity and justice...” adding that “We in the United States government wish to support and co-operate closely with your efforts...” On that same occasion Ambassador Andrew Young sent a simultaneous message saying “I want you to know... that I will spare no effort to co-operate with you and the ECLA community in the furtherance of its goals, because I know you are committed to the spread of freedom and rule by law, to more social justice and economic development...”

After a decade or more of relative lack of interest, what is the reason for this recent apparent rekindling of interest in CEPAL by the United States Government? A partial answer might be gleaned from an 11 May 1977 article in *The Financial Times* of London entitled “ECLA: A Think-Tank for Latin America”. After referring to the attainments of CEPAL's 1977 session in Guatemala City, the article concluded that the letter had been

“...one of the more memorable international gatherings held in Latin America for several years. The Guatemala meeting saw the reemergence of ECLA as the region's most influential policy-making forum... The importance of ECLA was pointed up by Ambassador Andrew Young (who) threw Washington's weight behind ECLA as an intellectually impeccable body given to creative thinking about the future”.

A variety of interwoven factors appear to be involved here including, presumably, a desire by the new United States Administration to seek new approaches to Latin America, provided they are consonant with the United States' global economic development policies. There is no doubt that Latin America has changed enormously, within an equally-changing world economic scenario. In this hemisphere, President Carter seems to have put aside the earlier

Alianza idea of a "special relationship" and instead appears to be evolving a new approach that seeks to incorporate regionalism into an overarching global developmental framework. If this is so, then a reawakening of United States interest in CEPAL could be explained on several grounds. First, CEPAL's traditional role of generating new ideas on international development, but with a distinctively indigenous Latin American flavour —its traditional "think-tank" function— may now be what the United States Government is seeking for its own *long-term* goals. Second, CEPAL has recently been strengthening its work programme in the sphere of practical action, including applied research, technical advisory teams and other operational activities carried out at the direct request of Latin American governments. This stress on practicality mirrors a *short-term* desideratum of the Carter Administration. A third reason is the interest expressed by the Latin American governments during the seventeenth session in Guatemala in using CEPAL as a regional forum for certain North-South issues affecting the hemisphere.

As already noted, CEPAL's membership includes all the Latin American and Caribbean developing countries, plus several major developed countries with geographic interests in the area. Furthermore, since CEPAL is an integral component of the global United Nations system, observer status at its ministerial sessions is automatically available to any United Nations member country in West and East Europe, Africa or Asia. Thus CEPAL is unique in that it can combine regionalism and globalism on the one hand, and on the other it can function simultaneously as a long-term thinker, a short-term action entity, or as a potential forum for mini North-South discussions. These basic characteristics —which have emerged under the leadership of the current Executive Secre-

tary,²⁴ — may well suggest that the "new CEPAL" is more interesting to the new United States Administration than the old CEPAL was to most of the previous ones.

To conclude this section, let me say a few words on the reactions of the United States business and academic communities to CEPAL during the recent past. As regards the first of these, some at least of the old animosities seem to have abated with the passing of time. In my view this is primarily because United States businessmen have slowly come to realize that the ideas underlying the original CEPAL Doctrine were never intended to be anti-free market or anti-free enterprise *per se*. Rather, the intention was to effect a harmonious merging of both the private and public sectors into overall national development planning, for reasons of mutual self-interest. I am not suggesting, of course, that the harsh feelings of the earlier postwar period have disappeared. By no means. Nor is this likely to occur in the near future. What I am suggesting, however, is that there is a perceived need today to cast more light and less heat upon what is still one of the most important and volatile issues in Latin America, namely the role of foreign private direct investment in the overall process of growth and development. In short, although the substance of earlier conflicts between United States corporate spokesmen and CEPAL has not noticeably changed, there has been a change in form: i.e., increased attention to specific cost/benefit analyses and negotiating techniques, and somewhat less of an emphasis on broad ideological contentions.

²⁴For a more comprehensive presentation of Mr. Iglesias' views on Latin American development and CEPAL's role therein, see (a) his article "Latin America: The New Regional and World Setting", in *Cuadernos de la CEPAL*, No 1, 1976, and (b) his address delivered at the seventeenth session of CEPAL entitled "The Great Tasks of Latin American Development" appearing in *CEPAL Review*, First Semester, 1977, pp. 246-279.

As regards the United States academic community, the wheel has turned almost full circle. In the early 1950s many United States professors felt that CEPAL's theoretical writings were not up to the professional standards of academic economists and fell more within the realm of radical polemics than of economic analysis properly. By the mid-1960s, however, academic critiques of CEPAL had, as previously noted, taken on a quieter and more measured tone, with the intellectual give-and-take in learned journals stressing statistical and analytical rigour rather than ideology or policy. Thus, by the late 1970s it appeared that the once-radical CEPAL Doctrine had now achieved quite widespread academic respectability in the United States. Of course criticisms continue,²⁵ but by and large the United States academics who refer to CEPAL now tend to do so largely in a favourable tone.²⁶

²⁵ Interestingly enough, such criticisms as are still heard mainly centre around CEPAL's earlier terms-of-trade presentation: see for example "The Strange Persistence of the Terms of Trade" by John P. Powelson in *Inter-American Economic Affairs*, Spring, 1977.

²⁶ See for instance the recent writings of Professor Albert Fishlow, a long-standing United States academic specialist in hemispheric development. In his latest paper, entitled *Debt, Growth and Hemispheric Relations: Latin American Prospects in the 1980s*, Berkeley, University of California, 1978, Professor Fishlow begins by noting how "...progressively in the postwar period an indigenous and more nationalistic development model had evolved... under the auspices of ECLA. These heterodox policies... (of ECLA)... had little affinity with the conventional trinity of private enterprise, free trade and stable prices that the United States advocated (but) ECLA had by far the strongest impact...". Professor Fishlow recommends a simultaneous expansion of Latin American import substitution on the one hand and greater access by the region to external commercial and financial markets on the other, if Latin America's domestic growth objectives are not to be frustrated by the external constraint. He warns of the difficulties inherent in pursuing these dif-

V

Conclusion: Some Personal Reflections

When the Director of CEPAL *Review* invited me to write a short paper for this commemorative issue on the theme of "Some changes in United States attitudes towards CEPAL over the past 30 years" I accepted immediately, in the hope that such a paper could be of interest to those students of hemispheric development wishing to look back on United States-Latin American events for historical reasons, as well as to others who believe an examination of the past could help to provide ideas for future United States-Latin American relations. Once having accepted this invitation, however, I found the task much more difficult than I had expected, mainly because I wanted to keep the article short and balanced, yet I was immediately faced with a number of dilemmas as to what to put in and what to leave out of the paper. For someone like myself, who has been with CEPAL for many years and in the Washington Office most of them, this winnowing process could not help but reflect many of my own personal ideas, no matter how hard I tried to trace United States attitudes towards CEPAL in a concise and balanced fashion. In brief, then, it must not be forgotten that this paper represents *my perceptions of United States perceptions of CEPAL*.

Leaving this caveat aside, however, what concluding thoughts might be drawn from the sequence of events traced in Sections I-V above? Two seem particularly relevant to me.

ferent objectives, including the problems of utilizing policy instruments that can facilitate import substitution industrialization without at the same time discouraging exports. As noted in Section II above, such conclusions and recommendations mirror the substance of CEPAL's writings published a quarter of a century earlier.

First of all, on analysing the changing patterns of United States attitudes towards CEPAL over the past 30 years I could not help being struck by their "stop-go" nature. There does not seem to have been any long-term continuity in the way the United States has responded to the substance of the so-called CEPAL Doctrine. On the contrary, its attitude in this regard has been highly erratic: wary and suspicious before the birth of CEPAL, markedly negative for the next decade, a sharp 180 degree turn-around for the ensuing half decade, an equally sharp cooling-off period for approximately the next decade, and an apparent warming-up more recently. Does it not seem surprising that so many in the United States should find the CEPAL Doctrine unsound economically and dangerous politically for a few years and then *mirabile dictu* in the next few years find it to be quite moderate and measured? More importantly, could it be that, whether by opposing CEPAL or by not taking it seriously, the United States was acting in a manner counterproductive to its own interests? Enlarging upon this latter point, I would go so far as to say, as a personal opinion, that the United States government could have found, and still could find, CEPAL useful to it from a purely self-interest point of view, for I feel that CEPAL's writings serve as an advance indicator—as a bellwether—of enlightened Latin American technical thinking on development. Therefore one conclusion I draw is that a serious study of CEPAL's writings—past, present and future—could be helpful to the United States government insofar as such a study could help define some currently important Latin American approaches to developmental thought and action, while it would also indicate if it was in the interest of the United States to support such approaches.

The United States and Latin America have long been circling each other warily, the United States looking at Latin America

essentially from a geo-political point of view and Latin America looking at the United States essentially from an economic angle. True, these different points of view did converge for a while during the Alianza, but all too briefly. Indeed, at the risk of oversimplification, it is my feeling that the fundamental reason underlying so many United States-Latin American difficulties over the past 30 years has been precisely the differences in perception underlining these security-versus-development priorities. If therefore I am correct about CEPAL's "bellwether" function, the utility of such a study would be self-evident.

Secondly, on reading the preceding paragraph together with Section V, I wonder if I would be justified in suggesting that, after 30 years of ever-changing and mainly negative United States attitudes towards CEPAL, a closer relationship might in fact already be emerging and might be a good thing? Perhaps, although this is by no means certain. The costs and benefits in this regard were well summarized in the May 1977 *Financial Times* when it said that:

"Washington's approval of ECLA, as Mr. Iglesias would be the first to realize, can mean the kiss of death to a body that seeks to represent Latin America. But this time Ambassador Young's support could also be a kiss of life, as he recognizes in ECLA an important forum for dialogue between the United States and Latin America".

The world is at an historic postwar juncture, moving slowly away from a quarter century of East-West security priorities towards a new quarter century of North-South development priorities. At least this is what I believe to be a tenable hypothesis. If it is correct, then clearly many new ideas, new initiatives, and new programmes will be needed. Not so long ago, during the time of the Alianza, CEPAL responded to an anal-

ogous challenge at the hemispheric level. Can it do so again, but this time from a more global viewpoint? If it does, will the United States be any more interested than before in CEPAL's evolving approaches regarding a new *international* economic order? And, of equal if not greater importance, in CEPAL's evolving views concerning a new *internal* economic order? This is the crux of my short paper: my strongly held personal belief that CEPAL can render service to *both* the United States and Latin America, as each region seeks new approaches: the former to long-overdue international reforms and the latter to equally long-overdue internal reforms. How fascinating it would be if the wheel could move full circle once more: if, as the 1980s begin, CEPAL could evolve new styles of development to influence internal economic thought and action as much as it did internationally at the beginning of the 1960s.

In reaching this conclusion about CEPAL's future potential I do not wish to gloss over certain realities, for in the final analysis four main elements have always conditioned the way the United States

views CEPAL: the global orientation of each United States government in power, the particular way each such United States government looks at Latin America, alternative institutional mechanisms available to handle United States-Latin American relations, and the relevancy of the CEPAL Executive Secretariat (itself a function of the ideological and operational thrust of the secretariat, plus the personality and capability of the Executive Secretary). In earlier years, the United States reacted to CEPAL largely with opposition or neglect on all four counts. More recently the reverse seems to be true. The challenge, then, is to ascertain (a) where there can be "common cause" between United States and Latin American development aspirations; (b) whether those areas of common interest could be globalized, and (c) how CEPAL could promote and give form to both processes. This, then, is the fundamental issue facing the United States and CEPAL as each —looking towards the 1980s and even beyond— seeks new approaches to the long-standing but still unresolved symbiosis between regionalism and globalism.

Protectionism and development

New obstacles of the
centres to
international trade

*Pedro I. Mendive**

The new protectionist policy of the centres is nothing more than the insertion of new instruments and forms of restriction into a long-standing structure of trade relations. In the course of this process tariffs have been losing effectiveness and have gradually been replaced by non-tariff measures. From an analysis of 1,051 tariff headings in the United States, 479 in the EEC and 421 in Japan, which together cover more than 10,000 million dollars of Latin American exports to those markets, the author is able to establish the adverse effect of that new policy on the developing economies, which is worsened by the recent tendency of the industrial countries to arrange international trade in the form of "organized free trade".

The article concludes with an analysis of the negotiations to liberalize world trade which have been taking place in GATT since 1973; the statistically-documented conclusions are pessimistic. Besides the meagre overall results, it appears that the escalation in the tariff structures of the centres will grow, and this will increase the difference between effective and nominal rates of protection.

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Introduction

1. *Purpose of the study**

The principal purpose of this study is to evaluate quantitatively and qualitatively the conditions of access for Latin American exports to three major markets: the United States, Japan and the European Economic Community. Those conditions, of course, are determined by three types of measures adopted individually or jointly by countries to protect their domestic activities and, consequently, the employment of their human and material resources. The first category is that of tariffs established in those markets in the framework of the General Agreement on Tariffs and Trade (GATT) under the "most favoured nation" clause. These tariffs are not all uniform in nature. Some are bound in the General Agreement and can only be reduced, unless a rise is agreed to by the Contracting Parties and the original negotiating countries and the main suppliers are granted fair tariff compensation on other products. In contrast, non-bound tariffs may be changed by the country applying them.

The second category is that of non-tariff measures which form a veritable tangle of barriers of different kinds hindering world trade. The new protectionism which has begun to spread in recent years resides in the use of precisely this type of barrier or measure.

The third category, still more subtle, takes the form of the actual application of restrictive decisions already adopted but not applied—or applied to other countries—which in the end represent something of a potential or foreseeable threat, as in the case of the decision to apply a barrier if specific steps are not

*This text is a revised version of the paper submitted at the Meeting on Protectionism organized by CEPAL in Buenos Aires from 31 October to 3 November 1978, with the co-operation of UNDP and under the auspices of the Argentine Government.

taken to contain exports if enterprises are relocated outside the frontiers of the country threatening to apply it. Furthermore, the mere fact that the measure is applied to one or two countries with large-scale exports is often enough for other countries which are emerging as big exporters to limit their sales abroad in advance and "voluntarily", in the face of the threatened application of such barriers.

Consequently, the purpose of this study is to quantify the average level of tariff barriers and the deviations of different items from that mean, and also to identify non-tariff barriers which affect the main export products of Latin America. All these tariff and non-tariff measures taken together provide an idea of the degree of protectionism in each market, i.e., of the conditions of access they offer to exports.

2. Method employed in this study

As a first step some 200 NCCC (ex-BTN) headings¹ of export interest to the Latin American countries, according to the countries themselves, as well as others which actually registered exports to the world market in 1976. These 200 headings were grouped in the following 7 categories of products:

¹The Nomenclature of the Customs Co-operation Council, formerly the Brussels Tariff Nomenclature (BTN), has four digits. The first two indicate chapters grouping homogeneous products: from 01 to 24, agricultural products, and from 25 to 99, manufactured products. The other two digits indicate headings within each chapter, providing a more exact identification of the products. Thus heading 02.01 indicates meat of bovine animals in various forms. Finally, each country adds a series of digits after those four to arrive at the highest level of disaggregation for the tariff items or lines. For example the United States classifies vegetables, fresh, chilled or frozen, not elsewhere specified, in tariff item 07.06.13785.

1. Agricultural raw materials excluding textiles
2. Processed food products
3. Textile raw materials
4. Textiles and textile articles
5. Minerals
6. Light industries, with low capital intensity and not very advanced technology.
7. More complex industries, from the standpoint of technology and capital intensity.

Far from being arbitrary, this classification follows two clear criteria. The first is to group together products which are as uniform as possible, on a rational basis, and which receive more or less similar tariff and non-tariff treatment. The second is that these categories really represent different stages in the processing of products, which will make it possible to detect whether they receive different tariff treatment, i.e., whether there is tariff escalation with higher rates for final products than for raw material. Thus group 2, "processed foods", represents a later stage of processing of some of the agricultural raw materials included in group 1. Likewise group 4, "Textiles and textile articles" is the final stage of processing of the raw materials included in group 3, and so forth.

The tariff items included in those 200 headings amount to 1,051 for the United States, with a coverage representing almost 8,200 million dollars of Latin American exports; 431 in the case of Japan, amounting to 3,116.9 million dollars of Latin American exports to that market; and 479 in the case of the European Economic Community, with Latin American exports to the 9 member countries for a value of 8,000 million Units of Account (equivalent to US\$ 1.12 in 1976). After selecting the items, the next step was to identify the tariffs in each case, as well as the various non-tariff measures affecting them.

The determination of the "most favoured nation" tariff rates for each item did not present any major difficulty, since they are entirely compiled by GATT and are constantly used by the UNCTAD/UNDP Interregional Project on Multilateral Trade Negotiations. On the other hand, considerable time was taken in the identification of non-tariff barriers, since they are scattered throughout an extensive series of GATT and UNCTAD documents, while in the case of agriculture they are compiled by FAO. Altogether, it was possible to identify 24 categories of non-tariff barriers or measures applied in the three markets under consideration which together affect more than 900 items.

1. BQ = Bilateral quota
2. GQ = Global quota
3. Q = Quota
4. TQ = Tariff quota
5. TRQ = Quota establishing maximum country amounts
6. QR = Quarantine
7. R = Quantitative restriction
8. SR = Seasonal restriction
9. XR = "Voluntary" restriction
10. MP = Minimum price system
11. ASP = American Selling Price system
12. DL = Discretionary licensing
13. AL = Automatic licensing
14. RL = Restrictive licensing
15. LL = Liberal licensing
16. L = Licensing
17. LIC = Internal marketing limitation
18. HS = Sanitary and phytosanitary licensing or regulation
19. P = Prohibition
20. ST = State trading or purchases
21. NE = Packaging, labelling and marking rules
22. VL = Variable levy
23. VC = Variable component
24. IT = Internal tax

With the identification of the tariffs and non-tariff measures it was possible to analyse and evaluate the conditions of access to the three markets. For this purpose, in the case of tariffs, the simple arithmetic mean was established in the case of each heading—taking into account the items under the heading which recorded exports in 1976—the deviations from the mean with each of the seven groups of products, the effective rates of protection for the domestic factors of production provided by the nominal rates in the case of processed foods, textiles and textile products, light industries and more complex industries, and the value of Latin American exports (1976) to each market.

In the case of non-tariff measures, it was possible not only to identify them by item and heading, but also to quantify them and, indirectly, appraise the degree of protectionism they establish according to the degree, quality and effectiveness of the protection afforded by each measure.

The quantity and variety of tariff items chosen is so great that, in view of their number and the value of the exports involved, they cease to be a sample and form an almost complete universe, statistically speaking. This vouches not only for the seriousness with which this study was undertaken but also for the thorough demonstration of the protectionism established in each market and, according to the findings of the study, the form in which it has progressively been designed and applied.

3. Sources used

The following institutions provided the main sources for this study: General Agreement on Tariffs and Trade (GATT); United Nations Conference on Trade and Development (UNCTAD), UNCTAD/UNDP Interregional Project on Multilateral Trade Negotiations; CEPAL/UNCTAD/UNDP Regional Project on Multilateral

Trade Negotiations; United States Tariff Commission; United States Board of Trade; United Nations Food and Agricultural

Organization (FAO); United States Drug and Food Administration; and the European Economic Community.

I

General remarks

1. *The concept of free trade and its evolution*

Free trade, in its theoretical and traditional acceptance, is associated with the concept of the optimum international division of labour. In fact, however, there is a wide gap between theory and practice. It is true that during part of the past century and the first decade of the present the conditions in which international trade developed possessed at least in part the basic characteristics of such a division of labour and restrictions on free trade were minimal compared with current levels. But this was merely the result of the fact that the world economy was composed on the one hand of a few developed countries which needed raw materials and consumer markets, and which not only produced every variety of manufactured goods but also, as capital exporters, facilitated the exploitation of the natural resources they needed from the other group of countries, which were much more numerous and had barely reached the first stages of development. Naturally, while the small group of industrialized countries was developing rapidly on the basis of a diversification of production with the advance of manufacturing, the more numerous group was developing on the basis of the exploitation of a small number of primary commodities. The capital account of the balance of

payments of the latter countries — fuelled by increasing foreign investment— allowed them not only to exploit their natural resources but also to pay for the necessary goods they imported from the more developed countries and the remittance of the profits yielded by that investment. With the exception of the United States, which from the very first displayed protectionist leanings — lucidly argued by the Constitutionalist Alexander Hamilton, one of the fathers of liberalism in the United States, in a pamphlet on the protection and subsidizing of infant industries— the remaining countries, and primarily the United Kingdom, adhered to a greater or lesser extent to the free-trade system.

This experience was incorporated and scientifically elaborated in economic theory, either along comparative cost lines as in the case of David Ricardo or in the form of B. Ohlin's theory of mutual independence based on the price of factors of production, stemming in turn from different relative factor endowments. This theory became enshrined as an unquestionable truth and its broad application in external trade relations was advocated by the large industrial countries. What is curious, however, at least since the First World War, is that this advocacy has been belied by their economic policy, first with the application of tariffs which were much more than purely fiscal tools, and more

recently by the growing use of effective non-tariff measures. In other words, what was theoretically sound and had to be respected by the developing countries did not apply to the large countries which had originally developed, with a vast display of scientific underpinning, the ideas of advantageous free trade and of the international division of labour.

It would be out of place here to discuss the virtues of the theory. Suffice it to point out that for the basic tenets of the theory to be carried into practice, is its necessary at least that the international division of labour, on the basis of comparative advantage, should take place with the broad participation of all members of the world economy. Otherwise, there will always be losers and winners among the countries of the world.

Meanwhile, it may be seen that protectionism has slowly been gaining ground, but in a form unknown until relatively recently. Tariffs, which until the beginning of the 1930s represented a basic instrument for closing markets or making access to them difficult, have gradually been losing importance —although they continue to be important not only because of their fiscal function but also to provide a national tariff structure whose importance and effects will be seen below— and have been replaced by non-tariff restrictions, which are more difficult to identify and provide much more effective protection. Thus, for example, the tariff revenue of eight industrial countries in relation to the value of dutiable imports was in the order of 58% before 1930. In 1950 this percentage had dropped to a little over 26%, and after the Dillon and Kennedy Rounds had dropped to 18 and 9% of imports, respectively. In contrast, non-tariff measures, which before 1930 were extremely limited in variety and application, grew enormously and by 1973 affected 3,358 items in 18 developed coun-

tries, according to the United States Tariff Commission.²

This should by no means be construed as meaning that customs tariffs have wholly lost their protectionist function. While it is true that the above figures seem to indicate a rapidly falling level in their weighted average nominal rate, it is also true that the average may and does enclose deviations which are occasionally large. These must therefore be analysed in order to discover whether they principally affect the products of export interest to the developing countries, while the tariffs which are near or beneath the average are reserved for products mainly traded among developed countries. In that case, the low average which could be deduced from the above figures would lose all significance for the developing countries, particularly if the deviations had a greater effect upon final products than on raw materials and intermediate goods (see below, the discussion of the effective rate of protection and tariff escalation).

The above-mentioned variety of non-tariff barriers or measures is so great that various classifications have been made to group them in a satisfactory and uniform manner. This point too will be taken up later, and it is enough to point out here that difficulties of identification make it possible for such measures, which do not appear on the face of it to be barriers and may be slipped in by legislation or many other means, to be established in order to restrict imports with an effectiveness which even extremely high tariffs cannot achieve. What is more, they can be used to regulate imports in whatever manner the Government of the protecting country wishes, from the standpoint both of quantity and of geographical origin.

² *Non Tariff Barriers*, April 1974, page 18.

Two systems have hitherto been applied internationally to identify them: the GATT and the UNCTAD systems. The method followed by GATT was to open a register in which the countries affected recorded the tariff item and the restrictive measure applied by a country. On a more limited coverage than in the UNCTAD system, 600 non-tariff barrier applications (1972) were identified in this way. Under the UNCTAD method, its secretariat, in consultation with the countries, undertook the identification, establishing over 2,200 non-tariff barrier applications. Subsequently, on the occasion of the present multilateral trade negotiations, GATT re-opened its register to receive new notifications of other barriers and products and thus updated its previous register. The latest register was used for the present work because it was the most up-to-date.

2. Average tariff rate and dispersion

The developed countries apply a broad system of customs exemptions (0.0 rate) and/or very low levels of tariffs on about 40% of their imports from the developing countries. Thus the average rate weighted by the value of the trade of those developing countries is low, but that average hides what are sometimes large deviations not only among imported products of various categories but also among the different import markets for the products of the developing countries. The products of export interest to the Latin American countries are subject to tariffs which are both relatively low and relatively high. The former apply to the raw materials which do not compete with the domestic production of the developed countries and to capital-intensive, high-technology industrial products, while the latter, together with middle level rates, apply to some competitive agricultural products and, in general, to

manufactures mainly involving labour-intensive technology. Thus high tariffs are applied to clothing, cloth, suiting, footwear and many leather articles, as well as to meat, tobacco and sugar, for example.

It is apparently in the United States that the deviations from the mean are greatest, although they also vary widely in other countries, according to the type of product.

3. Economic effects of tariffs and of tariff escalation

Broadly speaking, tariffs have two effects or purposes: a protectionist effect and a purely fiscal effect. However, the two are closely linked and it may be said that in general all tariffs combine these two characteristics. Only if it is extremely high or the price elasticity of demand for the product in question is practically infinite will the tariff prevent all imports, and thus be exclusively protectionist. On the other hand, if the tariff is very low and the price elasticity of demand for the good in question is practically zero, the tariff will be almost exclusively a fiscal instrument. Hence except in these two limiting cases the tariff possesses both features, and consequently affects the trade and the domestic economy both of the importing country applying the tariff and of the exporting country affected by it.

In the importing country which applies the customs duty, these effects begin with the rise in the domestic price of the good in question and, according to the size of this increase and the elasticity of demand, will lead to a specific reduction in imports of that good. The government's revenue will increase by the amount represented by the value of the additional tariffs applied, and these monetary resources will return into circulation through the government's current and capital expenditures, unless there is a similar increase in

public saving. Consequently, while the consumers of the good spend the same or a larger amount of money to purchase the same or a smaller quantity of the affected articles, this money figure will represent income for someone which will return to the market in the form of demand for other goods. This mechanism can therefore be used to alter the structure of imports, domestic production, employment and the channelling of investment.

In the country whose exports are affected by the tariff, one of two things will occur. If the remuneration of the factors of production is not "sticky" downwards (which it would be very unrealistic to assume) it will decline, which could make it possible to reduce the price and thus offset the rise caused by the tariff and allow the good to be sold in the importing country at the price which existed before the application of the tariff. In the more realistic case of downward rigidity in the payment of the factors of production, production will decline, with obvious consequences for the level and structure of total production, employment, etc.

As may be seen, tariff protection is not confined to foreign trade but triggers a chain of effects in the domestic economy, whose importance will increase commensurately with the size and extension of the protectionist process. Hence the fundamental importance for the developing countries of forming a clear idea of protectionism as it really exists today in the world economy.

It was stated above that tariffs are losing effectiveness as a protective instrument and being replaced by more effective measures; but they are maintained for other reasons in almost all countries. Differentiated tariffs for raw materials, semi-processed products and final goods lead to what is known as tariff escalation which may result in the effective rate of production for the factors

of production being greater, and sometimes much greater, than the nominal rate. Consequently, special attention should be paid to the tariff structure of the developed countries.

The structure of world production is a combination of different activities, each of which may employ inputs which are the product of other activities which in turn use inputs produced by yet other activities. Thus the tariff structure of a given country affects the international movement of resources in two opposing ways. A tariff on a final product which is higher than the tariff applied to its inputs acts as a subsidy to the location of the activity producing the product within the protecting country, whereas a tariff on an input for a specific final product which is higher than the tariff applied to the final product acts as a tax upon the siting of the productive activity of the final product in the country which applies the customs tariff. The result of these two contrary effects is known as the effective rate of protection of the tariff. In fact, what this effective rate does is to quantify the protection provided by the tariff structure for the remuneration of the domestic factors of production of the protected or dutiable product, when the value added of the final product in question is taken into account, as may be seen below in different sections of this study.

Let us assume that in a free-trade regime a specific final product is exported and imported at 100 dollars.³ Let us also assume that the inputs needed to produce the good cost 50 dollars, and that the value added is also 50 dollars, of which 25 dollars corresponds to the payment to capital and 25 dollars to the labour factor. If the importing country imposes a 20% tariff on the final good alone, then that product will cost

³To simplify the argument, export, insurance and freight costs are ignored.

120 dollars. Since by definition the inputs are duty free, the value added in the protecting country rises from 50 to 70 dollars. Now the effective rate of the tariff will be 40% instead of the nominal 20% rate, which means that if the distribution of the value added remains constant the return on capital will be 35 dollars, as will be the payment to labour. In the exporting country affected, on the other hand, these payments will continue to be 25 dollars for capital and 25 dollars for labour.

For the protected product to be able to enter the import market it will be necessary for total payments to factors of production to drop to 30 dollars, so as to offset the value of the tariff. At the same time, however, with the rise in the payments to the labour and capital factors in the protected market, the latter can develop domestic production even though it may be less efficient compared with other domestic activities and similar external activities.

The above example leads to a number of conclusions, which will give a clear idea of the problems created for the developing countries by a given tariff structure in which tariffs are higher with each successive stage of the production process.

It should be remembered that a tariff cut in the developed countries may affect the levels of domestic production of activities which were formerly protected, as well as import levels. Thus the drop in final production due to lower tariffs is accompanied by a drop in imports of the corresponding inputs. The decline in output in the activities which compete with external production will in turn increase the demand for imports of the end product, while reducing the demand for inputs. The consumption effect, due to the probable drop in the domestic price as a result of the lower tariff, may increase the demand for imports of the end product and, finally, this drop in production of the end product in the

developed country will open up possibilities for the relocation of the activity in question in the developing countries. Thus the process has contrary effects whose final result is hard to foresee without the use of other basic parameters.⁴

The following factors should also be taken into account.

i) The effective protection of an escalating tariff system on a line of production depends on the tariff applied to the end product and the tariffs applied in earlier stages (inputs), as well as on the proportion which the value added represents in the price of the final good.

ii) The effective rate of protection, given the present tariff structures and input-product ratios in the developed countries, provides greater protection to their factors of production than is suggested by the nominal rates.

iii) The existence of protective tariffs changes the structure of domestic prices in the developed country itself. Furthermore, if the country is a large one or joins up with other developed countries with similar tariff structures, it also affects relative world prices and consequently reciprocal demand and the structure of demand for inputs and final goods.

iv) Like the level of tariffs on the end product, the greatest effective protection for the factors of production of the protecting country will occur in the case of the products with the lowest tariffs on their inputs.

4. Categories and effectiveness of non-tariff measures

Any attempt to evaluate the conditions of access of the exports of a specific country or region to external markets must begin by considering the main measures, apart

The consumption effect and the production effect of the tariff, and its quantification.

from the tariffs described above, which close those foreign markets to a greater or lesser extent. These non-tariff measures are so many and varied, and are adopted and applied with such different goals, that some classification is called for.

Three clear types or categories of such measures may be distinguished:

(i) Measures adopted directly to restrict foreign purchases. There are so many of these, adopted and applied in so many different ways, that they become, as we have already said, the most effective and currently the most widely used instrument to restrict imports. Many of them are what are known as residual (illegal) measures, which are basically incompatible with the provisions of GATT, i.e., they are not declared or accepted when the country joined the General Agreement, or are not covered by a waiver (art. XXV, paragraph 5). These measures fall into four categories: *State participation in foreign trade*: (a) subsidies; (b) countervailing duties; (c) State purchases and restrictive practices; (d) State foreign trade enterprises. *Administrative and customs formalities*: (a) valuation; (b) anti-dumping measures; (c) customs classification; (d) other administrative requirements. *Specific limitations*: (a) quantitative restrictions; (b) bilateral agreements; (c) "voluntary" restrictions and minimum prices; (d) import licences; (e) global quotas, etc. *Duties*: (a) prior deposits; (b) administrative and statistical duties; (c) discriminatory duties and variable levies; (d) credit restrictions on imports.

(ii) Measures adopted for reasons which supposedly have nothing to do with foreign trade but which directly or indirectly hinder it. These measures are of different kinds and are concerned with the protection of health, the environment, the domestic consumer (quality and safety) and fauna and flora (industrial, sanitary, phy-

tosanitary and safety standard, packaging, labelling and marking regulations, etc.).

(iii) Measures which are part of policies not specifically concerned with foreign trade but which may and do affect it. Although these measures affect trade to some extent, they cannot be described as protectionist since they are supposedly an organic part of the country's overall economic policy. This category includes tax and fiscal policy, monetary policy, social policy, etc.

It is mainly the two first groups of measures with which we are concerned here.⁵

As may easily be seen from the above summary of non-tariff measures, they are all potentially much more protectionist than tariffs. Furthermore, they can be manipulated, which means that they possess extraordinary latitude of application (including discrimination) and effectiveness which in fact enables maximum and minimum limits to be fixed for foreign purchases. Of particular importance in this last case are the specific limitations which almost all take the form of some kind of quantitative restrictions. It should be pointed out that these measures may also increase the domestic prices of the affected products imported by the protecting countries: in the case of the United States, quantitative restrictions have meant a rise in costs to the consumer three times higher than the cost of the tariffs. This has also occurred in Japan and in the European Economic Community, where the variable levies applied by the Community to certain agricultural products have increased the prices of those goods by over 130%.

As may readily be understood, as the tariff level was falling and any attempt to raise it was blocked by the undertakings

⁵ Ultimately, *deliberate* floating of currencies may be considered a protectionist measure.

contracted by the developed countries under GATT (consolidation of MFN rates), a thicket of non-tariff barriers was springing up which was to a large extent not covered by the General Agreement. Their development may thus be explained as the most effective and easiest way of regulating imports in this new protectionist context.

The quantity of such measures or barriers is enormous in the European Economic Community. In the United States the number and variety are both smaller, but they remain very effective. In the United States the greatest use is made of quantitative restrictions for all kinds of products and sanitary regulations for agricultural products, whereas the EEC, in addition to these measures, uses many variable levies, variable components, sliding duties and internal taxes applied to agricultural products. Although these barriers are applied to primary commodities competing with domestic output only in order to ensure that they supplement supply and do not undermine domestic prices and the income of the factors of production is interesting to note that generally they apply to products affected by middle or low tariff rates, except in a few cases which strengthen tariff protection.

As a point of interest it should be recalled that by 1974 the frequency of application and variety of such barriers had already reached a very high level. Thus a document of the United States Tariff Commission* using data furnished *inter alia* by GATT arrived at the quantitative results set forth below in table 1.

It should be pointed out that while the United States does not have customs valuations with minimum prices, it does have five categories of customs valuations of a protectionist nature.

*U.S. Tariff Commission, *Non-Tariff Barriers*, *op. cit.*, p. 18.

Table 1
QUANTITATIVE RESTRICTIONS IN
SEVENTEEN INDUSTRIAL COUNTRIES

<i>Type of barrier</i>	<i>United States</i>	<i>Total</i>
Bilateral quota	21	405
Global quota	28	164
Unspecified quota	35	268
Prohibition	32	100
Restrictive State trading	—	168
Automatic licensing	—	32
Liberal licensing	—	110
Discretionary licensing	—	602
Non-specified licensing	—	145
Minimum prices	—	490
Seasonal restriction	—	94
Restriction	2	373
Voluntary restriction	72	330
Others	—	77
<i>Total</i>	<i>190</i>	<i>3 358</i>

The Latin American countries most affected by the tariff and non-tariff barriers considered individually or jointly are those with temperate agricultural zones and primarily those whose industrial production and stock have reached the highest levels in Latin America, i.e., the countries which have reached the highest or middle levels of economic development, which usually coincides with a higher level of income. It is these countries which produce and export the majority of manufactured products, which it will be recalled are the products most affected by tariff and non-tariff barriers. In addition, in the case of Argentina, for example, the traditional export products are temperate-zone agricultural commodities which are subject to quotas, sanitary regulations, internal taxes and variable levies, the former in the case of the United States and almost all of them in the European Economic Community.

In addition to the above there are various practices used by the developed

countries which, while not constituting identifiable measures, are in fact potential restrictions so powerful that their mere existence induces producers and exporting countries to restrict voluntarily their sales abroad. These practices stem from the greater bargaining power or capacity of the developed countries in comparison with the developing countries. In a growing number of cases such practices have been adding to and improving the restrictive arsenal of the new protectionism.

These practices occur in cases where, as a negotiating weapon, the application of a countervailing duty is threatened, or actually applied to a given country, and its extension to another country or countries may easily be foreseen; or equally when the executive branch of the Government is officially advised to impose quotas on specific imports but does not in fact apply them; or, to mention one last case among many, when the prohibition of imports of products from a local industry is threatened if it is transferred to a foreign country. All these practices which have occurred in the case of the United States and the European Economic Community generally tend to be bilateral. In Japan, on the other hand, the trading companies, whether state or private, regulate the import of many goods on a large scale, from the standpoint not only of quantity but also of the markets supplying those goods, and can thus avoid the adoption of specific restrictive and discriminatory measures which are contrary to the spirit and letter of the General Agreement (GATT).

5. The effective rate of protection of the factors of production and its main components

Three basic factors combine to make the total effective rate of protection of factors of production generally higher than the nominal rate: tariff escalation; non-tariff

barriers which vary in application and therefore cause domestic prices in the developed countries to rise in different ways according to the type of product; and the differential freight rates established at the shipping conferences—managed by the developed countries—for different products and destinations.

As will be seen throughout this study, tariffs have lost part of their protectionist function; but the developed countries retain them in order to maintain domestic economic activities which can no longer compete with similar foreign activities, primarily labour-intensive manufacturing. This has led to a tariff structure which bears more heavily on finished products than on their inputs, thus providing a higher rate of tariff protection to their factors of production—labour and capital—than is suggested by the nominal tariff rate. Consequently, the tariff structure acts in the same way as a tax on external production and a subsidy to the protected activities.

The effective rate of protection increases with the use of non-tariff measures such as quantitative restrictions, whose nature and application vary enormously, variable levies, sanitary licences, specific domestic taxes, etc., all of which raise the domestic prices of the protected goods and consequently protect the volume of occupation of the factors of production and their incomes, albeit at the expense of the domestic economy as a whole and to the detriment of the world economy. Furthermore, in many cases non-tariff measures have a greater effect than tariffs on the determination of the effective rate of protection. Altogether, these measures which, as has been seen, principally affect agricultural raw materials competing with the domestic output of the developed countries and labour-intensive manufactured products, in which the developing countries clearly have a comparative advantage, have

caused the domestic prices of the protected products to rise by more than 130% in the European Economic Community and by more than three times the effect of the tariff in the United States.

The third major factor which helps to raise the effective rate of protection considerably above the nominal rate is the cost of shipping, measured as the difference between the f.a.s. and c.i.f. cost — in other words, insurance and freight. This cost is differential by nature and higher for bulky products of low value per unit of weight or volume. This category is mainly composed of agricultural and mining products.

A study published in 1977 on tariff and transport barriers,⁶ using world trade weights reaches the conclusion that while the average nominal rate of protection is 10.6% for customs tariffs, it amounts to 14.7% in the case of transport costs, giving a total nominal rate of protection of 25.3%; converted into effective rates of protection of the factors of production these become 19.9%, 35.6% and 55.5% respectively. Although these figures are not entirely trustworthy due to the difficulties involved in their calculation and the inevitable unreliable elements used in their quantification, they indicate an extremely important order of magnitude.⁷ In any event, this is an average using world trade weight, and therefore there are great deviations according to the product and country, par-

ticularly in customs tariffs for manufactured goods and most of all in the transport costs of commodities (mainly agricultural and mineral products).

This combination of tariff and non-tariff barriers and differential transport costs increases the inelasticity of world demand for the products in question, adding to the instability of prices in the world economy and within the producer countries which, through the well-known mechanism of relative prices, causes the international distribution of income and the allocation and level of employment of human and material resources to change. In other words, the structure of tariffs and the non-tariff measures in the developed countries, together with the differential cost of transport, not only raise the effective rate of protection but also alter the structure of their imports. From another standpoint, those imports are partly exports from the developing countries, whose structure they alter. As we shall see, they also encourage the developed countries to import raw materials rather than final products, whereas the demand for manufactures is directed towards high technology goods produced by the developed countries rather than the technologically simple manufactures produced by the developing countries. Thus a liberalization of trade by the dismantling of the present structure of tariffs and non-tariff barriers could generate an increase in exports of manufactures (and of some agricultural products) which the developing countries produce by making intensive use of labour whose cost is, of course, much lower than in the developed countries.

⁶G.P. Sampson and A.J. Yates, "Tariff and Transport Barriers Facing Australian Exports", in *Journal of Transport Economics and Policy*, March 1977.

⁷A first difficulty stems from the measurement of the cost of transport as the difference between f.a.s. and c.i.f. costs; a second, from the use of input-output matrices, in this case from UNCTAD; and a third, from the errors arising out of the fact that the matrices do not take into account the substitutions which exist among factors of production.

6. Obstacles to the free play of the international division of labour and their effects

One important point should now be raised. The industrial development reached in

some of the more developed countries of Latin America is founded effectively and primordially on the growth and progress of the type of industry which produces the manufactured goods included in the categories defined below as light industry and more capital-intensive industry, using technology which is more sophisticated and advanced although still within their reach. At the international level, these countries have an unquestionable comparative advantage consisting in the great difference between their wage levels and those in the highly industrialized countries, a gap which is not closed by the greater physical productivity of labour in the latter. It should be recalled that this greater physical productivity is due not only to *inherent* qualities of the labour force —training,

etc.— but also to factors *deriving* from the greater capital intensity in production and the much more advanced technology used. Table 2 offers a clear view of the situation.

In any case, it is on these two categories of products that the Latin American countries are relying to achieve a higher level of industrial development with an effective employment of their labour force and a diversification and growth of their exports. In addition, it is these products which bear the highest tariff burden and effective level of protection, with many non-tariff barriers, primarily quantitative restrictions, impeding their export and consequently their internal development on the basis of larger scales of production and lower costs.

Table 2

SALARY-PHYSICAL PRODUCTIVITY RATIO IN THE UNITED STATES AND
THREE LATIN AMERICAN COUNTRIES

<i>Country</i>	<i>Wages per worker^a</i>	<i>Value added per worker^a</i>	<i>V. A. W^b</i>
United States	4.05	3.50	2.18
Argentina	1.00	1.00	3.77
United States	5.00	3.00	2.02
Brazil	1.00	1.00	3.33
United States	6.46	3.67	2.00
Chile	1.00	1.00	3.90

Source: Doc. 16 of the CEPAL/UNCTAD/UNDP Regional Project on Multilateral Trade Negotiations.

^aThe United States figures indicate the number of times the average wage and value added per worker are higher than in the corresponding Latin American country whose products were compared.

^bNumber of units of value added obtained annually by unit of wages. The higher figure indicates the comparative advantage of the country to which it corresponds. For example, whereas in the United States one unit of wages produces 2.18 units of value added in Argentina it produces 3.77 units. For the products compared, Argentina has a clear comparative advantage.

Table 3

BREAKDOWN OF LATIN AMERICAN EXPORTS

<i>Product</i>	<i>1955</i>	<i>1970 (Percentage of total)</i>	<i>1975</i>
Agricultural raw materials	77.1	65.4	66.8
Minerals	8.6	10.7	7.4
Manufactures	12.4	21.3	24.3
Others (not elsewhere specified)	1.9	2.6	1.5
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Sources: United Nations, International Monetary Fund and UNCTAD.

Nevertheless, such barriers cannot be absolute and therefore, within the limits and meagre facilities which the industrial countries offer their imports, Latin American sales have grown steadily. This situation is reflected in the change in the composition of Latin American exports to the world (excluding petroleum).

It would, of course, be difficult to say what composition Latin American exports might have at present if the limiting and dislocating obstacles outlined above had not existed. On the other hand, it is easy to suppose that the breakdown suggested by the figures of table 3 would favour manufactures still further, for two principal reasons. Firstly, because of the greater price elasticity of demand in the developed countries, and secondly, because of the greater rigidity of supply of minerals and agricultural products, generally speaking, in the developing countries in the short and medium term, although with some important exceptions in the case of agricultural products (such as soya).

In fact, as may be inferred from the above, a change has taken place in the international pattern of comparative advantages

considered by type of product and by country.

The developed countries continue today —perhaps more than ever— to progress in industrial production; but within this production a significant change has occurred. The preeminence of the developed countries is clearly visible in the case of industrial products involving increasingly intensive use of capital, both in equipment and in scientific and technological research, and in the application of advanced technology which, while reducing employment of labour, calls for ever greater amounts of capital and wider markets because of the large production scales required. On the other hand, they have been losing to an increasing extent their predominance in activities which require only modest amounts of capital for research and middle-level technology, while being labour intensive. In this case the comparative advantage in the world economy has shifted to the developing countries including, naturally, the Latin American countries.

In a wide range of products, such as textiles in all their variety —cloth, suiting, clothing and other apparel made of cotton,

wool and synthetic fibre mixtures—; footwear of various kinds of materials; a very long series of processed foods, and so forth, the domestic economies of the developed countries have visibly been affected by serious competition of imports from Latin America and other developing countries. While this process has been part of the historical development of the economies of those countries, it is perhaps somewhat surprising how broad and rapid it has now become.

Strictly speaking, there is a fundamental difference in the breadth of the process of change in the international pattern of comparative advantages taking place at present compared with what occurred in the past. Previously, only one or two countries were gradually achieving greater development based on industrial progress whose output not only satisfied domestic consumption but gradually won external markets. In an expanding world market, and with many developing countries needing those types of products, no dislocation occurred in the world economy.

In recent years, however, and increasingly rapidly this process has been spreading to a large number of developing countries which have suddenly appeared on the world scene as exporters of a wide range of manufactured end products produced advantageously with the intensive use of labour, their abundant factor.

While this change in the pattern of industrial development may have taken the industrialized countries by surprise, their shared reaction does not appear to be in line with the known solutions of the past. The process of gradual industrialization of the more advanced developing countries is irreversible. Firstly, because they have already developed a series of industrial activities which are firmly rooted both politically and economically; and secondly, because technical know-how, ex-

ternal economies and other favourable conditions already exist to continue developing present activities more broadly, and to embark on new ones, all with clear comparative advantages in comparison with similar activities in the developed countries. Consequently the industrialized countries, in accordance with the solutions they themselves put forward in the past, should convert their own internal activities when these are carried out more economically in other countries, a process which should of course take place over a sufficient and sensible period of time. Instead of this economically advisable solution, all kinds of measures have been adopted which constitute so many more obstacles to the access of those products to their markets, in other words, in the defence of factors—labour and capital—employed in activities, which are uneconomic, or inefficient in comparison with external production and with alternative domestic activities, which leads to an economically unsound allocation of resources.

One of the reasons usually brought forward in international fora to justify these procedures consists in the interpretation of the low wages paid in the developing economies. The fallacy of the argument is demonstrated by the economic theory elaborated in the industrial countries themselves. The level of wages paid in the developing economies is not arbitrary, but the result of the marginal productivity of the factors of production (in the Marshallian sense) which is in fact determined by the relative supply of those factors in each economy. Thus in Latin America the abundant factor, relatively speaking, is labour and the scarce factor capital. In the United States or Germany, the abundant factor is capital and the scarce factor labour. Consequently in Latin America capital is relatively expensive and wages are cheap, which is exactly the contrary of what occurs in the above-mentioned industrial countries.

In the face of these complex economic and trade problems, ranging from tariff and non-tariff protection to the unconditional defence of the factors of production employed in inefficient activities in the developed countries, all of which affects the bases of broad international trade and the harmonious and diversified development of the economies of the developing countries, the means currently open to the latter to defend their legitimate interests do not appear to be sufficiently effective.

In confirmation of this conclusion, there follows a document drafted by the group of developing countries and distributed by GATT:

"STATEMENT BY DELEGATIONS
OF DEVELOPING COUNTRIES
ON CURRENT STATUS OF TOKYO
ROUND NEGOTIATIONS
14 JULY 1978

"1. Developing countries have seen the Statement by some major trading nations on 13 July 1978.

"2. Developing countries were not consulted on the Framework of understanding on the Tokyo Round issued under a Statement by some major trading nations on 13 July 1978. A complete and balanced assessment on the current status of the Tokyo Round negotiations can only be made with the full participation of all countries involved".

"3. The Statement by some major trading nations does not adequately reflect certain issues of major concern to developing countries and has omitted others, such as:

- tropical products;
- the principle that safeguard actions should not discriminate against developing countries;

- the right of developing countries to use subsidies in their industrial development policies;

- improvement of Article XVIII (Government Assistance to Economic Development) in the context of the future trading system;

- elimination of Quantitative Restrictions affecting the trade of developing countries in products of major interest to them.

"4. Furthermore, the Statement by some major trading partners does not accurately reflect the present state of negotiations on certain key issues, such as, in agriculture, wheat, meat, dairy and other products. The present status of the current negotiations causes deep concern as regards the most important interests in international trade of the developing countries. Offers on tariff and non-tariff measures are far from the objectives outlined in the Tokyo Declaration.

"5. The authors of the joint Statement, while acknowledging that there are uncertainties with regard to offers in important sectors, refer to the need for reaching reciprocal balance among themselves. The developing countries seriously apprehend that some sectors of great importance to them, including textiles and other products, may be left out or receive poor treatment in the process.

"6. A number of important texts referred to in the Statement by some major trading partners as a basis for finalization of negotiations in different areas were prepared without an opportunity for active participation by developing countries, and thus contain elements which may seriously affect trading interests of developing countries. Consequently, future agreement in such areas will require full participation of developing countries.

"7. The developing countries must express their apprehension that the balance sheet of negotiations could be negative both in substantive and normative areas. They stress that in the remaining months the negotiations must be conducted with more regard for the important principles of transparency and full participation by all participants.

"8. On their part, the developing countries will continue to make all the necessary efforts to assure the successful conclusion of the Multilateral Trade Negotiations in the shortest possible time, for attainment of the objectives of the Tokyo Declaration."⁸

7. Prospects

A detailed study of the statistical material and other information collected clearly shows the use of tariffs by type and group of product with the clear intention of favouring and promoting in relative terms the external trade of the products commonly exported among the developed countries while hindering market access for the products of interest, by their nature, to the developing countries. To this end a structure has been established in which tariffs tend to be higher in parallel with the degree of processing of products.

In addition, the increasing use of non-tariff measures and differential ocean freight rates, which more than offsets many tariff reductions agreed to since the Dillon and Kennedy Rounds, complete the picture of the obstacles to access to those markets.

The increasing use of such measures in recent years, due to the worsening of the economic and monetary problems affecting the world economy, is also reflected in the present data and analysis.

At all events, it does not seem that the situation with respect to the openness of markets will become simpler in the short or medium term through the two major mechanisms on which the developing countries have placed their hopes: the present round of multilateral trade negotiations in GATT and the Generalized System of Preferences put into practice in recent years by the industrialized countries.

With respect to the multilateral trade negotiations, the foreseeable results after six years of work in GATT appear extremely scanty in the case of tariffs and practically nil in the case of the main non-tariff measures hindering Latin American exports to the world market. At most they will only tend to consolidate and not to worsen the rules of the game applied today by the developed countries in order to maintain their share of world trade. For their part, the GSP, given their limiting clauses with respect to maximum amount of access, the existence of special safeguards, the discretionary faculty they provide to modify the list of products, the unilateral rather than contractual nature of such systems, the complexity of procedures required to demonstrate national origin of the product, etc., as well as the products themselves included in them do not appear to be —and this has proved to be the case hitherto— either the best solution to the trade and economic problems of Latin America or a significant opening up of the markets of the countries adopting such systems.

Hence there do not seem to be any sound short-term solutions to the serious commercial and economic problems in existence today.

⁸ GATT, Document MTN/INF/38, 17 July 1978.

II

Conditions of access to the United States market

The first point which emerges from the data on tariff and non-tariff measures in the case of the United States is that the simple arithmetical average rate for the group of 1,051 tariff lines of export interest to Latin America considered in the study is under 10%, which is a modest figure although higher than has been suggested by various authors for total United States imports.

With respect to non-tariff barriers, their variety is smaller, being applied to only 40% of the items under consideration, and their protective effect is considerable, as in the case of various quantitative restrictions and sanitary regulations and certificates. This general point goes together with the confirmation of the existence of complementarity in the combined use of tariffs and non-tariff measures, in that low or middle-level tariffs are accompanied by such measures; thus food and various inputs enter the United States economy with low duties, but if they compete with domestic production imports are held at specific levels by means of non-tariff barriers. Another general observation may be drawn from the material collected. The United States tariff structure has been designed over time in such a way as to attain two basic objectives. Firstly, to provide certain manufactured goods (textiles and light industry, which are labour intensive and employ rather unsophisticated technology) with an effective rate of protection which is greater, and sometimes much greater, than the nominal MFN rate, by

means of a tariff escalation where tariffs are higher the further one passes along the process of fabrication. Yet another general point is that in the case of capital-intensive manufactures involving advanced technology—investment goods and luxury consumer durables—the effective rate of tariff protection of the domestic factors of production is only relatively higher than the nominal rate. This explains why in the Dillon and especially the Kennedy Rounds the greatest tariffs reductions took place on this type of product, in which the developed countries were most interested, and in a period of economic expansion.

Going into details, it should be noted that the 1,051 tariff items of export interest to Latin America in 1976 covered exports from the region to the United States for a total of 8,195.9 million dollars (see table 4).

The simple arithmetic average of the tariffs applied to those exports was 9.2%, with negative deviations for the groups of products classified in this study as agricultural raw materials, textile raw materials, minerals and complex industries (high capital intensity and technology); and above-average deviations in the case of processed foods, textiles and textile products and light industries, which use relatively simple technology and are labour-intensive (see table 4).

While still at this general level, one of the most important points to emerge, is the varying level of the effective rate of tariff

Table 4
 UNITED STATES
 (Summary)

MFN rate for the 7 groups (simple arithmetic mean) ^a	9.2%
Value of Latin American exports to the United States (1976)	8 195.9 million dollars
<i>Deviation of each group from the general mean</i>	
Agricultural raw materials	-4.5 percentage points
Processed foods	+0.1 percentage points
Textile raw materials	-2.8 percentage points
Textiles and textile products	+14.6 percentage points
Minerals	-5.5 percentage points
Light industries	+0.2 percentage points
More complex industries	-2.5 percentage points
<i>Effective rate of tariff protection^b</i>	
Processed foods	22.1%
Textiles and textile products	42.5%
Light industries	24.1%
More complex industries	16.2%
<i>Restrictions^c</i>	
Quantitative	65 headings
Sanitary	10 headings
Others	1 heading
<i>Items considered in the 165 headings</i>	1 051 items

^aThe MFN rate according to the most-favoured nation treatment established in Article I of the General Agreement on Tariffs and Trade, whereby any concession granted by any contracting party to any product originating in any other country shall be accorded immediately to similar products originating in the territories of all other contracting parties.

^bUsing the UNCTAD input-output matrix. The results should be taken as merely indicative due to the form in which the matrix was used, the structure of the matrix and the fact that it does not take account of mutual substitutions of the factors of production which may occur over time. In any event, its order of magnitude, as such, should be considered as falling within the acceptable range.

^cIn the case of agricultural raw materials and foods, a further 19 headings were identified which were affected by 18 internal taxes and a selective internal tax. These were not included in the tables because they only range from 2% to 6%, with the most frequent rate being 3%. These taxes are applied in the District of Columbia and 44 States, in almost all cases at the level of the final consumer.

protection for each group of manufactures, obtained roughly by considering the coefficients of the input-output matrix prepared by UNCTAD. Thus, the effective rate of protection is high (22.1%) for processed foods as a group, and also for light industry (24.1%). The effective rate for the more complex industries is in the middle range (16.2%), which is in keeping with the points

made above. On the other hand, the effective rate of protection for textiles and textile products is very high (42.5%).

In addition, as was stated above, the protective action of these effective tariff rates is supplemented by weighty and effective restrictive measures (444 tariff items affected by quantitative restrictions, sanitary regulations and certificates, and

licensing) which primarily affect textile manufactures, processed foods and light industry.

This brings us to another point of interest. Various studies have argued that the average tariff rate in the United States is extremely low, an assertion commonly used to emphasize that the United States has not adopted a protectionist position in its foreign trade. However, an analysis of the deviations with respect to this average rate in the case of products of export

interest to Latin America, and of the tariff structure (and consequently the effective rate) and the non-tariff measures applied, hardly warrants this conclusion.

In the case of the "agricultural raw materials" group, comprising 156 items, the tariffs range from exemption (free) to 15.2%. At the lower end, well below 10%, there are some 22 positions with 100 items. In some 80 items, imports are limited by quantitative restrictions and sanitary regulations (see table 5).

Table 5

UNITED STATES: AGRICULTURAL RAW MATERIALS (EXCLUDING TEXTILES)^a
(Thousands of dollars)

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Middle	10 to 17%	3	10.0 to 15.2	+5.3 to 10.4	TQ(1), TRQ(1)
Low	0.0 to 9%	22	0.0 to 9.2	—0.1 to -4.7	R(1), Q(3), TQ(1), GQ(3), HS(6)
<i>Total</i>	—	25	—	—	16 restrictions (10 quantitative and 6 sanitary)

Note: Tariff rate (simple arithmetic mean): 4.7%. Value of Latin American exports to the United States: 3,878.1 million dollars. The 25 headings cover 156 tariff items.

^aSee annex 1.

^bFour digits.

Whatever the case may be, the table fully supports the point made above. In the first place, in the case of unprocessed food and raw materials, the tariff is generally low, with a simple arithmetic average of 4.7%, significantly higher deviations occurring

in only a couple of headings. This is in line with the policy of holding down the cost of food and of the inputs used by domestic industry, as an efficient means of offering more effective protection to the factors of production occupied in subsequent manu-

facturing stages or processes. However, since many of these imports compete with similar domestic production, the broad application of restrictive non-tariff measures makes it possible to regulate the quantity of imports in such a way that they only complement domestic supply in order to adjust its volume to that of demand.

In the "processed foods" group of products, which in a way can mostly be considered as goods processed from the products included in the preceding group, the situation with respect to tariffs and to some extent non-tariff barriers is different from

that of the "agricultural raw materials" group.

Firstly, the average tariff rate (9.3%) is practically 100% higher. Secondly, the deviations from this average rate are significant in two high tariff headings (see table 6). From the standpoint of non-tariff measures, these are applied more broadly than in the previous group. Twelve restrictions affect the 17 headings considered, 8 of which may be considered quantitative and 4 sanitary (35 items with quantitative restrictions and 18 items with sanitary barriers).

Table 6

UNITED STATES: PROCESSED FOODS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings,</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	2	20.0 to 24.5	+10.7 to 15.4	Q(1), HS(1)
Average	10 to 17%	4	13.1 to 13.7	+3.8 to +4.4	Q(1), QG(1), HS(1)
Low	0.0 to 9%	11	0.0 to 9.8	—9.3 to +0.6	Q(2), GQ(3), HS(2), P(1)
<i>Total</i>	—	<i>17</i>	—	—	12 restrictions (7 quantitative 1 prohibition and 4 sanitary)

Note: Tariff rate (simple arithmetic mean): 9.3%. Value of Latin American exports to the United States: 995.9 million dollars. The 17 headings cover 85 tariff items.

^aSee annex 2.

^bFour digits.

This difference in the tariff and non-tariff treatment of the two related groups confirms the nominal tariff escalation (4.7% for raw materials and 9.3% for

processed food products), from which one can infer that the effective rate of protection of the factors of production employed in the group is higher than the nominal

rate. Indeed, as was mentioned above, the effective rate is 22.1%, which places it in the middle-high range.

Finally, it should be noted that the volume of trade in each of the two groups is quite different, amounting to the extraordinarily high figure of 3,878.1 million dollars of United States imports of agricultural raw materials from Latin America in 1976 as against only 995.9 million dollars of processed food imports. There can be no

doubt that both the effective rate of protection and the non-tariff barriers must have affected this result to some extent.

Textile products have been considered in two different groups. The first comprising, textile raw materials or textiles with very little processing, and the other final goods or almost wholly manufactured products. The data on the first group is set forth in table 7, and the data on textiles and textile products in table 8.

Table 7

UNITED STATES: TEXTILE RAW MATERIALS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Average	10 to 17%	2	10.0 to 11.5	+ 2.0 to + 12.0	XR(3), BQ(1)
Low	0.0 to 9%	9	0.0 to 6.4	— 5.9 to + 3.9	XR(4), GQ(3)
<i>Total</i>	—	12	—	—	11 restrictions (all quantitative)

Note: Tariff rate (simple arithmetic mean): 5.9%. Value of Latin American exports to the United States: 47.6 million dollars. The 12 headings cover 41 tariff items.

^aSee annex 3.

^bFour digits.

The main features of the United States treatment of textile raw materials, from the standpoint of both tariff and non-tariff measures, are wholly in line with those pointed out above for agricultural raw materials: an extremely low simple arithmetic average rate (5.9%), with 75% of the individual tariffs by heading in the low range, and with only one significant devi-

ation above the mean. On the other hand, as in the case of agricultural raw materials, the broad use of quantitative restrictions (on 11 out of the 12 headings considered, and 21 of the 41 items they cover) affected the amount of imports, which in 1976 amounted to only 47.6 million dollars. In other words, behind a tariff structure which is apparently scarcely protectionist, non-

Table 8

UNITED STATES: TEXTILES AND TEXTILE PRODUCTS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	2	40.4 to 33.6	+11.6 to +6.6	XR(2), XR(1)
High	18 to 30%	7	27.8 to 20.5	+3.8 to —3.5	XR(7), XR(4), BQ(2)
Average	10 to 17%	2	17.7 to 15.9	—6.3 to —8.1	BQ(2), XR(1), XR(1)
Low	0.0 to 9%	1	9.6	—14.3	XR(1), XR(1)
<i>Total</i>	—	<i>12</i>	—	—	22 quantitative restrictions

Note: Tariff rate (simple arithmetic mean): 23.95%. Value of Latin American exports to the United States: 370.3 million dollars. The 12 headings cover 201 tariff items.

^aSee annex 4.

^bFour digits.

tariff barriers kept down the volume of imports to this very low level. This group is an excellent example of the nature and effects of the new protectionism applied by the developed countries.

The treatment of textile manufactures is far more protectionist, from the standpoint of both tariffs and non-tariff measures (see table 8). Looking first at tariffs, what is immediately striking is the height of the average rate (24%) with appreciable deviations upwards and downwards. Secondly, 75% of the tariffs lie in the high and very high ranges, with nominal rates of between 20.5% and 40.4%. The effective rate, with a certain margin of error in the calculation, is almost 95%, while the average effective rate of protection for the entire group is 42.5%.

In this case, then, the United States tariff structure unquestionably protects the factors of production employed in its inefficient textile industry with an effective rate which, considering only the more efficient external items and the tariff rates affecting them, frequently amounts to well over 80 and even 100%.

As if this tariff escalation with an average rate of 5.9% for raw materials and 24% for textile manufactures did not provide enough protection, textile manufactures are subject to non-tariff protectionist pressures without equal in the other groups of products under consideration. The 12 headings considered are subject to 22 quantitative restrictions in all. What is more, the 201 items included in those 12 headings are affected by over 190 restric-

tions, since some of them are affected by two or three restrictions simultaneously.

It is perhaps in the textile sector that the developed countries have shown the greatest subtlety and effectiveness in the design of machinery which, for the time being, stands out among the measures commonly applied in the new type of protectionism. This machinery is characterized by the so-called textiles agreement, accession to which is practically obligatory in order to have access to a foreign market. Adherence to the agreement leads to the signing of bilateral agreements establishing binding quotas as well as annual growth percentages for exports over the base quota.⁹ By March 1978 the United States had already signed agreements of

this kind with seven Latin American countries, which establish a binding quota, or in other words hold down exports at a fixed level. What is curious is that to date agreements have been signed between developing and developed countries but there is no known agreement between two or more developed countries in the framework of the "multifibre" agreement.

As may be expected, imports of textile manufactures under such conditions were extremely low in 1976, amounting to 370.3 million dollars.

The group comprising minerals, in various stages of processing, of export interest to Latin America appears to receive the most liberal treatment among all the products considered (see table 9).

Table 9

UNITED STATES: MINERALS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Middle	10 to 17%	—	—	—	—
Low	0.0 to 9%	8	0.0 to 9.5	—3.7 to +5.8	L(1)
<i>Total</i>	—	8	—	—	1 quantitative restriction

Note: Tariff rate (simple arithmetic mean): 3.7%. Value of Latin American exports to the United States: 1,136.6 million dollars. The eight headings cover 51 tariff items.

^aSee annex 5.

^bFour digits.

⁹Various developed countries are signatories of this agreement, including, of course, the members of the European Economic Community.

The average tariff in this group is the lowest recorded (3.7%) and only 1 restriction (licensing) has been identified for

the eight headings under consideration, which cover 51 items. The value of United States imports from the Latin American countries in 1976 amounted to the high figure of 1,136.6 million dollars.

In appearance, the treatment of this group is governed by the same tariff principle as the United States applies to the other raw materials discussed above. From the standpoint of non-tariff measures, however, the treatment is more liberal, judging by the number of barriers applied in the other two cases. Consequently imports of mineral raw materials bear lower duties, so that higher rates can be applied to the import of products processed with those minerals, thus establishing a tariff escalation resulting in an effective rate which is higher than the nominal rate. In addition, the absence of apparent quantitative limitations suggests that domestic supply needs to be supplemented to satisfy do-

mestic demand for these raw materials, either to maintain levels of reserves and deposits or for other reasons.

The "light industries" group, in which 31 headings covering 270 items were considered, is of particular interest for Latin America because it is in these products that international comparative advantages stemming from the relative abundance of labour occur and also because these products include those which will or at least should in the future allow a diversification of production and exports. Together with the articles in the "processed foods" and "textile manufactures" groups, they form the so-called non-traditional products. The great importance of these exports has already been pointed out.

As may be seen from table 10, the average nominal tariff rate (9.4%) is not very high. Deviations from this mean are quite

Table 10

UNITED STATES: LIGHT INDUSTRIES^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	2	23.5 to 19.0	+ 14.2 to + 9.7	GQ(1), XR (1)
Middle	10 to 17%	8	17.4 to 11.1	+ 8.1 to + 1.8	Q(1)
Low	0.0 to 9%	21	0.0 to 9.9	+ 0.6 to —9.4	ASP(1), XR(2), GQ(1), Q(1), NE(1)
<i>Total</i>	—	<i>31</i>	—	—	7 quantitative restrictions, 1 ASP, 1 NE: total 9

Note: Tariff rate (simple arithmetic mean): 9.4%. Value of Latin American exports to the United States: 511.7 million dollars. The 31 headings cover 270 tariff items.

^aSee annex 6.

^bFour digits.

large in two headings in the high range and in a number of headings in the middle range (for a total of 63 tariff items). However, the majority of the headings (21, covering 170 items) lie in the low range, with quite a large number of duty-free items. This is basically the reason why the average rate for the whole group is quite low.

This relatively liberal tariff treatment is not accompanied by similar treatment with regard to non-tariff barriers. Nine headings with 95 tariff lines are affected by quantitative restrictions. Strictly speaking, this low tariff range for the 21 headings and 170 items as a group stems from the fact that even before the developing countries began to attain international competitiveness and export such products, the tariffs had been negotiated and consoli-

dated in GATT. In view of the legal impossibility of increasing them, recourse was had to the new type of protectionism, which is most visible in the concerted use of non-tariff measures. As stated above, these measures are much more effective than tariffs from the protectionist point of view.

Thus it is not surprising that the volume of trade, or the value of Latin American exports to the United States, did not amount to very much (511.7 million dollars).

Finally, the group of products considered as being relatively capital-intensive, which employ advanced technology and are somewhat sophisticated, have a low average rate which is below the average for the seven groups as a whole (see table 11).

Table 11

UNITED STATES: MORE COMPLEX INDUSTRIES^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	1	34.4	+ 26.7	
High	18 to 30%	3	20.7 to 19.6	+ 13.0 to + 11.9	
Middle	10 to 17%	10	15.6 to 10.0	+ 7.9 to + 2.3	
Low	0.0 to 9%	46	9.9 to 0.0	+ 2.2 to —7.7	P(4)
<i>Total</i>	—	<i>60</i>	—	—	4 restrictions: 4 prohibitions (2 of them without MFN rate or trade)

Note: Tariff rate (simple arithmetic mean): 5.0%. Value of Latin American exports to the EEC: 425.2% million units of account. The 17 headings cover 21 tariff items.

^aSee annex 7.

^bFour digits.

Only four rates show a sizeable upward deviation from the mean, with tariffs ranging from 19.6 to 34.4%. These are the four rates placed in the high and very high ranges in table 11. Ten headings with 32 tariff lines have lower but still upward deviations. The majority of the headings (46 covering 213 tariff items or lines) lie in the low tariff range, between duty-free and 9.9%. The great majority of these items show negative deviations from the mean, i.e., their individual rates are below the average. The effective rate of protection is likewise low, in comparison with the effective rates calculated for the other three groups of manufactured products (see table 4).

Strictly speaking, the tariff structure for the 60 headings and 253 items included in this group stems from the earlier rounds of negotiations, mainly the Dillon and Kennedy Rounds, when negotiating conditions were more favourable than at present. The economy was then expanding; the developing countries which were beginning to appear on the world scene as exporters of some products included in this group were

still exporting at a low level, and therefore did not constitute a visible short-term threat for the industrialized economies; and the developed countries were particularly interested in these products to increase their foreign trade, develop their economies and maintain a high level of employment. Furthermore, many of these products are manufactured by transnational enterprises and, in the case of Latin America, by their subsidiaries located in the major countries of the region.

This explains the point which was brought out earlier concerning tariffs and the limited use of established import prohibitions, some of them dating from the United States Merchant Marine Act of 1920. In light of the above it may easily be seen, and explained, that Latin American exports to the United States in 1976 stood at a high figure (1,255.7 million dollars) and foreseeably should increase if *the conditions of access to the United States market existing in 1976 persist*, and if, in the case of some goods, the installed production capacity in Latin America increases.

III

The conditions of access to the Japanese market

The conditions of access of Latin American exports to the Japanese market may be analysed in terms of three clearly distinct categories of products of export interest to the Latin American region.

The first category, heavily protected, comprises agricultural raw materials and processed food. The second category, relatively protected, is that of textile products, light industry and more complex industry.

The third category, comprises textile raw materials and minerals, and is quite open from the free-trade standpoint (see table 12).

The analysis of the data in tables 12, 13 and 14 shows a definite protectionist bent in favour of Japanese agriculture and the manufacture or "processing" of food.

In order to attain this objective, Japan has made use of the new type of protection-

Table 12

JAPAN
(Summary)

<i>MFN rate for the 7 groups</i>	13.4%	
<i>Value of Latin American exports to Japan (1976)</i>	3 116.9 million dollars	
<i>Deviation of each group from the general mean</i>		
Agricultural raw materials	+ 13.9 percentage points	
Processed foods	+ 14.5 percentage points	
Textile raw materials	— 10.1 percentage points	
Textiles and textile products	+ 2.0 percentage points	
Minerals	— 8.7 percentage points	
Light industries	— 3.1 percentage points	
More complex industries	— 2.4 percentage points	
<i>Effective rate of tariff protection^a</i>		
Processed foods		68%
Textiles and textile products		45%
Light industries		26%
More complex industries		22%
<i>Restrictions</i>		
Quantitative		33 headings
Sanitary		7 headings
Others		3 headings
<i>Items considered in the 126 headings</i>		431 items

^aSee table 4, footnote^a, which indicates the source material and flaws of the calculation.

ism developed over recent years and based on the proliferation of non-tariff measures and barriers, usually combined with the old form of protectionism based on tariffs which afford protection by their height (see tables 13 and 14).

In the case of agricultural raw materials, the intention is clear of protecting domestic agriculture while at the same time establishing a tariff escalation in which tariff rates on individual items and the average rate are lower than on the later stage represented by the manufacture of processed

foods. The average rate for agricultural raw materials is 10.0%, excluding the tariff for heading 24.01, corresponding to all kinds of leaf tobacco, which is subject to a rate of 355.0%.

In addition to this average tariff, which is not excessively protective, imports are impeded by 19 non-tariff restrictions affecting 63 of the 91 headings considered as being of interest to Latin America. This web of non-tariff measures is formed of a combination of discretionary licences, quantitative restrictions and sanitary

Table 13
JAPAN: AGRICULTURAL RAW MATERIALS^a

Tariff range	Level of each range	Number of headings ^b	MFN rate (%)	Deviation from the mean ^c (percentage points)	Non-tariff barriers and number of headings affected (—)
Very high	Over 30%	2	35.4 to 355.0	+8.1 to +27.3	ST(1)
High	18 to 30%	2	20.0 to 30.0	-7.3 to +2.7	QR(1)
Middle	10 to 17%	5	10.0 to 17.7	-17.2 to -10.6	DL(3), HS(2), Q(1), QR(2)
Low	0.0 to 9%	11	0.0 to 8.8	-27.3 to -18.5	DL(4), GQ(1), Q(2), HS(2)
<i>Total</i>	—	<i>20</i>	—	—	19 restrictions: DL(7), HS(4), GQ(1), Q(6), ST(1)

Note: Tariff rate (simple arithmetic mean): including tobacco, which has a rate of 355%, 27.3%; excluding tobacco, 10.0%. Value of Latin American exports to Japan: 542.8 million dollars. The 20 headings cover 91 tariff items.

^aSee annex 8.

^bFour digits.

^cAverage of 27.3%.

Table 14
JAPAN: PROCESSED FOODS^a

Tariff range	Level of each range	Number of headings ^b	MFN rate (%)	Deviation from the mean (percentage points)	Non-tariff barriers and number of headings affected (—)
Very high	Over 30%	5	35.0 to 35.4	+7.1 to +7.5	DL(2), Ne(2), Q(2), HS(2)
High	18 to 30%	4	18.8 to 25.0	-9.1 to -2.9	DL(2), Q(2), HS(1)
Average	10 to 17%	1	15	-12.9	—
Low	0.0 to 9%	—	—	—	—
<i>Total</i>	—	<i>10</i>	—	—	13 restrictions: DL(4), Q(4), Ne(2), HS(3)

Note: Tariff rate (simple arithmetic mean): 27.9%. Value of Latin American exports to Japan: 96.7 million dollars. The 10 headings cover 24 tariff items.

^aSee annex 9.

^bFour digits.

measures. Naturally, the value of imports from Latin America amounted to the relatively low figure of only 542.8 million dollars, a level determined above all by four headings in which Japan has no production whatsoever (coffee and raw sugar) or an inadequate supply (meat and seafood).

As was stated above, the processed foods group is similar from the protectionist standpoint. The only difference consists in the fact that the average rate is considerably higher, so that the tariff escalation produces an effective rate of protection to the internal factors of production which reaches the high level of 68%. For some products the effective rate is considerably higher. For example, in the case of heading 18.06, chocolate and other food preparations containing cocoa, the tariff rate is 35%, whereas the raw material cocoa beans (heading 18.01) enters Japan free of duty. According to some coefficients obtained from the input-output matrix mentioned above for similar products, these tariffs would give an effective rate of protection for the factors employed in the manufacture of processed chocolate of about 100%. With the calculation of the effective transport costs, the sum of the two would certainly arrive at an almost prohibitive total rate of effective protection. It should be noted that cocoa bean imports amount to over 11 million dollars, which would give rise to a duty-free final product of over 60 million dollars, whereas imports of chocolate end products amount to only 4.8 million dollars.

Furthermore, it may be seen from table 14 that 9 of the 10 headings considered lie in the high and very high tariff levels, ranging from almost 19% to over 35%. At the same time, these 9 headings covering 17 tariff items are affected by 13 non-tariff restrictions. It is in this group of processed foods that the traditional tariff protectionism is most combined with the new (the broad use of non-tariff measures). It is therefore not

surprising that the value of imports of processed foods amount to only 96.7 million dollars.

To be accurate, this new protectionism did not arise spontaneously and suddenly in the United States, the European Economic Community or Japan. As a result of various circumstances, it sprang from developments in economic and trade policy on the part of the developed countries following the Kennedy Round of negotiations. The sharp drop in the average tariff bound in GATT, mainly for manufactures, and the consequent competition unleashed at the international level; the serious problems facing the world economy from 1973 onwards; and the collapse of the international monetary system with the alarming floating of currencies, in addition to the energy crisis, are some of the factors which led to the development of what we have called the new protectionism.

The "textile raw materials" and "textiles and textile products" groups display similar features, although there is some difference in the height of the average and individual tariff rates. Whereas the tariffs on textile raw materials are low (with the exception of one heading), with an average rate of 3.3%, about 75% of the tariffs on textiles and textile products lie in the high and middle ranges, with an average rate of the order of 15.4%. This is in keeping with the principle, to which attention has been drawn repeatedly in the course of this study, of granting a rate of effective protection to the factors of production of the final good which is higher than the nominal rate. In the case of textiles and textile products, the effective rate is 45% (very high range) compared with an average nominal rate of 15.4% (middle range) (see tables 15 and 16).

In connexion with this point, it should be mentioned that the position of these groups of products in the Japanese domestic economy is not the same. Japan is not an

Table 15

JAPAN: TEXTILE RAW MATERIALS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Average	10 to 17%	1	15.0	+ 11.7	—
Low	0.0 to 9%	11	0.0 to 7.5	—3.3 to +4.2	—
<i>Total</i>	—	12	—	—	—

Note: Tariff rate (simple arithmetic mean): 3.3%. Value of Latin American exports to Japan: 357.9 million dollars. The 12 headings cover 22 tariff items.

^aSee annex 10.

^bFour digits.

Table 16

JAPAN: TEXTILES AND TEXTILE PRODUCTS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	3	19.8 to 20.0	+ 3.8 to + 4.9	—
Average	10 to 17%	3	14.0 to 17.5	—1.0 to + 2.5	—
Low	0.0 to 9%	2	7.3 to 7.5	—7.5 to —7.7	—
<i>Total</i>	—	8	—	—	—

Note: Tariff rate (simple arithmetic mean): 15.4%. Value of Latin American exports to Japan: 936,000 dollars. The eight headings cover 53 tariff items.

^aSee annex 11.

^bFour digits.

important producer of textile raw materials (with the exception of silk and some synthetic fibres) and therefore its economy needs considerable imports. In 1976 imports of textile raw materials amounted to 357.9 million dollars, representing more than 10% of total Japanese imports from Latin America. In contrast, Japan has long been a great producer and exporter of textiles and textile products (manufactures). Japan originally developed its textile industry thanks to the use of labour when that factor was much cheaper than at present and when the relative supply was greater than it is now. Subsequently, building on that basis and taking advantage of external economies, greater scales of production, higher capital intensity, training, technology, etc., it further developed its comparative advantage and exports; thus, for example, it had to cut back on sales to the United States of a long series of items under the 'voluntary' system of export restrictions.

In any event, in these groups—in raw materials, because it is not a big producer, and in textile manufactures because of its comparative advantage—Japan cannot be said to have a markedly protectionist policy by the use of non-tariff measures. This is further confirmed by the total absence of non-tariff measures, at least on the tariff items of export interest to Latin America.

The height of the effective rate of protection should not be forgotten, however, since in specific tariff items in the textiles and textile products group protection is granted through the traditional use of tariffs whose effective average rate is extremely high.

In the case of minerals, imports of which from Latin America in 1976 represented one-third of total purchases from the region, Japan maintains very low tariffs, with an average rate of only 4.7% (see table 17).

Table 17

JAPAN: MINERALS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Middle	10 to 17%	—	—	—	—
Low	0.0 to 9%	4	0.0 to 8.2	—4.7 to +3.4	DL(1)
<i>Total</i>	—	4	—	—	1 restriction: DL(1) (gold and radioactive substances)

Note: Tariff rate (simple arithmetic mean): 4.7%. Value of Latin American exports to Japan: 1,038.9 million dollars. The four headings cover 37 tariff items.

^aSee annex 12.

^bFour digits.

This situation may be explained by the fact that Japan does not have sufficient mining resources and deposits to supply the necessary inputs for its durable goods and capital goods industries, sectors in which it has reached a considerable level of development. Both the low average tariff rate mentioned above, and the high value of imports from Latin America —1,038.9 million dollars— as well as the application of a single discretionary licence on the import of gold and radioactive substances, clearly indicate the liberal access of such products to the Japanese market.

As may be seen, in all areas where its production is nil or heavily insufficient,

Japan not only allows access to its domestic market but also, from the standpoint of tariff rates, apparently does not intend to develop such types of production, at least in the short term. This attitude is no doubt influenced by climatic and ecological motives, such as the lack of economically exploitable minerals.

The groups labelled here as "light industries" and "more complex industries" display different levels of protectionism or different conditions of access to the Japanese market, as well as a different use of protective instruments such as tariffs and non-tariff measures (see tables 18 and 19).

Table 18

JAPAN: LIGHT INDUSTRIES^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	5	18.3 to 23.5	+8.1 to 13.2	DL(1), Q(1)
Middle	10 to 17%	12	10.0 to 17.5	—0.3 to +7.2	DL(2), R(2)
Low	0.0 to 9%	15	0.0 to 9.3	—10.3 to —0.1	DL(2)
<i>Total</i>	—	32	—	—	8 quantitative restrictions

Note: Tariff rate (simple arithmetic mean): 10.3%. Value of Latin American exports to Japan: 55.2 million dollars. The 32 headings cover 89 tariff items.

^aSee annex 13.

^bFour digits.

In the case of light industry, only 5 headings are in the high range with tariffs of between 18.3% and 23.5%, while 27 of the remaining headings considered lie in the middle and low ranges with tariffs of

between 0.0 and a maximum of 17.5%. In other words, there is quite a broad dispersion of the tariffs as a whole. The nominal average rate is 10.3%, and the effective rate of protection 26%.

Table 19

JAPAN: MORE COMPLEX INDUSTRIES^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	1	65.1	+ 54.1	ST(1)
High	18 to 30%	1	18.8	+ 7.7	
Middle	10 to 17%	17	10.0 to 15.0	—1.0 to +4.0	DL(1)
Low	0.0 to 9%	21	5.0 to 9.3	—6.0 to —1.8	DL(1)
<i>Total</i>	—	<i>40</i>	—	—	3 restrictions (2 quantitative, 1 State trading)

Note: Tariff rate (simple arithmetic mean): 11.0%. Value of Latin American exports to Japan: 89.4 million dollars. The 40 headings cover 115 tariff lines.

^aSee annex 14.

^bFour digits.

On the other hand eight quantitative restrictions affect products of great interest to many Latin American countries.

Although the group of more complex industries has an average nominal rate of

11.0%, similar to that of the previous group, and an effective rate of protection of 22%, 3 restrictions are applied, of which only two are on headings of interest to some Latin American countries.

IV

Conditions of access to the market of the European Economic Community

The European Economic Community is by far the most heavily protected of the markets considered here. This is due not only to the skilful combination of tariffs and the tariff structure with non-tariff barriers, but also because of the subtlety, sophistication and variety of the latter, which make their identification a long and difficult task. In fact, despite the breadth of the

matters included in the present round of multilateral trade negotiations (Tokyo Round), some of these measures are such that negotiations on them do not fall within the competence of GATT, and therefore they cannot be catalogued and identified.

A first general observation resulting from the analysis of the data and information which could be collected on the Com-

munity is that the average rate (unweighted arithmetic mean) is 8.8%, which is in fact a low rate for the group under consideration. However the deviations from this average for 479 tariff items are in some cases important, as a result of the varying protectionist emphasis placed on each group of products or headings and items. What is important here is the tariff escalation according to the degree of processing, aimed at providing greater effective protection to the

factors of production than the nominal rate indicates. Thus, for the products included in the textiles and textile products, light industries and more complex industries groups, the effective rates of 40%, 15% and 22% respectively are higher than the nominal rates. As will be seen below, the corresponding estimate of the effective rate of protection could not be calculated for the "processed food" group (see table 20).

Table 20

EUROPEAN ECONOMIC COMMUNITY
(Summary)

<i>MFN rate for the 7 groups (simple arithmetic mean)</i>	8.8%
<i>Value of Latin American exports to the EEC (1976)</i>	8 001.1 million Units of Account
<i>Deviation of each group from the general mean</i>	
Agricultural raw materials	+ 0.1%
Processed foods	+ 5.0%
Textile raw materials	— 3.8%
Textiles and textile products	+ 5.7%
Minerals	— 5.5%
Light industries	— 1.6%
More complex industries	0.0%
<i>Effective rate of tariff protection^a</i>	
Processed foods	^b
Textiles and textile products	40%
Light industries	15%
More complex industries	22%
<i>Restrictions</i>	
Quantitative	117 headings
Sanitary	17 headings
Variable duties and components	18 headings
Others ^c	4 headings
<i>Items considered in the 172 headings</i>	479 items

^aSee table 4, footnote^a.

^bCould not be calculated.

^cExcluding internal taxes for reasons given in the text.

Finally, still at a general level, it should be pointed out that despite its clearly protectionist stand the European Economic Community is a market of great interest to the Latin American countries.

Of the 24 categories of non-tariff measures identified in this study, nearly all are applied by the Community. Excluding a very few measures used exclusively in other markets, the Community maintains through them a broad protectionist network.¹⁰ Measures which are not found in the United States or Japan, such as seasonal restrictions, variable duties, minimum prices, various kinds of licences not common in other markets and various internal taxes, form part of the tangle of non-tariff measures which supplement those already identified in other markets. All these and other non-tariff measures play an extremely effective protectionist role in the EEC — so much so, that low and even zero-rate tariffs can be maintained without in any way undermining the defence of the domestic market against cheaper imports in c.i.f. terms. Thus for example, wheat, maize and sugar in solid form bear a 0.0 tariff rate on some or all of the headings, but on the other hand are the object of a variable levy which, in practice, tends to equate the price of the most efficient ex-

¹⁰ It has not been possible to specify individually the EEC countries which apply or the tariff headings affected by the internal taxes which are used in a great variety of ways. Only some well-known headings could be identified, such as meat, sugar, flour, coffee, etc. Consequently these taxes are not included in the tables and annexes of this study. It is known that they are applied profusely, above all within the Community's agricultural policy, together with quantitative restrictions, variable levies and variable components. Furthermore, the use of these measures often coincides with zero or reduced tariffs. This expedient, applied to many headings, disguises important deviations from the average tariff for each of the headings considered here.

ternal producer with the price of the least efficient producer within the Community. As may be seen, this variable levy (which according to the Community is not a tariff and therefore is not negotiable) may be modified according to changes in prices. Using skilful and subtle combinations of measures of this kind, the impression can be given that the common external tariff for agricultural products is not excessively protectionist (see table 21).

Furthermore, again with reference to agricultural products, some items in a tariff heading bear heavy tariff rates while others have a low or a zero-rate tariff. In such cases, however, the items are subject to internal taxes, 'moving elements' (*éléments mobiles*), variable components, variable levies and/or quantitative or sanitary restrictions.

It is therefore extremely difficult to calculate an effective rate of protection for the internal factors of production in the case of "processed foods". Bearing in mind the above, however, although it cannot be quantified the rate unquestionably lies in the very high range, especially if the non-tariff measures are included in the calculation.

All the above applies both to products classified here as "agricultural raw materials (excluding textiles)" and "processed foods", represented in all by 185 tariff items affected by 127 non-tariff restrictions, excluding internal taxes.

The average rate of the first category of products (8.9%) shows a +0.1% deviation from the average rate for the seven groups of products under consideration, which means that it falls in the low level within the tariff structure of the Community. The average rate for the processed foods group is 13.8%, higher than the overall average, and shows a certain degree of tariff escalation with respect to agricultural raw materials. Together with the complex use of

Table 21

EUROPEAN ECONOMIC COMMUNITY: AGRICULTURAL RAW MATERIALS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	3	19.0 to 27.0	+ 10.1 to 18.1	BQ(1), L(1), ST(1), HS(1)
Middle	10 to 17%	11	10.0 to 15.9	+ 1.3 to 7.0	DL(3), GQ(3), MP(1), QR(1), L(3), BQ(1), SR(2), P(1), HS(8), VL(3)
Low	0.0 to 9%	11	0.0 to 7.4	—8.9 to —1.4	R(3), GQ(1), DL(2), HS(2), VL(2), VC(1)
<i>Total</i>	—	25	—	—	41 restrictions: 22 quantitative, 11 sanitary, 5 variable levies, 1 variable component and 2 'others', affecting a total of 102 tariff items

Note: Tariff rate (simple arithmetic mean): 8.9%. Value of Latin American exports to the EEC: 3,618.9 units of account. The 25 headings cover 133 tariff items.

^aSee annex 15.

^bFour digits.

non-tariff measures in both groups, this helps to determine the different value of imports by the Community from Latin America in the two groups. Imports of agricultural raw materials amounted to 3,618.9 million units of account (1976 figures). It should be pointed out, however, that 40% (1,515.7 million) corresponds to coffee, a product not grown in the EEC and affected by an average rate of 13.2%, as well as by a specific internal tax which varies from country to country but is in every case quite high and of course much

higher than the tariff rate. In contrast, imports of processed foods barely amounted to 539.5 million units of account (see table 22).

It is curious to note, in the case of textile raw materials, that the tariff and non-tariff treatment is the same in the United States, Japan and the European Economic Community, except in the case of non-tariff measures in Japan.

With regard to tariffs, middle or low rates are recorded in all three markets, the lowest average rate being in Japan (3.3%),

Table 22

EUROPEAN ECONOMIC COMMUNITY: PROCESSED FOODS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	7	18.0 to 29.0	+ 4.2 to + 15.2	LL(2), VC(4), DL(2), BQ(1), Q(1), RL(1), HS(3)
Average	10 to 17%	4	10.8 to 15.0	—3.0 to + 1.2	VC(1), BQ(1), DL(1), HS(1), VL(1)
Low	0.0 to 9%	5	0.0 to 3.5	—13.8 to —10.3	VL(4), HS(2)
<i>Total</i>	—	<i>16</i>	—	—	25 restrictions: 9 quantitative, 10 variable components and levies, 6 sanitary, affecting a total of 45 headings

Note: Tariff rate (simple arithmetic mean): 13.8%. Value of Latin American exports to the EEC: 539.5 million units of account. The 16 headings cover 52 tariff items.

^aSee annex 16.

^bFour digits.

followed by the EEC (5%) and the United States (5.9%). The difference between the three markets lies in the fact that the United States and the EEC, as producers of many textile fibres, although in some cases not in sufficient quantities to satisfy demand, regulate the level of imports with non-tariff measures to ensure that they complement rather than compete with domestic production. Consequently, textile fibres imported with low tariff rates constitute a cheap input but do not compete with similar inputs produced locally. In Japan, on the other hand, which is not a big producer of such fibres—with the exception of silk and synthetic fibres which receive different

treatment—, non-tariff measures are not used to impede imports. In any case, however, textile raw materials, as imported inputs, have a generally low rate in the free markets, making possible a steep tariff escalation and thus ultimately a high effective rate of protection. It should be recalled that this rate depends on three main factors: (i) the level of the tariff applied to inputs; (ii) the level of the tariff applied to the final product, and (iii) the proportion of value added in the cost of the final product.

Contrary to what happens in the case of textile raw materials, textile products receive different tariff treatment in the

Table 23

EUROPEAN ECONOMIC COMMUNITY: TEXTILE RAW MATERIALS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Average	10 to 17%	3	11.0 to 16.0	+6.0 to 11.0	BQ(2), DL(1), BQ(1), GQ(1), LL (list A) (1)
Low	0.0 to 9%	14	0.0 to 9.0	—5.0 to +4.0	DL(4), XR(1)
<i>Total</i>	—	17	—	—	11 restrictions (all quantitative) affecting a total of 13 items

Note: Tariff rate (simple arithmetic mean): 5.0%. Value of Latin American exports to the EEC: 425.2 million units of account. The 17 headings cover 21 tariff items.

^aSee annex 17.

^bFour digits.

Community. The nominal average rate amounts to 14.5%, lower than the United States rate and similar to the Japanese rate. The effective rate calculated for the "textiles and textile manufactures" group is of the order of 40%. This rate is of course in the very high range and of a nature to protect domestic factors of production; but to complete the picture of the degree of protection enjoyed by this group, one must add the extraordinarily wide use of non-tariff measures—basically quantitative—which make access to the Community market extremely difficult, except in the amount allowed by the quantitative restrictions. Most of these measures which do not directly affect the Latin American countries have not been taken into consideration, such as bilateral

quotas and voluntary restrictions, for example, which affect the exports of non Latin American countries but may constitute a warning to the Latin American countries. A series of categories of restrictions have been identified, affecting 17 tariff items in the nine headings considered as being of export interest to Latin America. The strict control which the multiple use of these barriers exercises over imports may be seen clearly in table 24.

Strictly speaking, it should be pointed out that not all the countries of the Community follow the same policy in applying these barriers; non-tariff barriers used by only two or three countries are included in table 24. In addition, the barriers affecting the countries which export to the Com-

Table 24

EUROPEAN ECONOMIC COMMUNITY: TEXTILES AND TEXTILE PRODUCTS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	1	19.0	+ 4.6	Bq(1), DL(1), XR(1)
High	18 to 30%	—	—	—	—
Average	10 to 17%	7	13.8 to 17.0	—0.7 to + 2.6	DL(6), GQ(3), XR(6), LL-list A(1), BQ(2)
Low	0.0 to 9%	1	8.5	—6.0	XR(1)
<i>Total</i>	—	9	—	—	22 quantitative restrictions, affecting all the items

Note: Tariff rate (simple arithmetic mean): 14.5%. Value of Latin American exports to the EEC: 152.2 million units of account. The 9 headings cover 17 tariff items.

^aSee annex 18.

^bFour digits.

munity are not all affected by a particular non-tariff measure. Thus bilateral quotas applied by Italy or France, for example, only affect specific countries and not necessarily all Latin American suppliers.

In any event, a profusion of measures is applied and in those cases where the restriction may be questionable, as in the case of discretionary licences, it ceases to be so when accompanied by quotas or voluntary restrictions, as occurs in the EEC with respect to textiles and textile products.

Thus it is easy to appreciate the reasons for the difference in the value of EEC imports from Latin America in textile raw materials and textile manufactures: 425.2 and 152.2 million units of account, respectively.

The EEC treatment of minerals is very similar to that of the United States and Japan. The average tariff rate is very low, with only one deviation of any importance from that mean in the case of the items included in the alkaline metals heading (28.01) (see annex 19 and table 25).

Unlike what was noted in the case of agricultural raw materials, processed foods and textiles, these low tariff rates are not accompanied by numerous non-tariff measures. The only such measures used are discretionary licences for two headings and a bilateral quota for one heading. These affect a total of nine tariff items, although in the case of the six items affected by discretionary licences alone it is not clear whether they have a definite pro-

Table 25

EUROPEAN ECONOMIC COMMUNITY: MINERALS^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Middle	10 to 17%	1	14.4	11.2	
Low	0.0 to 9%	7	0.0 to 4.0	—3.3 to +0.8	BQ(1), DL(2)
<i>Total</i>	—	8	—	—	3 quantitative restrictions, affecting 9 tariff items

Note: Tariff rate (simple arithmetic mean): 3.3%. Value of Latin American exports to the EEC: 1,845.0 million units of account. The eight headings cover 24 tariff items.

^aSee annex 19.

^bFour digits.

tectionist effect. In any event, the value of imports from Latin America, 1,845.0 million units of account, is considerable; the main products are metallic ores and copper, both of which are duty free and unaffected by non-tariff measures.

It is clear that two goals are pursued here: to allow unobstructed entry of mineral inputs essential for manufacturing industry by not applying restrictive non-tariff measures on such imports; and to apply low tariffs to them, thus keeping down the cost of inputs while establishing a tariff escalation with a well-known impact on the effective rate of protection for the factors of production employed in the final goods industries. This strategy or policy is the same as that followed by the United States and Japan; the Community has not followed a new course, as in the case of tex-

tiles and especially agricultural raw materials and processed foods.

With respect to light industries, where tariff rates are primarily in the low and middle levels, only one of the 42 headings considered shows a high rate (20.0%). It would seem that the conditions of access to the EEC market are more liberal for this group of products (see table 26).

If one looks more carefully at those conditions, however, it may be seen that in 9 headings, including some 20 items, these low rates, and even the high level ones, are combined with non-tariff measures ranging from variable levies (starches and inulin and vegetable oils) to various quantitative barriers. The items affected are precisely those of particular export interest to Latin America, such as the above-

Table 26

EUROPEAN ECONOMIC COMMUNITY: LIGHT INDUSTRIES^a

<i>Tariff range</i>	<i>Level of each range</i>	<i>Number of headings^b</i>	<i>MFN rate (%)</i>	<i>Deviation from the mean (percentage points)</i>	<i>Non-tariff barriers and number of headings affected (—)</i>
Very high	Over 30%	—	—	—	—
High	18 to 30%	1	20.0	+12.8	R(1), BQ(1), GQ(1)
Middle	10 to 17%	9	10.0 to 17.5	+2.8 to 10.3	R(2), BQ(3), GQ(1), DL(2),
Low	0.0 to 9%	32	0.0 to 9.0	—7.2 to +1.8	R(4), BQ(1)
<i>Total</i>	—	42	—	—	18 restrictions: 16 quantitative and 2 variable levies, affecting a total of 38 items

Note: Tariff rate (simple arithmetic mean): 7.2%. Value of Latin American exports to the EEC: 1,165.8 million units of account. The 42 headings cover 90 tariff items.

^aSee annex 20.

^bFour digits.

mentioned two headings and various types of footwear, floor tiles, nuts and bolts and unspecified toys. Nevertheless, Latin American exports exceeded 1,000 million units of account, although it should be borne in mind that half this amount corresponded to vegetable oil cakes and residues used primarily as feed in the heavily-protected livestock subsector.

The effective rate of protection is the lowest in the three markets under consideration for this group of products, although proportionally the Community applies more non-tariff restrictions than Japan and about the same number as the United States, from the standpoint of the number of items considered.

Finally, in the more complex industries group, the 57 headings covering 142 tariff items or lines have an average rate of

8.8%, which coincides exactly with the average of the rates of the 7 groups under consideration (see tables 20 and 27).

Furthermore, contrary to what was seen in the United States and Japan, the effective rate of protection for this group was higher than for the 'light industries' group. It is worth recalling what was said earlier about the reasons why in almost all cases the effective rate of protection in the developed countries is reduced as production processes become more complex, since these in general correspond to luxury durable goods and investment goods. This has already been shown in the cases of the United States and Japan.

While the nominal rates lie partly in the middle and mostly in the low range, the Community applies a broad range of non-tariff measures to this group of products of

Table 27

EUROPEAN ECONOMIC COMMUNITY: MORE COMPLEX INDUSTRIES^a

Tariff range	Level of each range	Number of headings ^b	MFN rate (%)	Deviation from the mean (percentage points)	Non-tariff barriers and number of headings affected (—)
Very high	Over 30%	—	—	—	—
High	18 to 30%	—	—	—	—
Middle	10 to 17%	19	10.0 to 16.0	+ 1.2 to + 7.2	R(2), BQ(2), DL(4), QR(4), LIC(1), P(1)
Low	0.0 to 9%	36	0.0 to 9.8	—8.8 to + 1.0	DL(3), BQ(4), L(1), QR(7), ST(1), AL(1), Q(1), P(1)
<i>Total</i>	—	55	—	—	33 restrictions: 31 quantitative, 1 State trading and 1 prohibition. One discretionary licence, 1 State trading and 1 prohibition were also identified for one heading without an <i>ad valorem</i> duty

Note: Tariff rate (simple arithmetic mean): 8.8%. Value of Latin American exports to the EEC: 254.5 million units of account. The 57 headings cover 142 tariff items.

^aSee annex 27.

^bFour digits.

the more complex industries. Out of 142 items considered, 108 are affected by measures which are unquestionably restrictive, such as quantitative restrictions and prohibitions (see table 27).

Thus a low average rate with slight deviations is complemented by a veritable tangle of non-tariff restrictions which mean, *inter alia*, that the value of imports barely amounts to 250 million units of account.

If it had been possible to calculate the protective effect of those barriers the pro-

tectionist effect of the effective tariff rate on the domestic factors of production would be a number of times bigger. This is a clear indication of the application of the new protectionism and the lack of international competitiveness of many of the industries producing the goods considered here through the items analysed.

In the agricultural field, both processed goods and agricultural raw materials, textiles and textile products, more complex industries and to some extent in light industries the Community makes

greater use of non-tariff measures than of tariffs, although in some items the two complement each other. The 149 headings analysed are affected by 142 non-tariff restrictions.

Of the three markets studied here, the Community is certainly the most representative exponent of the trade protectionism which has developed in recent years. Following the substantial reductions made by the major countries during the two last Rounds in GATT, the creation of the European Common Market with the design and implementation of a Community agricultural policy, as well as the extension of the market from 6 to 9 members, and the recent world economic recession, this new protectionism has developed and has reached its highest level of impenetrability, complexity, subtleness and sophistication in the Community. In addition, it has focussed on agricultural products, textile products and other manufactures in which Latin America already has evident comparative advantages or could acquire them in a short period. On the other hand, raw materials, both textile and mineral, deliberately enjoy relatively free access to the market, since this results in cheap inputs for their manufactures, as well as making it possible to provide a high level of effective protection to their production of final goods through tariff and non-tariff restrictions.

Naturally, as we have seen throughout

the analysis of the data used in this study, many of the protectionist measures employed by the Community are not only original and exclusive to it, but have also not so far fallen within the negotiating sphere of GATT, in accordance with their use, definition and design. For its part the Community stated emphatically and explicitly in the course of the present round of multilateral trade negotiations that all measures basically affecting agricultural raw materials and processed foods cannot and shall not be negotiable.

In any event, the conclusion must be that there is not much room for hope in the field of international trade in the immediate future.

Nevertheless, the EEC market is of great importance for Latin America, as may be seen from the value of imports from the region in 1976 (8,001.1 million units of account) despite the intense protectionism applied to the above-mentioned products, in all of which Latin America enjoys a great comparative advantage.

Thus, for example, those groups of products show deviations from the mean for the 7 groups of +0.1, +5.0 and +5.7%, respectively, for agricultural raw materials, processed food and textiles and textile manufactures.

Finally, it should be mentioned that 479 tariff items under 172 headings were analysed in all, and 156 restrictions were identified (see table 20).

V

Results of the GATT negotiations

1. Methodology employed

The first five sections of this study contain a documented presentation of tariff and non-tariff barriers set up by the three devel-

oped markets, as well as the effective rate of protection for domestic factors of production resulting from a tariff structure or profile characterized by a tariff escalation weighing more heavily on final goods than on inputs and intermediate products.

What is called for now is a quantitative and qualitative analysis of the offers made by those markets as of 30 August 1978, offers which cannot be expected to change substantially in a way which might significantly affect the results given here, particularly bearing in mind the present deadlock in the GATT negotiations and the nearness of the deadline foreseen for the end of the negotiations (December 1978).

The possession of quantified results before the end of the Tokyo Round would represent a valuable negotiating tool since they could be used for two definite purposes. The first would be to know in advance exactly what was being received under the offers made, so that new requests could be put forward should they be quantitatively or qualitatively meagre. The second is that it would be possible to graduate, in accordance with the value of the offers, whatever compensation is requested from the developing countries and select the areas where that compensation should be given in such a way that it is in keeping with their foreign trade and domestic development.

In addition, whereas the first sections describe and clearly establish the present nature of protectionism, the results of the negotiations will show to what extent — if at all — they represent a positive opening up of those markets.

In the present round of negotiations two different methods have been used, one for tropical and agricultural products based on consolidated requests by the developing countries followed by individual offers on the part of the developed countries; and the other involving a linear formula with a harmonization element. This second method has not been applied strictly, however, since in some cases important products were not included in the offers, in others the cuts were the result of applying the formula, while sometimes these reductions were greater or smaller than the formula result. In any event, this makes it

possible to quantify results for chapters 01-24 (agricultural and tropical products) and for chapters 25-99 (manufactured products) of the Nomenclature of the Customs Co-operation Council. Naturally, the two sets of results can be added together to derive the total gains or losses from the tariff negotiations.

One form of judging the results is to choose the tariff lines of greatest interest for the region and see, among other things, the rate in force before the negotiations, the rate resulting from the offer which will in future govern the treatment of the product in the import market, the value of Latin American trade with each import market under consideration, the binding (or lack of it) of the tariff rate, the total amount of tariff involved in the reduction, etc.¹¹

The quantification which follows, however, is a global one for all of Latin America, which takes into consideration the tariff items which, for the region as a whole, account for an export value to each import market of 100,000 dollars or more. The tariff lines which are not listed in no way modify the results of this sample. 1,221 tariff lines were considered for the United States, 563 for the European Economic Community and 268 for Japan. The value of Latin American exports to these three markets amounts to a total of over 20,000 million dollars (1976).

Obviously, in view of the great number of tariff items taken into account a methodology had to be designed which would make it possible to analyse the overall results of the tariff negotiations from the standpoint of basic figures and concepts.¹²

¹¹The UNCTAD/UNDP Regional Project on Multilateral Trade Negotiations can supply to any country which so requests the complete tabulation of these data for that country.

¹²This methodology appears in document No 26 of the CEPAL/UNCTAD/UNDP Project on Multilateral Trade Negotiations, published on 21

Bearing in mind the methods of negotiation described above, the following steps were taken:

(i) For tropical and agricultural products, since the negotiations employed the same technique throughout, the following method was used: a list was drawn up of the tariff items with exports to each market for a value of over 100,000 dollars; a first column indicated the pre-offer rate; a second column the offered rate; a third, the value of the trade covered, the main Latin American exporter and the percentage which its exports represent for the export market, and the Generalized System of Preferences rate. Using these data, the value of the trade could be multiplied separately by the pre-negotiation rate and by the offered rate. The sum of the first multiplication, divided by the total value of the trade involved, furnished the weighted pre-negotiation average rate. The division of the result of the second multiplication by the value of the trade involved gave the weighted average rate resulting from the offer. The absolute difference between the two figures represents, in percentage points, the size of the tariff reduction resulting from the negotiations. Finally, the multiplication of that reduction by the value of the trade involved provides the total amount of the tariff reduction, which can be compared with the value of the trade involved in order to measure the importance of the negotiations from the standpoint of the openness of the markets.

(ii) In the case of manufactured products (chapters 25-99) a similar procedure was used, although a variant was introduced in the final results for the sake of great ac-

curacy. Besides considering the erosion caused by the application of the linear formula to products included in the generalized system of preferences, that erosion was measured from the standpoint of the loss of preferential margins both according to the weighted rate and from the standpoint of the total value of the tariffs. That erosion should be deducted from the gains stemming from the reduction of the MFN rate. The variant consisted in subdividing the offers resulting from the application of the linear formula into three groups: reduction according to the formula, reduction greater than the formula and reduction smaller than the formula. This subdivision makes it possible to evaluate qualitatively the offers and speculate on how the tariff escalation will develop.

Bearing this in mind, an analysis can now be made of the results of the tariffs negotiations.

2. *The results of the United States offers*

In accordance with the methodology described above, with regard to chapters 01-24 (agricultural and tropical products) of the Nomenclature of the Customs Co-operation Council (NCCC), sections I and II of table 28 contain the data resulting from the tabulation of the total number of tariff items chosen on the grounds of the value of trade covered by each of them (100,000 dollars or more). Section I covers two main lines or headings: (i) those with exports whose tariff rate is considered in the lists; and (ii) duty-free imports (0.0 rate bound before the offer) which are not included in the previous group.

Section II of the table contains a summary of the large group of *dutiable* inputs considered in the list, with a detailed analysis of the tariff items not included in the offer, the MFN offers which do not signify a

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Table 28
 UNITED STATES
 NCCC Chapters 01 - 24

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Weighted pre- nego- tiation rate^a (percent- age)</i>	<i>Weighted post- nego- tiation rate (percent- age)</i>	<i>Differ- ence (1-2) (per- cent- age- points)</i>	<i>Latin American exports (thousands of dollars)</i>	<i>Total tariff at pre- negotiation rate (1 × 4) (thousands of dollars)</i>	<i>Total tariff value at post- negotiation rate (2 × 4) (thousands of dollars)</i>	<i>Total tariff reduction due to cut in weighted average rate (thousands of dollars)</i>	<i>Number of tariff items considered</i>
I. Total								
Imports considered in list (+ US\$ 100 000)	3.2	2.7	-0.5	4 829 933	154 558	130 408	25 415	281
Free imports before offers not in list	0.0	0.0	0.0	2 491 698	—	—	—	65
II. Tariffs								
A. Dutiable imports								
1. Excluded from offers (tariff)	9.1	7.5	-1.6	1 716 031	156 159	128 702	27 457	203
2. MFN offers, without cut in applied rate	9.3	9.3	—	1 018 353	—	—	—	103
3. Covered by offers (MFN + GSP)	0.0	0.0	0.0	—	—	—	—	0
4. Offers eroding GSP	8.7	4.9	-3.8	697 678	60 698	34 186	26 512	100
5. Offers under GSP	4.2	1.4	-2.8	219 227	9 208	3 069	6 139	32
6. Offers under GSP	0.0	0.0	0.0	—	—	—	—	0
6. Total free offers (MFN)	1.4	0.0	-1.4	171 947	2 407	—	2 407	27
B. MFN duty-free bindings	0.0	0.0	0.0	134 016	—	—	—	2
III. Tariff result								
A3 MFN gain	8.7	4.9	-3.8	697 678	60 698	34 186	26 512	100
A4 GSP erosion	4.2	1.4	-2.8	219 227	9 208	3 069	6 139	32
A3-A4 Net gain	5.6 ^b	3.4 ^b	-2.2	478 451	51 490	31 117	20 373	68
IV. Basic relationships								
1. Percentage of trade bound free before offers	34.0							
2. Percentage of trade dutiable before offers	66.0							
3. Changes in weighted MFN percentage rate	-3.8		percentage points					
4. Percentage of dutiable imports cut to duty-free	10.0							
5. Bindings of zero rates	4.3							

^aRefers to the rate actually applied rather than the basic rate. This distinction is highly important in Japan since in many lines the rate applied is different from the basic rate. Offers of a rate equal to the rate actually applied were not considered as offers.

^bThe GSP erosion is obtained by dividing the value of tariffs resulting from the application of the pre-and post-negotiation rates by the value of A3 + A4.

reduction in the effective rate, the total number of tariff lines covered by offers which reduce the MFN rate applied, the offers which erode the Generalized System of Preferences, and other offers, such as those which reduce the rate to 0 and those which bind duty-free imports which were not previously bound. Since these two sections of the table contain information on rates preceding and following the negotiations (trade weighted), the imports from Latin America involved and the reduction of tariffs implied by the reduction of the current rate, it is possible, by combining these data, to establish a series of tariffs results and relations which shed light on the size of the benefits derived from the negotiations.

As can be seen from section III of table 28 ("Tariff results"), the weighted average rate in force before the negotiations was 8.7%, whereas after the offers the rate would be reduced by 3.8 percentage points. In terms of total tariffs, the negotiations represent a reduction of 26.5 million dollars. At the same time, however, the erosion of the preferential margin of the Generalized System of Preferences is 2.8 percentage points, representing a total tariff value of 6.1 million dollars, and thus the effective reduction of the weighted rate is 2.2 points and the value of the tariff reduction 20.4 million dollars. One way of appreciating the importance of this purely quantitative result of the negotiations is to compare the reduction of 20.4 million dollars with the total value of dutiable imports, i.e., 1,716 million dollars, and with the value of the trade on which no offer was made, 1,018 million dollars. The appreciation of the scant importance of these results is left to the negotiating parties.

Section IV of table 28 ("Fundamental relationships") gives figures in the light of which those results can be appreciated still better: the data in this section are self-

explanatory and therefore need not be discussed.

In the case of chapters 25-99 (Manufactured products), the rate prior to the negotiations was 8.9%, which was reduced by 4.5 percentage points as a result of the offers made by the United States during the present round of negotiations. The post-negotiations rate brings a reduction of 123.8 million dollars in the total value of tariffs. Nevertheless, since the Generalized System of Preferences is eroded by 3.7 percentage points, or 33.8 million dollars in tariff value, the net benefit is a reduction in the weighted average rate of 2.5 points and 90 million dollars in tariff-value.

As in the previous case, this last figure contrasts with the total value of dutiable exports before the negotiations, 3,263.4 million dollars. The difference is much less pronounced in the case of the value of the trade on which no offer whatsoever was made, i.e., 413.7 million dollars.

In connexion with this aspect of chapters 25-99 one important fact should be noted for a better appreciation of the results of the negotiations. The weighted average rates which are reduced less than the formula are, in general, the highest rates (14.8 to 12%), many of which are of the protectionist nature, whereas the rates which are reduced according to or by the same amount as the formula, or more than the formula, are the middle and low rates (see table 29).

Going further into this qualitative aspect, a few examples can be given among the many cases which exist in the offers. For items 070113516, 070113590, 080114630, 200716535, 220916840, with pre-negotiation tariff rates of 32%, 39%, 86%, 108% and 72% respectively, the following offers were made: nothing on the first and second items, 69% on the third, 93% on the fourth and nothing on the fifth. In connexion with chapters 25-99, it should be

Table 29
 UNITED STATES
 NCCC Chapters 25-99

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Weighted pre- nego- tiation rate ^a (percent- age)	Weighted post- nego- tiation rate (percent- age)	Differ- ence (1-2) (per- cent- age points)	Latin American exports (thousands of dollars)	Total tariff at pre- negotiation rate (1 × 4) (thousands of dollars)	Total tariff value at post- negotiation rate (2 × 4) (thousands of dollars)	Total tariff reduction due to cut in weighted average rate (thousands of dollars)	Number of tariff items considered
I. Total								
Imports considered in list (+ US\$ 100 000)	6.2	3.5	-2.7	4 566 383	283 116	159 823	123 293	940
Free imports before offers not in list	0.0	0.0	0.0	1 242 294	—	—	—	141
II. Tariffs								
A. Dutiable imports	8.7	4.9	-3.8	3 263 350	283 911	159 904	124 007	787
1. Excluded from offers (tariff)	9.4	9.4	0.0	413 717	—	—	—	49
2. MFN offers, without tariff cut	0.0	0.0	0.0	99 366	—	—	—	2
3. Covered by offers (MFN)	8.9	4.4	-4.5	2 750 267	244 774	121 012	123 762	736
a) Less than formula	14.8	12.0	-2.8	219 835	32 536	26 380	6 156	65
b) Same as formula	11.2	5.9	-5.3	1 421 176	159 172	83 849	75 323	382
c) More than formula	4.6	0.9	-3.7	1 099 679	50 585	9 897	40 688	284
4. Offers eroding GSP	6.5	2.8	-3.7	913 517	59 379	25 578	33 801	421
5. Offers under GSP	0.0	0.0	0.0	—	—	—	—	0
6. Total free offers (MFN + GSP)	2.8	0.0	-2.8	890 527	24 934	—	24 934	145
B. MFN duty-free bindings	0.0	0.0	0.0	8 932	—	—	—	2
III. Tariff result								
A3a	14.8	12.0	-2.8	219 835	32 536	26 380	6 156	65
A3b	11.2	5.9	-5.3	1 421 176	159 172	83 849	75 323	382
A3c	4.6	0.9	-3.7	1 099 679	50 585	9 897	40 688	284
A3 MFN gain	8.9	4.4	-4.5	2 750 267	244 774	121 012	123 762	736
A4 GSP erosion	6.5	2.8	-3.7	913 517	59 379	25 578	33 801	421
A3-A4 Net gain	5.1 ^b	2.6 ^b	-2.5	1 836 750	185 395	95 434	89 961	315
IV. Basic relationships								
1. Percentage of trade bound free before offers	21.39							
2. Percentage of trade dutiable before offers	78.61							
3. Changes in weighted MFN percentage rate	-4.5	percentage points						
4. Percentage of dutiable imports cut to duty-free	27.3							
5. Bindings of zero rates	0.7							

^aRefers to the rate actually applied rather than the basic rate. This distinction is highly important in Japan since in many lines the rate applied is different from the basic rate. Offers of a rate equal to the rate actually applied were not considered as offers.

^bThe GSP erosion is obtained by dividing the value of tariffs resulting from the application of the pre-and post-negotiation rates by the value of A3 + A3.

remembered that for a large number of items the offers were less than the formula or nothing at all (for example textiles), most of these sub-formula reductions coinciding with the highest rates in those chapters.

This shows indirectly that the future tariff profile or structure in the United States will increase the tariff escalation, so that the present difference between the nominal and the effective rates of protection will increase when the results of the negotiations are put into practice and the new rates emerging from the offers come into effect.

3. The results of the EEC offers

The case of the EEC is in many respects very similar to that of the United States. Apart from a few differences which do not change the results indicated in table 30, the offers appear to coincide in size, in the items on which they concentrate and in determining a tariff profile with a sharp escalation.

With regard to chapters 01-24, the average MFN tariff rate, currently 7%, is reduced by 2.1 percentage points by the EEC offer, which reduces the total value of tariffs by 36.5 million dollars. Since the GSP is eroded by 1.8 percentage points in these chapters, representing a total tariff value of 734,000 dollars, the net gain amounts to a reduction in the weighted average rate of 2 percentage points, with a tariff value of 35.7 million dollars. As in the case of the United States, this amount contrasts with that of Latin American exports, 2,741.5 million dollars, but less so with that of the trade on which no offer was made. It should be noted that it is the latter which has the highest weighted average rate (14.7%).

In addition, the offers made under the GSP where rates were high before the offer (18.7%) reduced them to 18.6%, i.e., in

practice in the 33 tariff items or lines on which these offers were made there was no apparent gain whatsoever. Finally, two other differences should be noted: no offer was made on the zero-rated round tariffs; and the dutiable imports for which a reduction to a zero rate was offered only represent 0.9% of dutiable trade.

Much the same is true of the offers made with respect to chapters 25-99 (see table 31). The weighted average MFN rate falls from 8.7% to 5.7% under the offer, leading to a reduction of 3 percentage points which, in total tariff terms, represents 35.6 million dollars. But since the GSP is eroded by 4 percentage points and 32.5 million dollars with the application of the formula, net gains amount to only 0.8 percentage points for the rate and 13.1 million dollars in the total tariff value.

From the standpoint of the rate and of total tariff value, this reduction contrasts sharply with the pre-negotiation rate (8.6%) and with the total value of tariffs involved in the dutiable imports under consideration, 1,259.5 million dollars.

In addition, no offers whatsoever were made with regard to the GSP, free tariffs and the binding of already existing zero rates, which points up the similarities and differences with respect to the United States.

With regard to reductions smaller than or equal to the results of the application of the linear formula, the sub-formula offers (on an average rate of 8.2%) only registered a reduction of 1 percentage point, and on the other hand there was no offer above the formula reduction. Nevertheless, it may be seen from the tabulation of the 563 items listed that very many high rates—over 20% and in some cases up to 50%—received no offer in chapters 01-24 (for example, items 20071100, 20071800, 06031100, 08073200, etc.) or only meagre offers.

Table 30
EUROPEAN ECONOMIC COMMUNITY
NCCC Chapters 01-24

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Weighted pre- nego- tiation rate^a (percent- age)</i>	<i>Weighted pre- nego- tiation rate (percent- age)</i>	<i>Differ- ence (1-2) (per- cent- age points)</i>	<i>Latin American exports (thousands of units of account)</i>	<i>Total tariff at pre- negotiation rate (1 × 4) (thousands of units of account)</i>	<i>Total tariff value at post- negotiation rate (2 × 4) (thousands of units of account)</i>	<i>Total tariff reduction due to cut in weighted average rate (thousands of units of account)</i>	<i>Number of tariff items considered</i>
I. Total								
Imports considered in list (+ US\$ 1000 000)	7.5	6.6	-0.9	3 901 908	292 643	257 526	35 117	158
Free imports before offers not in list	0.0	0.0	0.0	90 085	—	—	—	22
II. Tariffs								
A. Dutiable imports	10.7	9.4	-1.3	2 741 531	293 344	257 704	35 640	119
1. Excluded from offers (tariff)	14.7	14.7	0.0	474 000	69 678	69 678	—	62
2. MFN offers, without tariff cut	1.4	1.4	0.0	11 097	155	155	—	5
3. Covered by offers (MFN)	7.0	4.9	-2.1	1 735 893	121 513	85 059	36 454	23
4. Offers eroding GSP	4.9	3.1	-1.8	40 791	1 999	1 265	734	5
5. Offers under GSP	18.7	18.6	-0.1	551 438	103 119	102 567	552	33
6. Total free offers (MFN + GSP)	5.9	0.0	-5.9	25 593	1 510	—	1 510	10
B. MFN duty-free bindings	0.0	0.0	0.0	465 291	—	—	—	2
III. Tariff result								
A3 MFN gain	7.0	4.9	-2.1	1 735 893	121 513	85 059	36 454	23
A4 GSP erosion	4.9	3.1	-1.8	40 791	1 999	1 265	734	5
A3-A4 Net gain	6.7 ^b	4.7 ^b	-2.0	1 695 102	119 514	83 794	35 720	18
IV. Basic relationships								
1. Percentage of trade bound free before offers	2.3							
2. Percentage of trade dutiable before offers	97.7							
3. Changes in weighted MFN percentage rate	-2.1	percentage points						
4. Percentages of dutiable imports cut to duty-free	0.9							
5. Binding of zero rates	9.0							

^aRefers to the rate actually applied rather than the basic rate. This distinction is highly important in Japan since in many lines the rate applied is different from the basic rate. Offers of a rate equal to the rate actually applied were not considered as offers.

^bThe GSP erosion is obtained by dividing the value of tariffs resulting from the application of the pre-and post-negotiation rates by the value of A3 + A4.

Table 31
EUROPEAN ECONOMIC COMMUNITY
NCCC Chapters 25 - 99

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Weighted pre- nego- tiation rate ^a (percent- age)	Weighted post- nego- tiation rate (percent- age)	Differ- ence (1-2) (per- cent- age points)	Latin American exports (thousands of units of account)	Total tariff at pre- negotiation rate (1x4) (thousands of units of account)	Total tariff value at post- negotiation rate (2x4) (thousands of units of account)	Total tariff reduction due to cut in weighted average rate (thousands of units of account)	Number of tariff items considered
I. Total								
Imports considered in list (+ US\$ 100 000)	3.0	2.0	-1.0	3 618 565	108 557	72 371	36 186	405
Free imports before offers not in list	0.0	0.0	0.0	2 349 167	—	—	—	62
II. Tariffs								
A. Dutiable imports	8.6	5.8	-2.8	1 259 523	108 319	73 052	35 471	338
1. Excluded from offers (tariff)	9.2	9.2	0.0	50 162	4 615	4 615	—	15
2. MFN offers, without tariff cut	2.5	2.5	0.0	21 445	536	536	—	6
3. Covered by offers (MFN)	8.7	5.7	-3.0	1 187 916	103 349	67 711	35 638	317
a. Less than formula	8.2	7.2	-1.0	208 832	17 124	15 036	2 088	30
b. Same as formula	8.8	5.4	-3.4	979 084	86 159	52 871	33 288	287
c. More than formula	0.0	0.0	0.0	—	—	—	—	0
4. Offers eroding GSP	10.0	6.0	-4.0	563 302	56 330	33 798	22 532	264
5. Offers under GSP	0.0	0.0	0.0	—	—	—	—	0
6. Total free offers (MFN + GSP)	0.0	0.0	0.0	—	—	—	—	0
B. MFN duty-free bindings	0.0	0.0	0.0	—	—	—	—	0
III. Tariff result								
A3a	8.2	7.2	-1.0	208 832	17 124	15 036	2 088	30
A3b	8.8	5.4	-3.4	979 084	86 159	52 871	33 288	287
A3c	0.0	0.0	0.0	—	—	—	—	0
A3 MFN gain	8.7	5.7	-3.0	1 187 916	103 349	67 711	35 638	317
A4 GSP erosion	10.0	6.0	-4.0	563 302	56 330	33 798	22 532	264
A3-A4 Net gain	2.7 ^b	1.9 ^b	-0.8	624 614	47 019	33 913	13 106	53
IV. Basic relationships								
1. Percentage of trade bound free before offers	39.4							
2. Percentage of trade dutiable before offers	60.6							
3. Changes in weighted MFN percentage rate	-3.0	percentage points						
4. Percentage of dutiable imports cut to duty-free	0.0							
5. Bindings of zero rates	0.0							

^aRefers to the rate actually applied rather than the basic rate. This distinction is highly important in Japan since in many lines the rate applied is different from the basic rate. Offers of a rate equal to the rate actually applied were not considered as offers.

^bThe net gain is obtained by dividing the value of tariffs resulting from the application of the pre- and post-negotiation rates by the value of A3 + A4.

This provides qualitative, indirect proof that the tariff escalation in these chapters is not only maintained but accentuated. Finally, with respect to chapters 25-99, while many high rates are reduced in accordance with the formula, some considerably high rates affecting items of interest to the developing countries received either no offer or offers below the formula.

4. *The results of the offers of Japan*

The Japanese offers do not differ in overall features or nature from what has been seen in the case of the United States and the European Economic Community.

Considering first chapters 01-23 of the NCCC—agricultural products, including tropical products—the prevailing average weighted MFN rate (6.4%) is reduced by 2.2 percentage points (see table 32), which in terms of the value of tariffs amounts to a reduction of 2.5 million dollars. Bearing in mind that the Generalized System of Preferences is eroded by 3.2 percentage points, with a tariff value of 226,000 dollars, the net gains from the offers amount to 2.2 million dollars. The comparison of this figure with the total value of the trade of dutiable imports of 410.2 million dollars gives an idea of the scantiness of the gains stemming from offers made on these chapters. Furthermore, in the future the weighted average rate on the products included in the GSP (5.3%) will scarcely be above the future MFN rate (4.2%), which demonstrates the slightness of the change in the new preferential margins. It should be noted in this connexion that the new offers on the GSP reduce the existing weighted rate (42.3%) by only 0.2 percentage points, with the result that the average rate remains at the same preferential level (42.1%). Finally, it should be noted that before the offers dutiable imports in Japan for chapters

01-25 were in the order of 99.7% of the total, and that the offers on reductions to zero rates amounted to 0.1% of dutiable imports.

With regard to chapters 25-99 (manufactured products) the overall picture is very similar to that of the preceding chapters.

The present average MFN rate of 9.3% is reduced by 3.2 percentage points. However, whereas the lower rates (7.5% and 4.8%) are reduced, respectively, by an amount equal to or above the formula, the highest average rate (18.9%) is reduced proportionally less than the formula, which gives a clear indication that the tariff escalation is accentuated for the benefit of the more heavily protected tariff items. In addition, as a result of the offers the GSP is heavily eroded by 4.1 percentage points. Taken together, these circumstances provide Latin America with an additional net tariff gain of 638,000 dollars, which is in sharp contrast with the value of dutiable trade, 314.1 million dollars (see table 33).

It may also be seen that the average GSP rate of 12.3% is brought down by the offers to 8.2%, a figure which indicates the reduction of the preferential margin, although these rates are higher than past and future MFN rates (9.9% and 6.7%).

From an item-by-item analysis of chapters 01-24, which gives an indirect idea of the qualitative value of the offers, it may be seen that for some rates, ranging from 25% to 355%, with many of 35%, 112%, etc., as in the case of items 1701213, 1704221, 170422, 2205210, 14001110 to 2401300, no reduction at all has been offered, while in the case of others of similar levels, with the exception of tobacco (2401110 to 2401300) only very slight offers have been made. The greatest reduction in these chapters have taken place in the middle or low tariff levels.

Table 32
JAPAN
NCCC Chapters 01 - 24

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Weighted pre-negotiation rate^a (percentage)</i>	<i>Weighted post-negotiation rate (percentage)</i>	<i>Difference (1-2) (percentage points)</i>	<i>Latin American exports (thousands of dollars)</i>	<i>Total tariff at pre-negotiation rate (1 × 4) (thousands of dollars)</i>	<i>Total tariff value at post-negotiation rate (2 × 4) (thousands of dollars)</i>	<i>Total tariff reduction due to cut in weighted average rate (thousands of dollars)</i>	<i>Number of tariff items considered</i>
I. Total								
Imports considered in list (+ US\$ 100 000)	13.7	13.4	-0.3	797 020	109 192	106 801	2 391	112
Free imports before offers not in list	0.0	0.0	0.0	2 067	—	—	—	2
II. Tariffs								
A. Dutiable imports	26.7	26.1	-0.6	410 249	109 536	107 075	2 461	79
1. Excluded from offers (tariff)	46.5	46.5	0.0	211 957	98 560	98 560	—	63
2. MFN offers, without tariff cut	0.0	0.0	0.0	78 060	—	—	—	2
3. Covered by offers (MFN)	6.4	4.2	-2.2	111 618	7 144	4 688	2 456	12
4. Offers eroding GSP	8.5	5.3	-3.2	7 069	601	375	226	5
5. Offers under GSP	42.3	42.1	-0.2	8 992	3 804	3 786	18	3
6. Total free offers (MFN + GSP)	5.0	0.0	-5.0	552	28	—	28	1
B. MFN duty-free bindings	0.0	0.0	0.0	1 022	—	—	—	1
III. Tariff result								
A3 MFN gain	6.4	4.2	-2.2	116 618	7 144	4 688	2 456	12
A4 GSP erosion	8.5	5.3	-3.2	7 069	601	375	226	5
A3-A4 Net gain	5.3 ^b	3.5	-1.8	109 549	6 543	4 313	2 230	7
IV. Basic relationships								
1. Percentage of trade bound free before offers	0.3							
2. Percentage of trade dutiable before offers	99.7							
3. Changes in weighted MFN percentage rate	-2.2		percentage points					
4. Percentage of dutiable imports cut to duty-free	0.1							
5. Bindings of zero rates	0.3							

^aRefers to the rate actually applied rather than the basic rate. This distinction is highly important in Japan since in many lines the rate applied is different from the basic rate. Offers of a rate equal to the rate actually applied were not considered as offers.

^bThe GSP erosion is obtained by dividing the value of tariffs resulting from the application of the pre- and post-negotiation rates by the value of A3 + A4.

Table 33
JAPAN
NCCC Chapters 25-99

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Weighted pre- nego- tiation rate ^a (percent- age)	Weighted post- nego- tiation rate (percent- age)	Differ- ence (1-2) (per- cent- age points)	Latin American exports (thousands of dollars)	Total tariff at pre- negotiation rate (1 × 4) (thousands of dollars)	Total tariff value at post negotiation rate (2 × 4) (thousands of dollars)	Total tariff reduction due to cut in weighted average rate (thousands of dollars)	Number of tariff items considered
I. Total								
Imports considered in list (+ US\$ 100 000)	1.1	0.8	-0.3	1 548 149	17 030	12 385	4 645	156
Free imports before offers not in list	0.0	0.0	0.0	1 170 265	—	—	—	36
II. Tariffs								
A. Dutiable imports	5.2	4.1	-1.1	314 106	16 334	12 878	3 456	105
1. Excluded from offers (tariff)	7.1	7.1	0.0	41 839	2 971	2 971	—	26
2. MFN offers, without tariff cut	1.8	1.8	0.0	167 710	3 019	3 019	—	28
3. Covered by offers (MFN)	9.9	6.7	-3.2	104 566	10 352	7 006	3 346	51
a. Less than formula	18.9	11.6	-7.3	30 303	5 727	3 515	2 212	7
b. Same as formula	7.5	5.6	-1.9	39 141	2 936	2 192	744	33
c. More than formula	4.8	3.8	-1.0	35 122	1 686	1 335	351	11
4. Offers eroding GSP	12.3	8.2	-4.1	66 049	8 124	5 416	2 708	40
5. Offers under GSP	4.0	3.2	-0.8	25 168	1 007	805	202	1
6. Total free offers (MFN + GSP)	3.3	0.0	-3.3	30 769	1 015	—	1 015	4
B. MFN duty-free bindings	0.0	0.0	0.0	13 328	—	—	—	3
III. Tariff result								
A3a	18.9	11.6	-7.3	30 303	5 727	3 515	2 212	7
A3b	7.5	5.6	-1.9	39 141	2 936	2 192	744	33
A3c	4.8	3.8	-1.0	35 122	1 686	1 335	351	11
A3 MFN gain	9.9	6.7	-3.2	104 566	10 352	7 006	3 346	51
A4 GSP erosion	12.3	8.2	-4.1	66 049	8 124	5 416	2 708	40
A3-A4 Net gain	1.3 ^b	0.9 ^b	-0.4	38 517	2 228	1 590	638	11
IV. Basic relationships								
1. Percentage of trade bound free before offers	43.05							
2. Percentage of trade dutiable before offers	56.95							
3. Changes in weighted MFN percentage rate	-3.2		percentage points					
4. Percentage of dutiable imports cut to duty-free	9.8							
5. Bindings of zero rates	1.1							

^aRefers to the rate actually applied rather than the basic rate. This distinction is highly important in Japan since in many lines the rate applied is different from the basic rate. Offers of a rate equal to the rate actually applied were not considered as offers.

^bThe GSP erosion is obtained by dividing the value of tariffs resulting from the application of the pre-and post-negotiation rates by the value of A3 + A4.

With regard to chapters 25-99 the highest rates — from 20% to 30% — have only received offers which are equal to the rate effectively applied, so that there is no reduction whatsoever, or the reduction is smaller than the formula.

5. *Some conclusions*

Of the many conclusions which could be drawn from the quantification of the tariff offers, the following are the most important:

(i) The average rate applied by the markets under consideration is not high, except in the case of Japan for agricultural products, taking into account all the dutiable trade, although the average rate on the trade for which no offer was made is in all cases higher than the former, particularly in the case of Japan in respect of chapters 01 to 24, where the rate is 46.5%. If this is the case, there are no grounds for hoping for spectacular additional gains, from the standpoint of the average rate alone;

(ii) Nevertheless, recalling what was said in the course of the brief item-by-item analysis, there are also considerably high rates of an effectively protectionist nature on which no or only insignificant offers

were made (chapter 01-24) or the offers were below the result of applying the linear formula (chapter 25-99):

(iii) The additional gains might thus have been much higher than those which resulted from the offers, despite the low level of the average rates still in force;

(iv) Everything seems to indicate the tariff escalation has increased, which leads to the conclusion that the difference existing between nominal and effective rates of protection will grow when the new rates resulting from the offers come into force;

(v) It does not appear that the percentage of free trade in relation to dutiable trade will change much, in view of the slight shift of dutiable products to duty-free products;

(vi) The consolidation of free trade before the offers will not change basically, although the offers of the United States and Japan (the latter only in chapters 25-99) represent some progress; and

(vii) In addition to the erosion in their preferential margins, the Generalized System of Preferences did not receive additional offers of any significance. This indicates that, from the standpoint of the opening up of markets, the GSP will really continue to be largely marginal for the products they cover.

ANNEXES

Annex I

**CONDITIONS OF ACCESS TO THE UNITED STATES MARKET FOR EXPORTS OF
AGRICULTURAL RAW MATERIALS (EXCLUDING TEXTILES)**

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers	
01.02	Bovine cattle	5.40	62 294	0.67	TRQ	HS ^a
02.01	Meat and offals of bovine animals, sheep and goats	4.13	174 522	-0.60	R ^b , Q ^c	HS ^d
02.04	Other meat and meat offals, F.C.F.	4.63	403	-0.10	Q ^c	HS ^d
02.06	Meat and offals, salted, smoked or dried, n.e.s.	10.00	1 128	5.27		HS ^d
03.01	Fish, F.C.F.	0.88	73 495	-3.85	TQ	
03.02	Fish, dried, salted or smoked	2.29	750	-2.44		
03.03	Crustaceans and molluscs	3.00	362 730	-1.73		HS ^e
04.05	Eggs, fresh, dried or otherwise preserved	4.50	331	-0.23		
04.06	Natural honey	3.20	16 903	-1.53		
07.01	Vegetables, fresh	12.65	126 038	7.92	TRQ ^f	
07.05	Dried leguminous vegetables	4.42	2 429	-0.31		
08.01	Dates, bananas, etc., fresh	9.16	329 549	4.43		HS ^g
08.02	Citrus fruit, fresh or dried	6.58	7 986	1.85		
08.04	Grapes, fresh or dried	1.34	12 050	-3.39		
08.06	Apples, fresh	1.67	1 217	-3.06		
08.10	Fruit preserved by freezing, not containing sugar	8.75	679	4.02		
09.01	Coffee, green or roasted	L	1 828 827	-4.73		
10.01	Wheat	5.20	64	0.47	GQ, Q	
10.05	Maize (corn), unmilled	3.65	5 856	-1.08		
12.01	Oil seeds and oleaginous fruit	2.70	20 710	-2.30	GQ ^h	
17.01	Raw sugar	6.60	616 988	1.87	GQ	
18.01	Cocoa beans	L	178 649	-4.73		
24.01	Tobacco, unmanufactured	15.17	51 198	10.44		
41.01	Bovine and equine hides, undressed	2.28	1 587	-2.45		
44.03	Wood in the rough	L	1 742	-4.73		

^aQuarantine.

^bOf bovine animals, sheep and goats, excluding ewe meat. Contingency quotas and voluntary restrictions for some countries.

^cQuota under the Meat Import Act.

^dProhibited for countries with epidemics.

^eMaryland State law requirements.

^fApplies to seed potatoes.

^gApplies to mangoes.

^hGlobal quota applies only to ground-nuts.

Annex 2

CONDITIONS OF ACCESS TO THE UNITED STATES MARKET FOR EXPORTS OF
PROCESSED FOOD PRODUCTS

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers	
04.01	Milk and cream	20.00	—	10.74	Q ^{a, b}	HS ^c
04.03	Butter	9.27	68	0.01	Q ^a , GQ	HS
04.04	Cheese and curd	13.64	7 947	4.38	Q ^a , GQ ^d	HS
07.02	Vegetables, frozen	13.70	8 447	4.44		
07.03	Vegetables, preserved	8.60	4	-0.66		
08.11	Fruit, preserved	8.56	385	-0.70		
16.02	Other prepared or preserved meat	9.02	137 446	-0.24		HS
16.03	Meat extracts and meat juices	0.30	1 693	-8.96		
17.01	Refined sugar	6.60	661 988	-2.66	GQ	
17.03	Molasses	0.90	82 796	-8.36	GQ ^e	
18.03	Cocoa paste	L	37 758	-9.26		
18.06	Chocolates and food preparations	5.67	4 262	-3.59	Q ^{a, f} , P ^g	
20.01	Vegetables and fruit, prepared	13.63	7 771	4.37		
20.02	Vegetables, preserved or prepared	9.81	11 674	0.55		
20.03	Fruit preserved by freezing, containing added sugar	13.08	14 300	3.82		
20.05	Jams, marmalades, fruit jellies, fruit pastes, etc.	7.89	1 395	-1.37		
20.07	Fruit juices and vegetable juices	24.68	18 065	15.42		

^aQuota allocated by country.

^bFresh or sour milk and liquid cream containing more than 45% butterfat.

^cUnder the 1927 Federal Milk Import Act an import permit is necessary certifying that the animals are free of disease and that both the places where the animals are kept and the places where the products are processed comply with health requirements.

^dThe restriction applies to some cheeses.

^eThe sugar content of molasses is applied against the global quota on sugar.

^fSweet chocolate and bonbons containing cocoa.

^gImport prohibition for chocolates containing alcohol.

Annex 3

**CONDITIONS OF ACCESS TO THE UNITED STATES MARKET FOR EXPORTS OF
TEXTILE RAW MATERIALS**

<i>NCCC</i>	<i>Product description</i>	<i>MFN rate (percent- age)</i>	<i>Imports from Latin America (thousands of dollars)</i>	<i>Deviation from mean (percentage points)</i>	<i>Non-tariff barriers</i>
50.02	Raw silk	L	2 027	—6.40	XR
50.04	Silk yarn, other than yarn of noil or other waste silk	10.00	32	3.60	XR
50.05	Yarn spun from silk waste other than noil	8.50	19	2.10	XR
50.06	Yarn spun from noil silk	8.50	19	2.10	XR
53.01	Sheep's or lambs' wool, not carded or combed	9.73	8 274	3.33	XR
53.05	Sheep's or lambs' wool or other animal hair, carded or combed	17.90	143	11.50	XR
55.01	Raw cotton	2.30	12 756	—4.10	GQ ^a
55.02	Cotton linters	L	2 383	—6.40	
55.03	Cotton waste	L	278	—6.40	GQ ^b
55.04	Cotton, carded or combed	—	—	—	GQ ^c
55.05	Cotton yarn and thread	10.79	19 883	4.39	XR, BQ ^d
57.04	Vegetable textile fibres	2.67	1 746	—3.73	

^aThe restriction applies to the following items of the Tariff Schedule of the United States (TSUS): 300.10.20; 300.10.40; 300.15.40; 300.15.60; and 300.20.00.

^bThe restriction applies to TSUS items 300.40.10; 300.40.25; 300.40.35 PT and 300.50 PT.

^cThe restriction applies to TSUS items 300.45 PT and 300.50 PT.

^dSubject to bilateral agreements under the textiles agreement (Multifibra).

Annex 4

**CONDITIONS OF ACCESS TO THE UNITED STATES MARKET FOR EXPORTS
OF TEXTILES AND TEXTILE ARTICLES**

<i>NCCC</i>	<i>Product description</i>	<i>MFN rate (percent- age)</i>	<i>Imports from Latin America (thousands of dollars)</i>	<i>Deviation from mean (percentage points)</i>	<i>Non-tariff barriers</i>
51.04	Woven fabrics of man-made fibres (continuous)	26.30	1 943	2.35	XR (JAP)
55.09	Other cotton fabrics	15.86	39 832	-8.09	BQ ^b
56.05	Yarn of man-made fibres	23.30	741	-0.65	XR (JAP)
56.06	Yarn of man-made fibres (discontinuous)	26.80	40	2.85	XR (JAP)
56.07	Woven fabrics of man-made fibres (discontinuous)	40.04	6	16.42	XR (JAP)
59.04	Cordage, rope and cable	9.63 ^a	37 739	-14.32	XR (JAP), XR ^c
60.04	Undergarments, knitted or crocheted, not elastic	33.62	9 305	9.67	XR (JAP), XR ^c
60.05	Outer garments	27.79	73 378	3.84	XR (JAP), XR ^c
61.01	Men's and boys' outer garments	20.49	72 372	-3.46	XR (JAP), XR ^c BQ ^b
61.02	Women's and girls' outer garments	20.56	68 451	-3.39	XR (JAP), XR ^c BQ ^b
61.09	Corsets, suspenders, garters, etc.	25.00	57 550	1.05	XR (JAP), XR ^c
62.02	Bed linen, table linen, etc.	17.69	8 972	-6.26	XR (JAP), XR ^c BQ ^b

^aThe MFN rate is so low because item 59.04A3 1520, which makes up 81% of imports, is free of duty but with voluntary restrictions. If this item, which is of minor interest for Latin America, is excluded, the mean rate is 18.6%.

^bSubject to bilateral agreements under the textile agreement.

^cThe restriction applies to cotton.

Annex 5

CONDITIONS OF ACCESS TO THE UNITED STATES MARKET FOR EXPORTS OF MINERALS

<i>NCCC</i>	<i>Product description</i>	<i>MFN rate (percent- age)</i>	<i>Imports from Latin America (thousands of dollars)</i>	<i>Deviation from mean (percentage points)</i>	<i>Non-tariff barriers</i>
26.01	Metallic ores	1.61	721 146	-2.08	
28.05	Alkali metals	9.50	201	5.81	L ^a
71.02	Precious and semi-precious stones	4.96	44 745	1.27	
71.05	Silver, unwrought or partly worked	5.25	114 614	1.56	
73.01	Pig iron	L	10 846	-3.69	
73.02	Other ferro-alloys	1.89	73 093	-1.80	
74.01	Copper	0.96	145 988	-2.73	
78.01	Lead and lead alloys	5.37	25 963	1.68	

^aThe restriction applies to the import of mercury. The United States has declared that it is not applying the notified restriction.

Annex 6

**CONDITIONS OF ACCESS TO THE UNITED STATES MARKET FOR EXPORTS
FROM LIGHT INDUSTRY NOT USING VERY ADVANCED TECHNOLOGIES**

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
11.08	Starches and inulin	4.30	811	-5.05	
15.04	Fish oil	7.90	4	-1.45	
15.07	Vegetable oils	3.24	29 135	-6.11	
18.04	Cocoa butter	3.00	38 902	-6.35	
35.03	Gelatin and gelatin derivatives	7.50	4 156	-1.45	
38.08	Rosin and resin acids	5.00	371	-4.35	
42.01	Saddlery	6.00	3 069	-3.35	
42.02	Travel goods, etc.	12.35	49 436	3.00	Q ^a
42.03	Articles of apparel of leather	19.03	69 318	9.68	
43.03	Articles of fur skins	11.10	1 766	1.75	
44.14	Veneer sheets	5.00	7 605	-4.35	
44.15	Plywood	13.73	4 492	4.38	
44.20	Wooden frames	6.00	15 796	-3.35	
44.25	Wooden tools, etc.	8.82	1 296	-0.53	
64.01	Footwear of rubber or plastic	17.40	2 944	8.05	VRA
64.02	Footwear of leather	9.07	195 029	-0.28	ASP, XR
64.03	Footwear of wood or cork	9.33	869	-0.02	
64.04	Footwear with soles of other materials	9.00	90	-0.35	XR (JAP)
64.05	Parts of footwear	4.25	12 753	-5.10	Q
68.11	Articles of cement	12.20	1 954	2.85	
69.08	Glazed setts, etc.	23.50	8 089	14.15	GQ, XR (JAP)
71.12	Jewellery	16.30	9 377	6.95	
73.10	Bars and rods, of iron or steel	6.39	12 460	-2.96	
73.15	Alloy steel	7.72	7 596	-1.63	GQ ^b
73.26	Wire, of iron or steel	L	2 557	-9.35	
73.32	Bolts, nuts, etc., of iron or steel	6.05	1 548	-3.30	NE
74.15	Bolts, nuts, etc., of copper	9.13	12	-0.22	
94.01	Chairs and seats and parts thereof	9.91	8 422	0.56	
97.03	Toys, n.e.s.	14.00	14 531	4.65	
97.04	Equipment for indoor games	8.50	6 330	-0.85	
97.05	Carnival articles and entertainment articles	13.88	1 029	4.53	

^aSubject to bilateral agreements.

^bThe restriction applies to the following TSUS items: 608.8540; 608.8840; 609.0630; 609.0720; 609.0820 which correspond to plates and sheets, 608.5810; 608.8810 which refer to 'plates', 608.5210; 609.5250 which correspond to bars; 608.7620; 608.7820 which correspond to rails, 608.5270; 608.7640; 608.7660; 608.7840; 608.7860; 608.8506; 608.8806; 609.0665; 609.0765; 609.0865 which correspond to steel tools. The quota is allocated by country.

Annex 7

**CONDITIONS OF ACCESS TO THE UNITED STATES MARKET FOR EXPORTS FROM
CAPITAL-INTENSIVE, HIGH-TECHNOLOGY INDUSTRIES**

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
22.08	Ethyl alcohol or neutral spirits, denatured	4.00	3 004	—3.68	
25.23	Cement	0.20	9 872	—7.48	
28.10	Phosphorus pentoxide and phosphoric acids	4.45	45	—3.23	
28.11	Arsenic trioxide	L	1 354	—7.68	
28.16	Ammonia	L	404	—7.68	
29.05	Cyclic alcohols and their derivatives	19.60	329	11.92	
29.14	Monoacids and their derivatives	9.89	627	2.21	
29.15	Polyacids and their derivatives	11.77	6 698	4.09	
29.16	Oxygenated acids and their derivatives	9.65	1 241	1.97	
29.26	Imide-function compounds and imine-function compounds	9.35	58	1.67	
29.33	Hormones	—	—	—	
29.35	Heterocyclic compounds	10.89	7 836	3.21	
29.41	Glycosides and their derivatives	1.50	11	—6.18	
29.44	Penicillin and other antibiotics	3.50	289	—4.18	
30.01	Glands and their extracts	0.50	2 556	—7.18	
32.05	Organic dyestuffs	19.04	656	11.36	
33.01	Essential oils and resinoids	2.47	21 048	—5.21	
40.11	Rubber tyres and tubes	5.67	5 172	—2.01	
48.01	Paper and paperboard, in rolls or sheets	4.45	824	—3.23	
48.09	Fibreboards	7.50	10 370	—0.18	
48.21	Other articles of paper pulp or paperboard	5.60	26 349	—2.08	
70.04	Cast or rolled glass	2.35	21	—5.33	
70.05	Drawn or blown glass	11.72	886	4.04	
70.08	Safety glass	10.00	1 736	2.32	
70.13	Glassware	20.68	5 632	13.00	
70.14	Illuminating glassware	12.86	6 917	5.18	
82.12	Scissors and blades thereof	34.40	1 081	26.72	
84.06	Internal combustion engines	3.29	75 052	—4.39	
84.08	Other engines and motors	5.13	5 716	—2.55	
84.10	Pumps for liquids	4.75	2 951	—2.93	
84.17	Apparatus for treating materials	6.00	2 075	—1.68	
84.22	Lifting and loading machinery	5.00	2 476	—2.68	
84.36	Spinning machines	—	—	—	
84.37	Weaving machines and knitting machines	7.00	1	—0.68	
84.38	Machinery for heading 84.37	15.57	602	7.89	

Annex 7 (concluded)

NCCC	Product description	MFN rate (percentage)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
84.39	Machinery for the manufacture of felt	7.25	47	0.43	
84.40	Machines for washing, drying, etc. of fabrics	7.70	131	0.02	
84.41	Sewing machines	5.15	4 801	-2.53	
84.51	Typewriters	2.50	2 825	-5.18	
84.52	Calculating machines	5.30	17 123	-2.38	
84.53	Statistical machines	5.25	21	-2.43	
84.55	Parts for headings 84.51 to 84.54	8.00	50 995	0.32	
84.62	Bearings	9.00	516	1.32	
84.63	Transmission shafts and cranks	11.30	3 269	3.62	
85.01	Electric power machinery	10.44	60 776	2.76	
85.03	Primary cells and primary batteries	8.50	59	0.82	
85.08	Electrical starting equipment	4.00	24 386	-3.68	
85.13	Electrical telephonic and telegraphic apparatus	7.75	9 826	-0.07	
85.15	Radio and television receivers and transmitters	7.42	398 545	-0.26	
85.18	Electrical capacitors	10.00	59 674	2.32	
85.19	Apparatus for breaking, etc., electrical circuits	6.20	110 998	-1.48	
85.21	Electric valves and tubes	12.00	166 758	4.32	
87.02	Passenger motor cars	3.50	205	-4.18	
87.06	Other parts for motor vehicles	2.90	112 146	-4.78	
87.07	Fork lift trucks, etc.	4.50	1 220	-3.18	
87.12	Parts for headings 87.09 to 87.11	9.50	7 940	1.82	
88.02	Flying machines, rotorchutes, etc.	8.75	401	1.07	p ^{a, b}
88.03	Parts for headings 88.01 and 88.02	8.75	8 582	1.07	
89.01	Ships, boats and other vessels not falling within any of the other headings	5.50	1 203	-2.18	p ^{a, b}
89.02	Tugs	—	—	—	p ^{a, b}
89.03	Light-vessels, dredgers, etc.	—	—	—	p ^{a, b}
92.11	Gramophones, dictating machines, etc.	5.50	9 324	-2.18	

^aThe United States Merchant Marine Act of 1920 prohibits foreign-built vessels in coastwise trade of the United States.

^bVessels, except yachts and pleasure boats, are not subject to the provisions of the Tariff Schedule of the United States.

Annex 8

**CONDITIONS OF ACCESS TO THE JAPANESE MARKET FOR EXPORTS OF AGRICULTURAL
RAW MATERIALS (EXCLUDING TEXTILES)**

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers	
02.01	Meat and offals of bovine animals, sheep, goats	11.88	67 710	-15.40	DL ^a	HS
02.04	Meat and offals, n.e.s., F.C.F.	L	1 153	-27.28		
03.01	Fish, F.C.F.	6.05	5 721	-21.23	DL ^b	
03.02	Fish, dried, salted or smoked	11.25	98	-16.03	DL ^b	
03.03	Crustaceans and molluscs	8.00	101 108	-19.28	DL, CG	
04.06	Natural honey	30.00	9 326	2.72		
07.01	Vegetables, fresh	8.00	110	-19.28		HS, QR
07.05	Dried leguminous vegetables	8.83	1 168	-18.45	DL ^c , Q	HS, QR
08.01	Dates, bananas, avocados, etc.	11.67	9 669	-15.61		
08.02	Citrus fruit, fresh or dried	16.67	969	-10.61	DL ^d , Q	
08.10	Fruit, preserved by freezing, not containing sugar	20.00	217	-7.28		HS, QR
09.01	Coffee, green or roasted	10.00	181 982	-17.28		
10.05	Maize (corn), unmilled	7.50	9 682	-19.78		
12.01	Oilseeds and oleaginous fruits	4.68	38 161	-22.60	DL, Q	
17.01	Raw sugar	35.40	85 926	8.12		
18.01	Cocoa beans	L	11 065	-27.28		
24.01	Tobacco, unmanufactured	355.00	13 539	327.72	ST	
41.01	Bovine and equine hides, undressed	L	3 151	-27.28		
44.03	Wood in the rough	0.83	2 050	-26.45		
44.04	Wood, squared	L	3	-27.28		

^aIncluding the tariff for heading 24.01; the restriction applies to meat and offals of the animals included in position 01.02, except for tongue and internal organs.

^bExcluding the tariff for heading 24.01; the restriction applies to herring, mackerel and sardines.

^cExcept for green beans intended for sowing.

^dThe restriction applies to fresh oranges and tangerines.

Annex 9

**CONDITIONS OF ACCESS TO THE JAPANESE MARKET FOR EXPORTS OF
PROCESSED FOOD PRODUCTS**

NCCC	Product description	MFN rate (percentage)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers	
04.04	Cheese and curd	35.00	9	7.08	DL ^a , Q	HS
16.02	Other prepared or preserved meat	18.75	2 806	-9.17	DL, Q	HS
16.03	Meat extracts and meat juices	20.00	43	-7.92		
17.01	Refined sugar	35.40	85 926 ^b	7.48		
18.03	Cocoa paste	15.00	848	-12.92		
18.06	Chocolates and food preparations	35.00	4 843	7.08	NE (standard for labelings, marking, etc.)	
20.02	Vegetables, preserved or prepared	25.00	623	-2.92		
20.03	Fruit preserved by freezing	35.00	772	7.08		
20.05	Jams, marmalades, fruit pastes	35.00	453	7.08	DL ^c , Q, NE	HS
20.07	Fruit juices and vegetable juices	25.00	408	-2.92	DL, Q	

^aThe restriction does not apply to natural cheese.

^bAlso including unrefined sugar.

^cThe restriction does not apply to fruit purées and pastes.

Annex 10

**CONDITIONS OF ACCESS TO THE JAPANESE MARKET FOR EXPORTS
OF TEXTILE RAW MATERIALS**

NCCC	Product description	MFN rate (percentage)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers	
50.01	Silk-worm cocoons	5.50	1 769	2.19		
50.02	Raw silk	7.50	4 049	4.19		
50.03	Silk waste	L	918	-3.31		
50.04	Silk yarn, other than yarn of noil or other waste silk	7.50	10 737	4.19		
50.05	Yarn spun from silk waste other than noil	15.00	57	11.69		
53.01	Sheep's or lambs' wool, not carded or combed	L	5 516	-3.31		
53.05	Sheep's or lambs' wool or other animal hair, carded or combed	L	11 419	-3.31		
55.01	Cotton, not carded or combed	L	3 16 678	-3.31		
55.02	Cotton linters	L	3 261	-3.31		
55.03	Cotton waste	L	6	-3.31		
55.05	Cotton yarn	4.27	3 469	0.96		
57.04	Other vegetable textile fibres	L	38	-3.31		

Annex 11

CONDITIONS OF ACCESS TO THE JAPANESE MARKET FOR EXPORTS OF
TEXTILES AND TEXTILE ARTICLES

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
55.09	Other woven fabrics of cotton	7.30	56	—7.74	
59.04	Twine, cordage, ropes and cables	7.50	378	—7.54	
60.04	Undergarments, knitted or crocheted, not elastic	14.00	2	—1.04	
60.05	Outer garments	19.83	212	4.79	
61.01	Men's outer garments	18.81	50	3.77	
61.02	Women's outer garments	19.95	66	4.91	
61.09	Corsets, suspender-belts, brassieres, etc.	17.50	33	2.46	
62.02	Bed linen, table linen, kitchen linen, etc.	15.44	139	0.40	

Annex 12

CONDITIONS OF ACCESS TO THE JAPANESE MARKET FOR EXPORTS OF MINERALS

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
26.01	Metallic ores	L	849 276	—4.7	DL ^a
28.05	Alkali metals	7.50	4	2.8	
71.02	Precious and semi-precious stones	1.67	29 220	—3.0	
71.05	Silver	3.00	60 336	—1.7	
73.02	Ferro-alloys	8.13	12 932	3.4	
74.01	Undergarments, knitted or	6.40	77 830	1.7	
78.01	Unwrought lead	6.15	9 337	1.4	

^aThe restriction applies to gold ore and radioactive ores.

Annex 13

**CONDITIONS OF ACCESS TO THE JAPANESE MARKET FOR EXPORTS FROM
CAPITAL-INTENSIVE, HIGH-TECNOLOGY INDUSTRIES**

<i>NCCC</i>	<i>Product description</i>	<i>MFN rate (percent- age)</i>	<i>Imports from Latin America (thousands of dollars)</i>	<i>Deviation from mean (percentage points)</i>	<i>Non-tariff barriers</i>
22.08	Ethyl alcohol or neutral spirits	65.08	20 041	54.08	ST ^a
29.05	Cyclic alcohols	18.75	20	7.71	
29.15	Polyacids	10.00	36	-1.00	
29.16	Alcohol-acids	13.33	349	2.33	
29.26	Imide-function compounds and imine-function compounds	11.25	72	0.25	
29.35	Heterocyclic compounds	13.13	4 531	2.13	
29.44	Antibiotics	9.25	340	-1.75	
30.01	Glands and their extracts	5.00	68	-6.00	
32.05	Organic dyestuffs	12.50	22	1.50	
33.01	Essential oils	6.50	3 588	-4.50	
39.06	Other artificial plastic materials	10.00	32	-1.00	
40.01	Natural rubber	8.00	129	-3.00	
48.21	Other articles of paper pulp or paperboard	5.00	8	-6.00	
70.08	Safety glass	12.50	1	1.50	
70.13	Glassware	13.33	59	3.33	
70.14	Illuminating glassware	9.00	17	-2.00	
82.12	Scissors and blades thereof	9.00	49	-2.00	
84.06	Internal combustion engines	12.40	456	2.40	
84.08	Other engines and motors	6.00	32	-5.00	DL
84.10	Pumps	12.50	22	2.50	
84.22	Lifting, handling, etc. machinery	7.50	10	-3.50	
84.37	Weaving machines and knitting machines	7.50	6	-3.50	
84.38	Machinery for heading 84.37	10.00	1	-1.00	
84.41	Sewing machines	7.50	13	-3.50	
84.51	Typewriters	10.00	236	-1.00	
84.52	Calculating machines	9.00	216	-2.00	
84.53	Statistical machines	13.00	16 949	2.00	
84.55	Parts for headings 84.51 to 84.54	10.00	13 689	-1.00	
84.63	Transmission shafts, cranks, etc.	7.50	120	-3.50	
85.01	Electric power machinery	7.78	57	-3.22	
85.08	Electrical starting equipment	6.00	1	-5.00	
85.13	Electrical telephonic and telegraphic apparatus	7.00	2 328	-4.00	
85.15	Television and radio receivers and transmitters	7.92	1 567	-3.08	
85.18	Electrical capacitors	7.50	17	-3.50	

Annex 13 (concluded)

<i>NCCC</i>	<i>Product description</i>	<i>MFN rate (percent- age)</i>	<i>Imports from Latin America (thousands of dollars)</i>	<i>Deviation from mean (percentage points)</i>	<i>Non-tariff barriers</i>
85.19	Apparatus for breaking, etc., electrical circuits	7.50	232	—3.50	
85.21	Electric valves and tubes	11.83	322	0.83	DL
87.06	Other parts for motor vehicles	15.00	3 520	4.00	
87.12	Parts for headings 87.09 to 87.11	10.00	2	—1.00	
89.03	Light-vessels, dredgers, etc.	7.50	20 265	—3.50	
92.11	Gramophones, dictating machines, etc.	7.50	—	—3.50	

^aThe restriction applies to ethyl alcohol of a strength of 90° or more.

Annex 14

CONDITIONS OF ACCESS TO THE JAPANESE MARKET FOR EXPORTS FROM
LIGHT INDUSTRY NOT USING VERY ADVANCED TECHNOLOGIES

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
15.07	Vegetable oils	7.78	3 972	-2.49	
18.04	Cocoa butter	5.00	5 731	-5.27	
23.01	Flours and meals of meat, fish, etc.	L	15 328	-10.27	
23.04	Oil-cake, vegetable	5.00	16 747	-5.27	
34.04	Artificial waxes	10.00	346	-0.27	
35.01	Casein	L	175	-10.27	
38.08	Rosin and resin acids	L	1 156	-10.27	
41.02	Bovine cattle leather and equine leather	15.00	1	4.73	DL, Q
41.03	Sheep and lamb skin leather	12.50	8	2.23	DL, Q ^a
41.04	Goat and kid skin leather	5.00	71	-5.27	DL
41.05	Other kinds of leather	9.29	1 859	-0.98	DL
42.01	Saddlery	13.75	4	3.48	
42.02	Travel goods	11.94	96	1.67	
42.03	Articles of apparel of leather	13.33	144	3.06	
43.02	Furskins, tanned	15.00	3 049	4.73	
43.03	Articles of furskin	20.00	588	9.73	
44.05	Sawn wood	1.79	2 241	-8.48	
44.13	Planed wood	18.33	1 867	8.06	
44.25	Wooden tools, etc.	6.25	13	-4.02	
64.02	Footwear with outer soles of leather	23.50	527	13.23	DL, Q ^b
64.05	Parts of footwear	20.00	467	9.73	
68.11	Cement, etc.	7.50	6	-2.73	
69.08	Glazed setts, etc.	5.00	3	-5.27	
71.11	Goldsmiths' silversmiths' and jewellers' sweepings	17.50	318	7.23	
71.12	Jewellery	20.00	4	9.73	
73.10	Bars and rods, of iron or steel	7.50	4	-2.77	
73.15	Alloy steel	6.00	2	-4.27	
73.32	Bolts and nuts, of iron and steel	7.50	6	-2.77	
94.01	Chairs and other sets	11.67	306	1.40	
97.03	Toys	10.00	154	-0.27	
97.04	Equipment for parlour, table and funfair games for adults or children	12.50	7	2.23	
97.05	Carnival articles	10.00	1	-0.27	

^aContingency quotas are applied only to imports of dried, tinted or embossed leather

^bNo contingency quotas are applied to sports footwear or slippers.

Annex 15

**CONDITIONS OF ACCESS TO THE EEC MARKET FOR EXPORTS OF AGRICULTURAL RAW
MATERIALS (EXCLUDING TEXTILES)**

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
02.01	Meat and offals of bovine animals, sheep and goats	11.32 ^a	272 334	2.45	GQ, DL, MP, QR, IT, HS, VL
02.04	Meat and offals, n.e.s., F.C.F.	10.00	17 856	1.13	HS
02.06	Meat and offals, n.e.s., dried salted, smoked	12.33 ^a	709	3.46	DL HS VL
03.01	Fish, F.C.F.	12.71	26 100	3.84	L
03.02	Fish, dried, salted or smoked	11.67	1 314	2.80	
03.03	Crustaceans and molluscs	13.61	14 511	4.74	L HS
04.06	Natural honey	27.00	33 581	18.13	BQ, L ^b HS
07.01	Vegetables, fresh	15.87	26 484	7.00	SR, BQ, GQ, P HS VL
07.05	Dried leguminous vegetables	3.83	29 833	-5.04	
08.01	Dates, bananas, avocados, etc.	7.44	343 108	-1.43	R, GQ ^c HS
08.02	Citrus fruit, fresh or dried	12.60	24 553	3.73	L, GQ HS
08.04	Grapes, fresh or dried	14.67	556	5.80	SR, DL HS
08.06	Apples, pears, fresh	10.00 ^a	59 745	1.13	HS
08.10	Fruit preserved by freezing, not containing sugar	19.00	250	10.13	
08.13	Peel of melons and citrus fruit	2.00	542	-6.87	
09.01	Coffee	13.20	1 515 736	4.33	
10.01	Wheat	0.00 ^a	41 189	-8.87	IT VL
10.05	Maize	0.00 ^a	251 006	-8.87	IT VL
12.01	Oil seeds and oleaginous fruits	0.00	457 982	-8.87	HS
17.01	Sugar, solid	0.00 ^a	256 275	-8.87	IT VL
18.01	Cocoa beans	5.40	51 305	-3.47	
24.01	Unmanufactured tobacco	19.00 ^d	160 615	10.13	ST
41.01	Raw hides and skins	L	28 546	-8.87	
44.03	Wood in the rough	L	2 707	-8.87	DL, R
44.04	Wood, squared	L	2 015	-8.87	DL, R

^aAll or part of the heading bears an MFN rate of 0.0, but is affected by variable levies. In some cases also specific internal taxes.

^bDoes not apply to OECD member countries.

^cThe United Kingdom applies the restriction to the dollar area only.

^dIn addition to the *ad valorem* MFN rate, bears a specific tariff.

Annex 16

CONDITIONS OF ACCESS TO THE EEC MARKET FOR EXPORTS OF
PROCESSED FOOD PRODUCTS

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
04.02	Milk and cream, evaporated or condensed	0.00 ^a	622	-13.83	VL
04.04	Cheese and curd	0.00 ^a	5 251	13.83	HS VL
07.02	Vegetables, frozen	18.00	464	4.17	
07.03	Vegetables in preservative	12.00	57	-1.83	VC
08.11	Fruit in preservative	10.83	713	-3.00	BQ
16.02	Other prepared or preserved meat	14.40 ^{a, b}	127 238	0.57	DL
16.03	Meat extracts and meat juices	3.50	25 969	-10.33	HS
17.01	Sugar (refined)	0.00 ^a	256 275	-13.83	IT
17.03	Molasses	0.00	55 250	-13.83	IT
18.03	Cocoa paste	15.00	761	1.17	
18.06	Chocolates and food preparations	24.00 ^b	57	10.17	LL
20.01	Vegetables and fruit, prepared	22.00 ^b	10	8.17	HS
20.02	Vegetables, prepared or preserved	21.80	3 926	7.97	DL
20.03	Fruit preserved by freezing, containing added sugar	26.00 ^b	31	12.17	IT
20.05	Jams, marmalades, fruit jellies, fruit pastes	29.00 ^b	233	15.17	IT
20.07	Fruit juices and vegetable juices	24.70 ^b	62 858	10.87	LL, BQ, DL ^c , Q ^c , RL ^c , IT

^aAll or part of the heading bears an MFN rate of 0.0, but is affected by variable levies and in some of them specific internal taxes were identified.

^bIn addition to the *ad valorem* MFN rate, these bear a specific duty.

^cApplies only to juices of citrus fruit, excluding grapefruit.

Annex 17

CONDITIONS OF ACCESS TO THE EEC MARKET FOR EXPORTS OF TEXTILE
RAW MATERIALS

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
50.02	Raw silk	5.00	4 455	0.01	DL
50.03	Silk waste	L	50	-4.99	DL
50.04	Silk yarn, other than yarn of noil or other waste silk, not put up	7.00	4	2.01	DL
50.05	Yarn spun from silk waste other than noil	3.50	15	-1.49	DL
53.01	Sheep's or lambs' wool, not carded or combed	L	125 424	-4.99	
53.05	Sheep's or lambs' wool or other animal hair, carded or combed	3.00	67 055	-1.99	
55.01	Cotton, not carded or combed	L	144 099	-4.99	
55.02	Cotton linters	L	5 226	-4.99	
55.04	Cotton, carded or combed	1.50	1	-3.49	
55.05	Cotton yarn	6.25	82 880	1.26	XR
56.01	Man-made fibres, not carded	9.00	68	4.01	
56.04	Man-made fibres, discontinuous	8.50	1	3.51	
56.05	Yarn of man-made fibres, not put up	11.00	755	6.01	BQ(JAP)
56.06	Yarn of man-made fibres, put up	14.00	6	9.01	
56.07	Woven fabrics of man-made fibres	16.00	1 972	11.01	BQ(JAP), DL BQ(POL), GQ LL-(list A)
57.04	Other vegetable textile fibres	L	17 995	-4.99	
55.03	Cotton waste	L	2 150	-4.99	

Annex 18

**CONDITIONS OF ACCESS TO THE EEC MARKET FOR EXPORTS OF
TEXTILES AND TEXTILE ARTICLES**

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
51.04	Woven fabrics of man-made fibres, continuous	14.00	107	-0.45	DL, GQ
55.09	Other cotton fabrics, woven	14.00	66 558	-0.45	DL, XR
59.04	Cordage, cable, rope, etc.	13.00	7 338	-1.45	XR ^a
60.04	Undergarments, knitted or crocheted, not elastic	17.00	11 851	2.55	XR ^a , DL ^a
60.05	Outer garments	13.83	9 275	-0.62	XR ^a , DL ^a , LL (list A), GQ ^b
61.01	Men's and boys' undergarments	17.00	16 223	2.55	XR ^a , DL ^a , BQ ^b
61.02	Women's and girls' outer garments	13.75	8 231	-0.70	BQ ^b , DL ^a , XR ^a , GQ
61.09	Corsets, suspenders, garters, etc.	8.50	3 573	-5.95	XR ^a
62.02	Bed linen, table linen, etc.	19.00	29 073	4.55	BQ ^a , DL, XR ^a

^aThe restriction applies to cotton.

^bThe restriction applies to certain specific countries.

Annex 19

CONDITIONS OF ACCESS TO THE EEC MARKET FOR EXPORTS OF MINERALS

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
26.01	Metallic ores	L	1 045 867	-3.25	
28.05	Alkali metals	14.40	163	11.15	
71.02	Precious and semi-precious stones	1.33	40 342	-1.92	
71.05	Silver, unwrought or partly worked	L	35 344	-3.25	
73.01	Pig iron	4.00	44 902	0.75	BQ ^a , DL ^a
73.02	Other ferro-alloys	3.83	73 870	0.58	DL ^b
74.01	Copper	L	589 164	-3.25	
78.01	Lead and lead alloys	2.40	15 388	-0.85	

^aThe restriction applies to certain countries.

^bThe restriction applies to certain ferro-alloys.

Annex 20

CONDITIONS OF ACCESS TO THE EEC MARKET FOR EXPORTS OF LIGHT
INDUSTRY NOT USING VERY ADVANCED TECHNOLOGIES

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tarif barriers
11.08	Starches and inulin	0.00 ^a	767	-7.17	VL
15.04	Fish oil	L	6 496	-7.17	
15.07	Vegetable oils	5.50 ^a	117 151	-1.67	VL
18.04	Cocoa butter	12.00	39 027	4.83	
23.01	Fish meal	1.00	85 206	-6.17	
23.04	Oil-cake and residues of vegetable oils	L	537 817	-7.17	
31.03	Phosphatic fertilizers	4.80	5 325	-2.37	
34.04	Artificial waxes	8.00	7 480	0.83	
35.01	Casein, caseinates	9.50	1 514	2.33	
35.03	Gelatin and gelatin derivatives	12.00	1 211	4.83	
38.08	Rosin and resin acids	5.00	1 429	-2.17	
41.02	Leather	4.00	100 351	-3.17	DL, R
41.03	Leather of sheep and lamb skins	4.00	2 371	-3.17	DL
41.04	Goat and kid skin leather	2.83	3 569	-4.34	
41.05	Other leather	2.83	13 827	-4.34	
42.01	Saddlery	9.00	1 069	1.83	
42.02	Travel goods, etc.	11.25	13 865	4.08	
42.03	Articles of apparel of leather	10.00	11 567	2.83	
43.02	Fur skins, tanned or dressed	2.25	27 441	-4.92	
43.03	Articles of furskins	8.25	32 861	1.08	
44.05	Sawn lumber, conifer	0.00	57 192	-7.17	
44.13	Sawn lumber, non-conifer	5.00	17 950	-2.17	
44.14	Veneer sheets	3.50	16 650	-3.67	
44.15	Plywood	13.00	10 324	5.83	
44.19	Wooden beadings and mouldings	7.50	371	0.33	
44.20	Wooden frames	7.50	29	0.33	
44.25	Wooden tools, etc.	6.25	5 470	-0.92	
64.01	Footwear of rubber or plastic	20.00	13	12.83	R, BQ, GQ
64.02	Footwear of leather	14.00	28 264	6.83	R, BQ, GQ
64.03	Footwear of wood or cork	9.00	52	1.83	R
64.04	Footwear with soles of other materials	7.00	8	-0.17	

<i>NCCC</i>	<i>Product description</i>	<i>MFN rate (percent- age)</i>	<i>Imports from Latin America (thousands of dollars)</i>	<i>Deviation from mean (percentage points)</i>	<i>Non-tarif barriers</i>
64.05	Parts of footwear	7.75	4 654	0.58	
68.11	Articles of cement	4.00	3	-3.17	
69.08	Glazed setts, etc.	12.00	274	4.83	DL, BQ ^b
71.12	Jewellery	6.75	1 902	-0.42	
73.10	Bars and rods, of iron or steel	6.50	4 930	-0.67	
73.15	Alloy steel	7.00	2 306	-0.17	R
73.32	Bolts, nuts, etc., of iron or steel	9.00	1 169	1.83	R, BQ
94.01	Chairs and seats, and parts thereof	7.25	1 707	0.08	
97.03	Toys, n.e.s.	17.50	1 733	10.33	BQ ^b , DL ^b , R
97.04	Equipment for indoor games	8.50	353	1.33	
97.05	Carnival articles and enter- tainment articles	10.00	60	2.83	

^aAll or part of the position bears an MFN rate of 0.0, but is subject to variable levies.

^bThe restriction applies to various countries.

Annex 21

**CONDITIONS OF ACCESS TO THE EEC MARKET FOR EXPORTS FROM
CAPITAL-INTENSIVE AND HIGH-TECHNOLOGY INDUSTRIES**

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
22.08	Ethyl alcohol or neutral spirits, denatured	— ^a	67	—	DL, ST, P
28.10	Phosphorus pentoxide and phosphoric acids	13.20	6 054	4.43	
28.11	Arsenic trioxide	6.40	5	—2.37	
28.16	Ammonia	11.20	6 585	2.43	
29.05	Cyclic alcohols and their deri- vatives	11.20	5 735	2.43	
29.14	Monoacids and their derivatives	11.40	444	2.63	
29.15	Polyacids and their derivatives	11.20	31	2.43	
29.16	Oxygenated acids and their derivatives	13.89	9 672	5.12	
29.26	Imide-function compounds and imine-function compounds	13.60	455	4.83	
29.35	Heterocyclic compounds	11.60	14 117	2.83	
29.41	Glycosides and their derivatives	14.40	321	5.63	
30.01	Glands and their extracts	7.73	6 325	—1.04	
32.05	Organic dyestuffs	11.17	508	2.40	R
33.01	Essential oils and resinoids	7.00	19 129	—1.77	DL
39.06	Other artificial plastic materials	16.00	12 045	7.23	
40.11	Rubber tyres and tubes	9.00	199	0.23	BQ, L, QR
48.01	Paper and paperboard, in rolls or sheets	9.00	597	0.23	ST, BQ, DL
48.09	Fibreboards	11.00	13 727	2.23	
48.21	Other articles of paper pulp or paperboard	14.00	148	5.23	
70.08	Safety glass	9.00	24	0.23	
70.13	Glassware	15.50	1 471	6.73	R
70.14	Illuminating glass ware	9.67	121	0.90	
82.12	Scissors and blades thereof	10.50	560	1.73	
84.06	Internal combustion engines	7.50	44 203	—1.27	BQ, QR
84.08	Other engines and motors	5.57	1 228	—3.20	
84.10	Pumps for liquids	6.50	909	—2.27	
84.17	Apparatus for treating materials	6.25	2 886	—2.52	
84.22	Lifting and loading machinery	7.00	842	—1.77	
84.36	Spinning machines	5.00	14	—3.77	
84.37	Weaving machines and knitting machines	6.00	141	—2.77	
84.38	Machinery for heading 84.37	5.00	482	—3.77	
84.40	Machines for washing, drying, etc., of fabrics	6.25	7	—2.52	
84.41	Sewing machines	8.50	1 228	—0.27	AL, QR, Q

Annex 21 (concluded)

NCCC	Product description	MFN rate (percent- age)	Imports from Latin America (thousands of dollars)	Deviation from mean (percentage points)	Non-tariff barriers
84.51	Typewriters	6.50	310	-2.27	
84.52	Calculating machines	9.75	2 795	0.98	
84.53	Statistical machines	7.00	16 007	-1.77	
84.55	Parts for headings 84.51 to 84.54	8.25	5 460	-0.52	
84.62	Bearings	9.00	1 109	0.23	
84.63	Transmission shafts, cranks, etc.	7.00	1 890	-1.77	
85.01	Electric power machinery	6.50	1 278	-2.27	BQ
85.08	Electrical starting equipment	8.17	226	-0.60	
85.13	Electrical telephonic and tele- graphic apparatus	7.00	7 889	-1.77	
85.15	Television and radio receivers and transmitters	10.00	734	1.23	BQ, DL, QR
85.18	Electrical capacitors	7.00	2 019	-1.77	
85.19	Apparatus for breaking, etc., electrical circuits	8.17	3 357	-0.60	
85.21	Electric valves and tubes	10.50	9 952	1.73	BQ, DL, LIC, QR
87.02	Passenger motor cars	11.00	2 451	2.23	DL, QR, P ^b
87.06	Other parts for motor vehicles	8.67	36 379	-0.10	QR
87.07	Fork lift trucks, etc.	8.00	723	-0.77	
87.12	Parts for headings 87.09 to 87.11	8.75	78	-0.02	QR
88.02	Flying machines, rotorchutes, etc.	12.00	5	3.23	DL, QR
88.03	Parts for headings 88.01 and 88.02	5.00	3 280	-3.77	
89.01	Ships, boats and other vessels not falling within any of the other head- ings	4.00	644	-4.77	DL, QR
89.02	Tugs	L	58	-8.77	QR, P
89.03	Light-vessels, dredgers, etc.	L	241	-8.77	
92.11	Gramophones, dictating machines, etc.	8.67	7 704	-0.10	

^aThis position bears a specific duty and the *and valorem* equivalent could not be calculated.

^bIn Ireland only.

Socio-economic structure and crisis of peripheral capitalism

*Raúl Prebisch**

In the present article the author continues and expands the critical analysis of peripheral capitalism which he began in another that was published in the first issue of this Review. His central contention is that in peripheral societies the development process —whereby the accumulation of capital in the form of goods and training of human resources makes it possible to step up the productivity of the labour force and thus to increase the total product— is not carried out with the necessary efficiency at the social and even, in many cases, at the economic level.

The object of the entire article is to explain the causes of this phenomenon, from those most directly linked to the internal dynamism of the peripheral societies and pivoting upon the process of generation, appropriation and use of the fruits of technical progress, to those connected with the external relations of the societies in question and in particular with the spread of the consumption patterns of the centres, the presence of the transnational corporations and the siphoning-off of peripheral income.

The interaction of these factors, in combination with many others to which the author draws attention in the course of the article, ends by setting up a type of society —the 'privileged-consumer society', contrasting with the 'sub-consumer society'— which cannot satisfy the exigencies of social and political democratization, and is entering upon a crisis that can be resolved only by means of changes as fundamental as its causes.

*Director of the Review.

Introduction¹

1. *The contradictions of peripheral development in Latin America*

To develop in the image and likeness of the centres has been and still is the bent of imitative capitalism in the Latin American region of the periphery, to which the present article is confined. If the centres have succeeded in spreading welfare to the masses, notwithstanding certain disconcerting effects deriving from the ambivalence of technique, why should we not be able to do the same?

To judge from the experience of the past few decades, we are very far from attaining this end. Moreover, that experience, in my opinion, shows social disparities to be growing wider rather than diminishing. For in actual fact peripheral capitalism tends to exclude vast masses of the population in the lower strata of the social structure from enjoyment of the fruits of development; and it becomes increasingly

¹While this article is concerned with Latin America in general, the interpretation of the development phenomena of each individual country must take into account the conditions in which these phenomena make their appearance, the phase of transformation through which the socio-economic structure of the country concerned is passing, and the concomitant changes in political power.

I have pleasure in taking the present opportunity to thank my colleagues in CEPAL who have collaborated in the critical revision of this article. Manuel Balboa has discussed with me the theory of the surplus and has offered constructive suggestions; Anibal Pinto has patiently and meticulously perused the text and has helped to clarify it and to modify it in respect of some important points of economic theory; Jorge Graciarena has made extremely useful comments, especially in the sociological field; and Octavio Rodríguez, with his intimate knowledge of CEPAL thinking, has assisted me in bringing certain significant linkages to light. Last but not least, Adolfo Gurrieri, my immediate collaborator, kept in constant touch with me while I was working out my ideas, and put forward points of view that have been of great help to me in my thinking; and, in collaboration with Gregorio Weinberg, editor of the Review, he has edited the text with scrupulous care.

conflictive as the democratization process makes headway.

I attempted to explain these phenomena in my previous article, and am now continuing my analysis in the conviction that in order to exert deliberate influence on the real situation, or rather to change it, the first requisite is to understand it and to probe into the reasons why the hopes entertained have gradually faded, especially among those who have succeeded in ridding themselves of dogmatic preconceptions.

The contradictions apparent in the system are very serious: prosperity and sometimes opulence at one extreme; relentless poverty at the other.

A few decades ago the remarkable momentum gained by industrial development, the ability, initiative and drive of many entrepreneurs, and the increasing aptitudes of the labour force at its different levels of skills, could hardly have been conceivable. High rates of growth have been achieved, and the region is learning to export manufactures in defiance of internal and external obstacles that once seemed almost insurmountable. And technical progress is penetrating into areas that it was slow to reach, in particular traditional agriculture.

But from the social standpoint development has been going astray, and much of the vital energy of the system is being wasted as far as the collective welfare is concerned, because it is expended within the limited sphere of the privileged-consumer society.²

My conclusion is categorical: the consumer society is incompatible with the integration into the system of the masses that stagnate in the sub-consumer society. I have no doubt whatsoever that in the consumer

society great economic efficiency can be achieved; but neither do I hesitate to assert that the system is fundamentally lacking in social efficiency. This, however, is not the only conclusion to be drawn. There is also another of grave import; and I am stating them here as pointers to what I am driving at.

The privileged-consumer society is irreconcilable, in the long run, with the march of democracy. It can function smoothly only when, in accordance with the phase through which the socio-economic structure is passing, the democratization process is contained, or when, after having gained great impetus, it is suspended by the use of force. And the reason lies not so much in the intrinsic defects from which democratization is assuredly not free, as in the deep-seated flaws in the system.

Among the latter, the most striking relate to income distribution, which is the area where the aforementioned widening disparities are found. In peripheral capitalism the appropriation of the fruits of technical progress is largely the arbitrary result of the play of power relations arising out of the social structure. This interplay obeys no regulating principle inspired by considerations of equity, for these are alien to the operation of the system. Income distribution has its own special dynamics, which in the course of development manifest itself through increasingly conflictive phenomena; and these, in the course of time, culminate in a crisis of the system.

My contention here is that all this, if I may put it simply, stems from the fact that the fruits of the higher productivity which accompanies the propagation of the technique of the centres in the periphery are largely concentrated in the upper income strata, principally by virtue of the latter's economic power. In other words, they are not disseminated as is assumed in the neo-classical theories, which have blossomed out again and are influencing the development praxis, but which are formulated in

²The term 'privileged-consumer society', or simply 'consumer society', whichever is preferred, denotes excessive and premature imitation of the consumption patterns of the centres.

the abstract, at a level remote from the socio-economic structure, whereas the appropriation of the fruits of development is of an essentially structural character. Disregarding the structure means straying down a blind alley.

These upper strata, then, are the basis of the privileged-consumer society, in which a limited sector of the labour force, characterized by social power, also participates. Within the narrow ambit of that society income can rise at rates so high as to call forth admiration both at home and abroad.

But here a question arises: how is it possible to develop imitation of the consumption of the centres on these lines and at the same time to accumulate capital in order to further the propagation of their technique?

2. The surplus and insufficient accumulation

Let us now look at one of the points in my theoretical interpretation which I want to underline because it is of considerable significance. I refer to the surplus, i.e., that part of the fruits of higher productivity which, owing to the great heterogeneity of the socio-economic structure, is not distributed among the labour force and remains in the hands of the owners of the means of production. These means are increasingly concentrated in the upper strata, thanks to the evolution of the system itself; thus the growth of the surplus deriving from them is ceaseless, and furthermore, as I shall endeavour to show, rapid enough to outstrip the growth rate of the overall product of the economy. And thus, commensurately with the advance of development, the surplus attains dimensions which enable the upper strata to imitate more and more closely the consumption of the centres, and, at the same time, to introduce increasingly productive and capital-intensive techniques.

Higher productivity implies less em-

ployment of labour per unit of capital. But at the same time it steps up capital accumulation potential. If full use were made of this potential, absorption of labour would be multiplied and the income of the labour force would progressively increase. The system would therefore gradually improve its social efficiency.

But this does not happen. For much of that potential is frittered away in the consumer society and in the siphoning-off of peripheral income into the centres with which that society is so closely linked.

It might be asserted that the higher the rate of increase of productivity, the higher the rate of capital accumulation should rise, thanks to the growth of the surplus; but the progressive development of the consumer society precludes this. On the contrary, the more productivity increases, the more the consumer society tends to immerse itself in the interplay of market laws. Thus its dynamics may reach an impressive pitch, to the manifest detriment of the social efficiency of the system. Not only is the upward absorption of the lower strata weakened, but redundancy of labour supervenes, and these redundant workers eke out a living somehow in the strata where they are, or manage to get spuriously absorbed into the middle strata, particularly in the orbit of the State.

This is where the myth of the unlimited expansion of peripheral capitalism and its essential role in the diffusion of human welfare melts into thin air. The expansion is for the few but not for the many. The dynamics of the privileged-consumer society, strictly speaking, could not be generated without the surplus. And the surplus could not be formed if the labour force that is being absorbed in the system were not in so weak a position to share in the fruits of increased productivity, under the rule of market laws.

Nevertheless, the consumer society's tendency to develop intensively within its own bounds cannot be kept up indefinitely,

without facing any opposition, since in the course of development another tendency emerges, running counter to the first, and seeking to extend the advantages of development downwards, albeit without extirpating the root causes of distribution disparities and of the system's insufficient capacity for absorption. Conflict between the two trends is only a matter of time.

What happens is that while the social structure is undergoing the changes that accompany the propagation of technique, the middle strata expand, and this makes democratization possible, though there are major obstacles in the way. And accordingly the disadvantaged labour force in these strata acquires increasing trade-union and political power, which enables it to improve its levels of consumption both of goods and of State services, at the expense of the growth of the surplus.

The fact that the surplus grows faster than the overall product affords room for this improvement in certain phases of structural change. But as these changes proceed, the disparity between the two growth rates lessens, not only on account of the redistribution struggle waged by the middle strata as they increase their capacity to claim their share and to defend the ground already won, but also because of the sometimes considerable expansion of State services and, among these, of military expenditure, likewise in imitation of the more and more costly patterns of the centres. Another contributory factor, too, is the spurious absorption of the labour force.

3. The crisis of the system and liberalism

A point is thus reached at which the surplus ceases to grow more rapidly than the overall product. True, it has reached its maximum, and if it could stay at this, increasing at the same rate as the total product, it could continue to develop regularly and to act as the

driving force of the consumer society, provided that the redistribution struggle were to stop at that limit. But there is no reason why it should stop there, when there is still a vast amount that could be redistributed. As already noted, the play of power relations is not guided by any regulating principle of equity. And as the struggle advances beyond the aforesaid limit, the upper strata show that although they have had to share political power with the middle and also the lower strata, they still have at their disposal, thanks to their economic power, some very important weapons. These are the monetary mechanisms whereby they can recoup themselves for the effects of the struggle and of State expenditure, shifting the burden to others by means of price increases. Thus the inflationary spiral coils upward in a new type of social inflation which frequently combines with the traditional inflationary pressures.

The spiral brings with it economic disorder and social disintegration. And this, sooner or later, induces the upper strata to resort to another of the State's instruments: the instrument of force. Its use serves to restore the dynamics of the surplus, which is at the same time the dynamics not only of accumulation but also of the privileged-consumer society, since the two are inseparable in the system. The trouble is that this is done at the expense not of the few that consume much but of the many that consume little.

The political and social cost of the re-establishment of the privileged-consumer society is therefore huge.

The march of democracy, then, would appear to be incompatible with a society of this type. Once certain structural phases have been left behind, the political process tends to move faster than the economic process, since the latter, although very intensive, evolves within the narrow confines of the consumer society, whereas advancing democracy strives to extend the benefits

of development to large social groups to which the play of market laws is unfavourable.

It is true that the crisis of the system becomes more remote when abundant resources obtained by the State from the exploitation of a country's natural wealth make it possible, over a more or less prolonged period, to meet at one and the same time the demands of the privileged strata and the redistribution pressures of the disadvantaged labour force. But not on that account does the tendency to exclude the lower strata disappear.

It is not surprising that the upholders of economic liberalism attribute the crisis to the violation of market laws by the intervention of the trade-union and political power of the labour force. This is a fundamental misconception which it is worth while to expose forthwith, in order to give a clearer idea of the nature of the system, although in due course we shall expatiate further on so important a subject.

Liberalism resorts, of course, to neoclassical theories to substantiate its assertion. But these theories overlook the structural phenomenon of the surplus, since they argue that an increase in productivity, in a fully competitive system, will spread its influence throughout the community via a rise in the pay of the labour force and a fall in prices. It is my aim to show that the surplus is generally retained and augmented under the sway of market laws, even though competition may be fully and unrestrictedly operative.

The surplus derives from the economic power of the upper strata and forms an integral part of the system, as does likewise the power of participation of the labour force at advanced stages of its evolution. It is true that the conflicts which this involves inevitably lead to a crisis. But such is the system with its exclusive and conflictive tendencies.

To these tendencies neoclassical theory

turns a blind eye. It maintains, on the contrary, that the system, left without interference to its own devices, tends to strike a balance wherein both economic and social efficiency are achieved. The line of reasoning followed is strictly logical, but it starts from unrealistic premises.

The fact that the neoclassical arguments are out of keeping with the realities of peripheral capitalism does not imply that they lack practical influence. Economic theories, indeed, are not as a rule accepted solely for their intrinsic value, but to satisfy interests and aspirations on the part of those who carry enough weight to impose them. Thus, when the use of force is invoked as a means of dealing with the crisis of the system, conditions become favourable to the application of certain principles of economic liberalism, suitably brought into line, however, with the interests and aspirations in question, and not always followed with intelligence and virtuosity. The only thing is that this belated refflorescence of economic liberalism entails the stifling of political liberalism.

Although both spring from the same philosophical source, they end in spectacular antagonism. Nor could it be otherwise, owing to the distortion of economic liberalism by the serious implications of that strange phenomenon, the appropriation of the surplus, so alien to the lofty spirit of its arguments.

4. *Centre-periphery relations*

This resurgence of economic liberalism likewise extends to centre-periphery relations, since neoclassical theories stubbornly disregard the structural disparities that make for external bottlenecks in the periphery, as well as the play of power relations, which exert so great an influence on the international distribution process under the hegemony of the centres, especially that of the main centre of capitalism. Nor is it other than incongruous,

although very understandable, that economic freedom is invoked in order to promote the expansion of the transnational corporations in the periphery, as if they were the most authentic expression of free competition in the peripheral markets.

The transnational corporations date a long way back into the past. Formerly they exploited the natural resources and public services of the periphery —and to some extent still do so— and now they are zealously exploiting innovations which in the centres are ceasing to be such. And their oligopolical characteristics are manifest.

Nevertheless, the transnationals could not have assumed so important a role in the periphery without the privileged-consumer society, although in their turn they have done much to place it on its exalted footing. In fact, a very strong bond of reciprocal interests is being forged between the transnationals and the advantaged strata.

Let there be no misunderstanding. This supremely important role of the transnational corporations should not beguile us into carrying its interpretation too far. If they were to vanish by magic from the periphery, the surplus would not therefore disappear, nor would the system be cured of its exclusive and conflictive tendencies. Neither would that event alone remedy the structural disparities in centre-periphery relations. But the all-too-well-known phenomena of dependence would undoubtedly be mitigated.

We have already said in another study that if full use were made of the surplus for capital accumulation purposes, i.e., if the privileged strata earmarked a larger proportion of their income for accumulating more capital, instead of indulging in extravagant consumption, the rate of absorption of the labour force would be speeded up, especially in the lower strata, and distribution would be progressively improved. The system would approach

social efficiency. But instead of relying on its own accumulation effort, it resorts to the transnationals, so that others' hands may do what could largely be done by its own, through full utilization of the surplus potential.

Whichever way one looks at it, if the advantaged strata accumulated more capital, the privileged-consumer society would not expand to so striking an extent; and the transnationals would not find such fertile soil for exploiting the innovations which give an exaggerated impetus to demand, if no such social aberration of peripheral capitalism occurred.

5. The role of the market

Economic liberalism assigns to market laws the leading role in the regulation of development. And its refutation frequently leads to a corresponding repudiation of the market.

I do not believe for a moment that the market is the supreme regulator of the economy. Nevertheless, it does have a great deal of economic and also political significance. This I unreservedly acknowledge in order to clear up possible confusions at the outset.

The market is invoked as a spontaneous mechanism for the allocation of capital and other productive resources, as a function of demand, and always provided that competition is working properly. But the demand in question derives from a particular distribution of income which, in turn, is the product of a specific socio-economic structure and of the power relations stemming from that structure and from the changes taking place in it. As we have already seen, this distribution is highly inequitable, and moreover, leaves a considerable proportion of the population on the sidelines of development. Market laws might therefore be said to represent a rational solution, though only for the pri-

vileged strata: it is by no means rational from the standpoint of the community at large, an assertion which of course involves a value judgement. And there can be no doubt that neither is rationality achieved when the trade-union and political power of the middle strata attempts to counteract market laws.

Nor is it possible to speak of the sovereignty of the consumer from the angle of demand. Under a competitive system, nobody forces anyone to buy what he does not want; people buy what they want when they have the means to do so. But what they want is largely the product of the art of collective suggestion which is practised increasingly with the prodigious development of the mass communication media. Sovereignty subject to direction! A very clear case in point is the ambivalence of technique: it serves to inform, but also at the same time to deform. The negative side of this ambivalence is set over against the positive with respect to the sovereignty of the consumer. And there is no counterweight whatever in the mass communication media at the service of the consumer society.

Strictly speaking, the market has no social horizon. Under a system which had a horizon of this kind, that is, which would solve the accumulation problem on collectively rational lines and at the same time progressively reduce the great distributive disparities, the market might come to be an efficient mechanism.

Of course the way to give the market such a horizon would not be by changing its traditional name. Some liberal economists of the periphery nowadays talk of the social market economy; a fresh proof of the intellectual dependence prevailing in our countries, since that term was coined in very highly developed countries where poverty has been eliminated—save in a few of its strongholds— thanks to a long period of capital accumulation. Nevertheless, although the distribution struggle has

taken a disconcerting turn, the social content of development is very high in those countries. Could the same be said of the periphery?

Needless to say, the market is responsible neither for the great distributive disparities nor for the waste of capital accumulation potential which prevents the social integration of the lowest strata. The market cannot be held responsible: but neither can we talk of a social market economy if the major defects of development are reflected in it. The important thing is to ascertain what lies behind the market in the social structure.

Much more serious still is the incongruity seen to be when it is recalled that the use of force to bring the system back into smooth operation means sacrificing the consumption of vast social strata so that the upper strata may regain and even improve their position in the privileged-consumer society.

Nor has the market a time horizon. When enterprises calculate the combinations that are in their best interests they do not include in production costs the effects of their decisions on the ecological and human environment, or on the future availability of non-renewable natural resources. Their concept of economic efficiency does not generally stretch much farther than their immediate interests, which must be distinguished from the collective interest as viewed from a long-term standpoint.

In short, it is a mistake to blame the market for the faults of the system; rather is it the expression of those faults. This point needs stressing because it is sometimes maintained that to avoid those defects the transformation of the system would have to include the abolition of the market.

Such a step would inexorably lead to summit decisions as to what should be consumed and what produced. It implies, in fact, the abolition of economic freedom

—even that limited measure of freedom that the play of market forces permits.

6. *Change and development ethics*

The transformation of the system must give the market social efficiency, and, further, ratify the individual's essential right to be free to choose his work and express his consumer preferences: all this as an integral part of a broader human conception whose impairment cannot but be attended by very grave consequences. It is a question of one of the basic rights of man, vitiated though they now are by the socio-economic structure.

If the aim pursued were to abolish the market altogether, all the means of production would have to be concentrated in the hands of the State, so that it could adopt the necessary decisions on consumption, production and employment.

This socialization of the means of production, by handing over their entire management to the State, would endow it with invincible political power, totally at variance with the conception of a democratic society and of human rights, the attainment of which, in despite of great historical vicissitudes, counts as one of the loftiest achievements of Western civilization.

A fundamental distinction must be drawn between socialization of the means of production and the social use of the surplus for the purposes of capital accumulation and income distribution. Independent management of the means of production is perfectly compatible with this social use of the surplus. I am speaking of the independence of major enterprises in relation both to the State and to the private interests which at present hold most of the means of production in their hands.

Two centuries of belief in the efficacy of the market as a regulating mechanism

have prevented the emergence of a development ethic, which would seem to be an indispensable requisite in face of the ambivalence of technique. Thanks to technique, an almost unimaginable increase in human welfare has been achieved for most of the population of the centres. A Utopian dream has become reality. And the periphery has the singular privilege of enjoying access to all that the centres had to spend a long time involving, at the cost of considerable sacrifices. Technical progress has afforded us benefits that a few generations back would have been inconceivable. But all this has gone hand in hand with very serious and flagrant negative consequences.

The fact is that the private-interest motivation which is the driving force behind the application of technique is not calculated to resolve the problems of ecological deterioration or the irresponsible exploitation of non-renewable natural resources. Even if some futurologists exaggerate the danger that this represents, there is an undeniably essential need to try to envisage the future, in the light of very potent ethical considerations.

Neither market forces nor politics, as a rule, look beyond immediate considerations. In the case of politics, attention is generally confined to the aspirations and interests of those who are already living on this planet, but no thought is given to its future inhabitants, though the future constantly draws closer to the present. Who are the representatives of those that do not yet exist? Only an ethical concept which introduces into politics a time horizon, a great sense of responsibility to the future, can provide an answer to this question.

What relevant knowledge we already have calls imperatively for foresight; and so does the knowledge that might be gained through scientific research. Voices fully authorized to utter such an opinion agree that biological research, in its present

phase, has reached a degree of potential for catastrophe with which it would be impossible to cope without the guidance of certain ethical principles.

A concept of moral responsibility in demographic questions is also required, since those who are not yet born are not yet represented either, and if that responsibility is not shouldered the future will bring with it grave problems of human coexistence.

The lack of moral responsibility in the face of a present whose evils are glaring, and a future which holds out both promises and threats, is leading to a tremendous frustration of development: a frustration which has not yet been reflected, either in the centres or at the periphery, in a change of attitude that may promote the transformation of the system.

As part of this change of attitude, the surplus too must be viewed in the light of a development ethic. It would then have to be asked: To whom does the surplus rightly belong? There is no scientific reply to this question.

Since the surplus consists in that part of the fruits of technical progress which is not transferred to the labour force because of the great heterogeneity of the periphery's socioeconomic structure, it might be thought that it is to the labour force that the surplus should belong. To which labour force? To that employed at higher levels of productivity thanks to capital accumulation? Let us assume so for a moment. If in the play of power relations the surplus were transferred to these workers, the capital accumulation problem would not thereby be resolved; rather would it be aggravated, and thus intensify the exclusive tendency of the system, to the serious detriment of the lower strata.

A Latin American sociologist, referring to these strata which the system fails to absorb, and which consequently do not generate a surplus, asserts that the system

exploits them by extension. In that case, if the surplus were distributed to the labour force absorbed in technological layers of increasing productivity, would this latter also assume the role of exploiter, by extension, of those remaining in the lower layers of technology, and therefore in the lower strata?

And in the case of a natural resource whose extraction, thanks to technical progress, requires a relatively small labour force, should the surplus thus obtained fall to the labour force concerned?

And what is the part played by the scientists and technologists responsible for the innovations that increase productivity? Should the surplus be assigned to those who are participating in the process today, or is it also the due of those who did so yesterday? If we were to adopt the latter criterion, would it not be somewhat like trying to do retrospective justice to those great artists of the past who lived and died in penury, while nowadays fabulous prices are paid for their works?

Here again there is no scientific solution. The solution is fundamentally ethical: to build up the surplus and use it for capital accumulation purposes in order to convey the advantages of development to all; and to do so, moreover, with a distributive discipline based on ethical considerations that could never justify the arbitrary element at present implicit in the play of power relations.

7. The attitudes of the centres

It must be acknowledged that the centres are increasingly aware of the serious problems deriving from the ambivalence of technique; but they obstinately close their eyes to the effects of technique when it penetrates into the socio-economic structure of the periphery. Of course they attach

importance to its enormous potential for human welfare, but not to the new and intricate problems which it poses. Among us, too, very few have come to be convinced of the contradictions involved. I have no hesitation in saying this, for the deeper I go into these questions, the less I share certain attitudes on the part of those who seek to absolve us of our own moral responsibility by laying the blame for all the evils of the periphery upon the centres.

Responsibilities must be shared. And the brunt of them must be borne by the powerful. In this case the powerful are not only the centres but also those who enjoy in the periphery the privileges of the consumer society.

To put it bluntly, the responsibility for transforming the system is our own. But the discharge of this responsibility, extremely difficult in itself, would be much more so still if the centres were to shirk their own responsibility for co-operation, which, after all, apart from its moral aspect, is also a matter of their own economic and political interest, if they look far enough ahead to rise above the short-term interests by which they are ruled.

There are few symptoms of their having any inclination to do so. Moreover, they are a long way from understanding the problems of the periphery, although understanding them is not everything. As U Thant, used to say, their respective positions are very well understood both by the spider and by the fly caught in its web!

In the thirty years of CEPAL's existence I have watched a whole procession of uncomprehending attitudes on the part of the centres and the periphery alike. And something more than uncomprehending, for in the case of the centres they were accompanied, especially in the early days, by a certain intellectual condescension, if not arrogance, *vis-à-vis* the initial efforts to achieve authenticity in the interpretation of our own development phenomena.

In those early days the old theory of the international division of labour prevailed, and was fully endorsed by the periphery; hence CEPAL's thesis of industrialization as an indispensable requisite for development.

Equally serious was an attitude which is far from having disappeared, and which consists in selecting some partial and fragmentary aspects of development on which to preach 'sound doctrine', sometimes, often in fact, in admonitory accents.

The solution of the development problem, we were told over and over again, is a question of population. Take deliberate measures to influence its growth, and leave the forces of the economy free to act, with the transnationals to help them on! In this way the need for financial co-operation was also evaded. Did not a leading figure in the United States say that one dollar spent on birth control was worth a thousand dollars in contributions of international resources?

Next it was the turn of education. Who can deny its significance, not only economic but also cultural? But in this fragmentary view of a global phenomenon it was often forgotten that the education problem could not be dealt with or resolved outside the context of development and of the inescapable need to speed up accumulation and alter the composition of capital.

8. *The discovery of peripheral poverty*

The accent has now been placed on critical poverty and basic needs. Some economists in the centres have belatedly discovered this phenomenon of poverty. They are, of course, unaware that with reference to Latin America critical poverty is another of the serious problems that we have sought to highlight, above all in various CEPAL reports dating from some time back; and among them the last that

it fell to me to present to the governments, in the year 1963. I do not hesitate to reproduce here what was stated then:

"On the basis of conjectural data, it may be estimated that about half the existing population has a tiny average personal income of 120 dollars a year. And this vast social aggregate accounts for only about one-fifth of total personal consumption in America, showing the highest coefficients of undernourishment, poor clothing and worse housing, as well as of disease and illiteracy; and, at the same time, the highest rates of reproduction.

"It is here that the development effort must primarily be concentrated. The notion, which dies hard, that development takes place spontaneously, without a rational and deliberate effort to achieve it, has proved to be an illusion, both in Latin America and in the other peripheral regions of the world. For a century now our economies have been linked to the international economy, and fifty per cent of the population is still stagnating in pre-capitalist conditions which are incompatible with its growing economic and social aspirations.

"Even so, average per capita income in Latin America is appreciably higher than in other peripheral regions, and thus affords an advantageous starting-point for the realization of what is no longer a utopian dream; the eradication of poverty and its inherent evils, by virtue of the tremendous potential of contemporary technology and the possibility of assimilating it more quickly than was the case with the capitalistic evolution of the more advanced countries.

"However, this rapid penetration of technique demands and brings with it radical changes: changes both in the pattern of production and in the structure of the economy which could not be effectively brought about without a basic reform of the social structure".³

Language of this kind might have been described as extreme in those days of lively ideological contention between the two superpowers, reflected as it naturally was in the mirror of imitative peripheral capitalism.

When this question is raised in the centres its deep significance is seldom grasped. Judging from the copious literature on basic needs that has appeared of late, I greatly fear that the intention is to deal with the problem of poverty in isolation, perhaps with a praiseworthy measure of philanthropy, but thereby sidestepping the fundamental issue of the transformation of the system and international co-operation.

Since the time of which I was speaking, however, a lot of water has flowed under the bridges, and today we have Mr. McNamara, President of the World Bank, drawing the attention of governments in moving terms to the persistence of poverty alongside prosperity, even in peripheral countries where the rate of development is high. And in his persuasive address Mr. McNamara eloquently declares:

"Not only are the central public services often out of financial and geographical reach of the poor, but such facilities as are in place may be so inappropriately designed as to be virtually irrelevant to their needs; impressive four-lane highways, but too few market roads; elaborate curative-care urban hospitals, but too few preventive-care rural clinics; prestigious institutions of higher learning, but too few village literacy programmes.

"Public services that are not designed modestly and at low cost per unit will al-

³CEPAL, *Towards a Dynamic Development Policy for Latin America* (E/CN. 12/680/Rev. 1), United Nations publication, Sales No: 64.II.G.4, pp. 3-4.

most certainly end by serving the privileged few rather than the deprived many."¹

Absolutely true. But a further step needs to be taken along this road on which the President of the World Bank has made so timely a start. The extravagances that so rightly cause him concern go along with the privileged consumer society. The problem of poverty cannot be effectively combated unless the brakes are energetically applied to that society in order to accelerate the rate of domestic capital accumulation, and unless new relations with the transnationals are established.

I am not suggesting that Mr. McNamara overlooks the need for capital accumulation. On the contrary, he more than once stresses the necessity of speeding up its pace. The President of the World Bank has shown that he really has a clear and vigorous conception of peripheral development and of its international co-operation requirements.

I am inclined to think, however, that his choice of rural poverty as the keynote of his address perhaps reflects his disconcertment at the persistent reluctance of the centres and the periphery to face up resolutely to the basic problems.

And in the centres there are a good many who believe that to combat critical poverty with a modicum of international resources would have the merit of mitigating the periphery's tenacious insistence on the need for a new international economic order.

Of course, to eliminate rural poverty, agricultural productivity must be increased and substantial changes in the land tenure régime must also be faced. But here comes into play a universal law,

well-known and alien to economic systems, i.e., that an increase in productivity over and above certain fairly narrow limits creates a labour surplus; and these redundant workers could only be absorbed if the rate of capital accumulation were stepped up in industry and in other activities. Furthermore, how would it be possible to raise the productivity of the marginal workers of the periphery, from hawkers and peddlers to bootblacks? A problem of absorption in higher-productivity layers of technology!

In the lower strata there is, of course, a potential demand for goods and basic services; but that does not mean that it will be converted into effective demand, since incomes are very small. And they are small because the labour force in these strata is working in very low-productivity layers of technology. What is more, the labour force already absorbed in technological layers with higher productivity has been unable to raise its income correlatively because of the regressive competition of the manpower left in the low-productivity layers or in the ranks of the unemployed.

It is therefore essential to shake off the far from uncommon propensity to single out particular aspects of an overall problem. And the worst of it is that this mistake is sometimes committed by people of intellectual authority. Perhaps the following reminiscence may serve to illustrate the point.

When I visited a number of governments on the eve of the first Conference on Trade and Development, I went to a meeting in the Department of State in Washington, at the end of 1963, if I remember rightly. As I urged, among other requirements, the need for the periphery to undertake and expand industrial exports under the aegis of a preferential régime, an eminent professor, well-known for a book on development that was in vogue for a time, raised an objection in roughly the following terms:

¹Address by Robert S. McNamara to the 1977 Meetings of the Boards of Governors, *Summary Proceedings*, World Bank, Washington D.C., 1977, pp. 25-26.

Why think of that if the solution lies in increasing the productivity of agriculture, which is so low in the periphery? My reply was short, and based on the logical sequence of CEPAL's arguments: higher agricultural productivity, vigorous encouragement of industrialization, and expansion of industrial exports in order to achieve a degree of economic efficiency which could not be attained by merely going on with import substitution policy.

A simple and categorical conclusion. To insist separately upon any one of these partial aspects, although it has indisputable merits, incurs the risk of diverting attention from the global development problem, which calls for fundamental transformations, as well as for far-reaching changes in the conception of international co-operation.

9. A global theory of peripheral development

The foregoing comments once again demonstrate the need for a development theory such as will not only have scientific validity as a response to the peripheral situation, but will also clear the way for a rational transformation of the system: ethics to promote the transformation, rationality to carry it out.

Neoclassical theories will be of little use for that purpose. In them, as in others opposed to them, worked out in the centres, there are some theoretical observations which have helped to elucidate peripheral development phenomena, alongside some interpretations in which a disconcerting tendency to over-simplify is apparent. These theories are widely preached in the periphery in default of a complete and autochthonous interpretation of the phenomena in question: in default of a theory with scientific validity, a theory of global scope.

Global in a twofold sense: regarding peripheral development as an integral part of the overall phenomenon of capitalism, and, in addition, interpreting it as a process that is far from being merely economic. An interpretation of development cannot be confined within such narrow bounds.

In my inability to conceive of a purely economic theory of development, I come up against strong opposition on the part of the neoclassical economists who skim over the periphery's social structure and its great disparities with the structure of the centres as if they were walking on hot coals. In fact, they are blind to these structures, as they are blind to the structural phenomenon of the surplus; and they disregard social and political elements as exogenous factors which disturb the harmonious course of events.

As regards the first requirement — that of a global approach — the theories formulated in the centres make a false claim to universality. The neoclassicists, like the Marxists and the Keynesians, disregard the periphery. Perhaps they have no need to take it into account, since their starting point is a dogmatic notion that the interpretation of the capitalist process in the centres is valid for the periphery too: a notion which has a logical corollary, namely, that what is good for the centres will be good for the periphery as well.

Obviously, what is required is a universal development theory, not one theory for the centres and another for the periphery. A theory is needed that covers centres and periphery in all their complexity, analysing the structure of both as well as the wide disparities they present, the power relation that emanate from the different structures, and the processes of propagation and irradiation from the centres, with their effects on the imitative capitalism of the periphery — processes which develop under the hegemony of the centres,

especially of the main dynamic centre of capitalism.

The development of peripheral capitalism is part of a universal manifestation of the evolution and expansion of technique, which in the past originated, and still ceaselessly continues, in the great capitalist centres. Hence our centre-periphery model, far from being a static conception, has been gradually enriched with new and deeper contributory elements.

I said a little earlier that development could not be confined within the narrow bounds of an economic theory, since in it intervene technical, social, political and cultural factors, in addition to those of a strictly economic character. If methodological considerations have led theorists to examine them separately, prompted at times by an understandable itch for theoretical specialization, the time has now come to deal with them in all their intricate complexity and elucidate their inter-relationships. And this must be done in order to get closer to the reality which it is sought to transform. To talk of economic solutions in relation to peripheral development without taking into account the other components referred to above, as is the habit of those addicted to neoclassical theory, is a tragic error from which, unquestionably, we are not exempt at the present day. Let the political and social obstacles hampering the free play of economic forces be removed—it is once again urged—and the system will become perfectly efficient! The only trouble is that thus to attain the plenitude of economic liberalism and surmount the crisis of the system entails the sacrifice of democratic liberalism, with all that it means for individual liberty and the validity of human rights.

10. *Need for new options*

However, this political regression cannot continue indefinitely, because of the very

wear-and-tear of the use of force and the reactions this brings in its train. Sooner or later the return to democratization becomes inevitable. But if the process is not accompanied by a substantial transformation of the system, I greatly fear that it will once more end in an interplay of power relations which, with the passage of time, and not much time at that, will again upset the regular functioning of the economy and bring about social disintegration.

I am deeply concerned lest the system, because of its serious imperfections, may have its outcome in a succession of political cycles, with periods of democratization followed by periods of political repression and aggravation of social inequality.

In face of this disconcerting prospect a heavy responsibility is incumbent upon those of us who have to do with peripheral development phenomena: a responsibility which we are very far from having effectively shouldered hitherto. But what options have we been able to present to the political decision-makers and to the agents of force? Only two extreme alternatives: that of economic liberalism, which inexorably demands the sacrifice of democratic liberalism; or that of transferring the means of production to the State and concentrating their management in the hands of those who hold political power at its summit levels—a political power which thus becomes unassailable.

Under the first of these options, the democratization process is suspended. Under the other, it is replaced by a fundamentally different conception of the political régime and of human rights.

Thus it is easy to understand the tormented perplexity of those who believed in the feasibility of the advancement of one of humanism's greatest conquests, which, despite the inestimable values implicit in it, has not yet found expression in a distribution ethic. On the contrary, any such ethic the system flagrantly disregards.

It would seem that new lines are now being opened up in the evolution of *avant-garde* political thought. The concept of the dictatorship of the proletariat, or whatever it may be called, is being abandoned, and in its place the concept of democratic pluralism is gaining strength. But will pluralism be possible if economic and political power are concentrated in the hands of the few that direct the whole system?

Long experience and earnest thought have led me to the conclusion that this concentration of the means of production and their management is incompatible with the progress of democracy. We cannot, therefore, shirk the responsibility of which I spoke. A new way must be sought to reform the system on the basis of a strong sense of economic efficiency and distributive equity, and, at the same time, of observance and progressive reinforcement of the essential principles of democratic liberalism.

It is the option of an all-embracing synthesis which cannot be much longer deferred.

Unquestionably, this calls for changes in the power structure, since no radical transformation could be brought about without them. But what is to be done afterwards? In what does the transformation of the system consist? This is the question that must be discussed with lucid objectivity, though not, of course, without deep human feeling too. But it must be done in full knowledge of the system that is to be transformed, in precise awareness of where its great defects lie.

The object of this second article of mine is to contribute to the discussion in question, and at the same time subject my ideas to the refining influence of criticism, however implacable it may be. It follows my former article on "A critique of peripheral capitalism" and precedes a final one on a "Theory of change".

I

Preliminary outline

1. *Nature of peripheral capitalism*

Peripheral capitalism is essentially imitative, in contrast with the innovative capitalism of the centres. Under the hegemony of these latter, it opens its doors wider and wider to their capital and to their technique; to their consumption patterns and other cultural manifestations; to their ideas, ideologies and institutions.

These processes of propagation and irradiation are occurring within a socio-economic structure—that of the periph-

ery—which, as will be seen later, is fundamentally different from that of the centres, owing, among other factors, to the long time-lag with which development has been taking place.

Thus peripheral capitalism differs from that of the centres in major respects; it is evolving in accordance with its own specific character, however much it may propose to do so in the centres' image and likeness.

The peripheral socio-economic structure generates power relations which lar-

gely determine the striking disparities apparent in the distribution of the fruits of the increasing productivity that the propagation and irradiation of technique brings in its train. Herein lie the origins of the exclusive and conflictive tendencies that characterize the system.

The rate of development depends primarily upon the rate of accumulation of capital (in the shape of goods and training of human resources): capital accumulation which makes it possible to absorb in more efficient and higher-productivity layers of technology the labour force employed in preceding technological layers of lower productivity and efficiency.

2. The surplus and its structural significance

The disparities referred to above have their roots, in the last analysis, in the appropriation of the fruits of increasing productivity by the owners of the means of production—whether land or capital—in the course of the labour-absorption process.

These are essentially structural phenomena; in the periphery a considerable degree of heterogeneity exists in the socio-economic structure, in which there is a vast labour force with scant productivity and efficiency employed in lower layers of technology where traditional production patterns prevail. This prevents the labour force that is obtaining employment in higher layers, where technical progress is incessantly taking place, from increasing its earnings correlatively with the increase in productivity. Only a relatively small fraction of this labour force has the capacity to share spontaneously in the fruits of technical progress. Thus the owners of the means of production retain in their hands, in addition to their entrepreneurial remunerations, that part of the fruits of

higher productivity which we have called the surplus. The growth of the surplus, and its indefinite retention and circulation are of fundamental significance in the dynamics of peripheral development.

3. Concentration and inequality in possession of the means of production

Ownership of the means of production is also very unequally distributed, and this inequality is becoming more marked. The new technological layers which peripheral enterprises superimpose on the preceding layers generally require a steadily increasing amount of capital, which is more readily available, thanks to the surplus, to those in whose hands capital is concentrated in the upper strata of the structure. And since these new layers mean higher productivity, the resulting additional surplus which is partly earmarked for the accumulation of capital, thus tends to become more concentrated still.

Accordingly, concentration breeds concentration. In this way the economic power of the upper strata is strengthened in the spontaneous interaction of market laws.

The lower one looks down the scale of possession of means of production the smaller the surplus becomes, not only because the means of production decrease in volume, but also because this quantitative decrease makes it difficult to adopt more advanced techniques.

Ownership of capital is minimal in the lower strata, and consequently so is the surplus; the principal component of its owners' income consists in their meagre entrepreneurial earnings. The propagation of technique thus tends to benefit the strong at the expense of the weak.

4. Increasing income disparities

Similarly, the market laws make for more and more inequality in the earnings of the

labour force. Under their rule, the small proportion of this latter which is in a position to share in the fruits of higher productivity is that equipped with the ever-increasing technical, administrative, executive and professional skills demanded by the propagation of technique and the complexity of development.

The acquisition of these skills is largely dependent upon the social power of the upper and upper-middle income strata, whose financial position enables them to take advantage of the educational and training opportunities provided mainly by the State.

Participation in the fruits of greater productivity is on a diminishing scale. In the middle strata, while market laws operate unrestrictedly, the capacity for participation of most of the labour force absorbed in technological layers where productivity is increasing is all the smaller, the more it is exposed to the regressive competition of the many working in lower-productivity layers of technology.

Moreover, with the progress of development a tendency emerges to exclude this labour force employed in the less productive technological layers, where most of the lower strata in the social structure are to be found.

This tendency is fundamentally due to waste of the capital accumulation potential of the surplus. It is wasted because the strata favoured by the distribution pattern imitate the consumption of the centres, and because part of the surplus is siphoned off by the centres themselves. The strata in question are those that form the privileged-consumer society.

A pause must now be made for an explanation, in somewhat brief outline, which will give a clearer idea of the nature of the labour absorption process and the exclusive tendency of the system.

5. *The labour-absorbent role of capital accumulation*

The pace of absorption depends both upon the growth rate of productivity and upon that of reproductive capital accumulation. *Ceteris paribus*, if both rates were constant, that of absorption would also be so, as well as the growth rate of the total product.

The rate of increase of the surplus, however, would not be constant but rising. As we already know, part of the increment in productivity is not correlatively transferred to that great majority of the labour force which distribution leaves at a disadvantage. Consequently, the latter's income increases less and the surplus more than the product.

Now if the surplus were allocated in its entirety to reproductive capital accumulation, the rate of accumulation would rise, and so would the rate of absorption and, therefore, the growth rate of the product, even if the rate of productivity were to remain constant. But with this more intensive absorption of manpower from the low-productivity layers of technology the differences between technological layers would diminish. In this way two highly important effects would supervene; in the first place, the tendency to exclude the lower strata would be weakened; and, secondly, the capacity of the middle strata to share in the fruits of higher productivity would improve, as the labour force was absorbed in new layers of increasing productivity. The system would gradually acquire social efficiency.

But this does not happen, because of the persistence of the privileged-consumer society and its waste of the capital accumulation potential of the surplus. The more this potential is squandered, the feebler become labour absorption and the capacity for participation of the middle strata, under the rule of market laws.

6. *Redundancy and spurious absorption*

In addition to the tendency to exclude the lower strata, there is another aspect of the absorption problem which aggravates the social inefficiency of the system. I am referring to redundancy, *i.e.*, the situation of the manpower which, owing to the increase in productivity, cannot find jobs, or is turned off, and fails to be spontaneously incorporated into the system because insufficient use is made of the capital accumulation potential.

Redundancy is essentially due to the rise in the rate of productivity resulting from the incorporation of new layers of technology, and to the increase in the growth rate of the labour force.

The higher the growth rate of productivity, the higher the rate of reproductive capital accumulation will have to rise, if the rate of absorption of the labour force is to be kept constant. This could be achieved by virtue of the larger surplus which that increasing productivity brings with it. But here once again we come up against the privileged-consumer society and the siphoning-off of income by the centres. Since the increment of the surplus is dissipated in this way, instead of being allocated to reproductive capital accumulation, part of the labour force is left redundant in consequence of the higher rate of productivity.

If, as in the foregoing case, there is no improvement in the rate of reproductive capital accumulation, a rise in the growth rate of the labour force of course aggravates the redundancy problem.

7. *Economic efficiency and social efficiency*

The preceding explanations afford a better understanding of the dynamics of peripheral capitalism. The concentration of

the means of production in the upper strata, and the fact that the surplus grows more rapidly than the product, thanks to the rise in productivity, have a twofold result: the strata in question can expand their consumption and at the same time a high enough rate of reproductive capital accumulation can be achieved for the surplus to continue to increase. But these two effects, characteristic of the privileged-consumer society, are obtained, as has already been remarked, at the expense of the absorption of the lower strata and a better chance for the bulk of the middle strata, whose capacity for participation is only slight.

Thus a high degree of economic efficiency within the narrow limits of the privileged-consumer society may be accompanied by increasing social inefficiency.

It will now be understood why we have stressed the importance of propagation and irradiation from the centres in the social structure of the periphery. The diffusion of technique and the unequal structural distribution of the fruits of increasing productivity facilitates the propagation and irradiation of the centres' consumption patterns through the ever-strengthening influence of the mass communication media and the penetration of the transnational corporations. Meanwhile the techniques that protect and prolong human life make for a high rate of population growth, which generally rises all the more, the lower down one looks in the social structure.

In this structural distribution of the fruits of increased productivity great importance attaches to the economic power of the owners of the means of production concentrated in the upper strata, as well as to the social power of a modest fraction of the labour force in those and — principally — in the upper-middle strata.

There are undoubtedly individual differences, both among the owners and

within the labour force. Those who have the most drive, dynamism and individual ability rise above their social stratum and find a niche in the strata higher up. Thus they acquire economic and social power which augments their capacity for participation and their imitation of the consumption patterns of the centres. In this way they may contribute to the economic efficiency of the system while at the same time aggravating its social inefficiency.

8. *Diversification of demand and employment*

As productivity increases, the growth rate of the total product outstrips that of the labour force; this is, in essence, the meaning of development. And as the product grows, total income grows too, and so does demand, which is ceaselessly diversified by virtue of technical progress, in respect of both goods and personal and State services.

Since great disparities exist in income distribution, they are also to be found in the degree of diversification of demand; and the more rapidly the income of the privileged strata rises, the more widely diversified does demand become.

This shows how close is the link between structure and diversification, since the economic and social power of the privileged strata is, after all, the determining factor in the unequal growth of demand.

Diversification is accompanied by very important changes in the composition of the capital accumulated and in the employment of the labour force; and these changes in their turn influence power relations, income distribution and diversification itself. Such is the mutual interdependence of these phenomena.

As far as goods are concerned, diversification is relatively slight in respect of foodstuffs, for well-known reasons, whereas it is increasingly extending to industrial goods.

This disparity in demand accounts for the shift of labour from agriculture to industry, and also to those services which are diversified in consequence of the increase in productivity.

Thus agriculture and the agricultural labour force are apt to be relegated to the bottom of the social structure; low-productivity layers of technology prevail in them, and low social strata with tiny incomes. The waste of the surplus indefinitely postpones the absorption of this labour force into technological layers where productivity is increasing, while at the same time the relatively slow pace at which demand for foodstuffs rises, in comparison with demand for other goods, tends in itself to create redundancy in agriculture, which remains unremedied because of the system's insufficient absorption capacity. Situations like this occur mainly in agriculture for domestic consumption; and they are made worse by the increase in productivity which takes place in agriculture for export when external demand encourages capital accumulation and technical progress. The redundant manpower remains on the land or migrates to the towns.

Thus regressive absorption supervenes. This is not upward absorption in technological layers where productivity is increasing, but the kind of absorption that takes place mainly when the strata that distribution favours enjoy personal services which are wretchedly ill-paid. This regressive absorption would not occur if accumulation of reproductive capital were adequate.

9. *Deterioration of income relations*

The social inefficiency of the privileged-consumer society becomes apparent, therefore, principally in the agricultural labour force and in the personal services representing regressive absorption. The in-

come of these workers tends to deteriorate in the course of development, especially in relation to the income of the labour force which has some capacity to participate in the fruits of increased productivity. The deterioration is still more serious when the earnings of these strata relegated to the bottom of the social structure are compared with the incomes deriving from the surplus at the top.

Both this deterioration and the redundancy described above are likewise observable, although generally in a less acute form, in the production of goods which, not being very advanced, suffer the consequences of the shift of demand, as diversification proceeds, towards more technically refined and costly goods. And the relative prices of such goods may also deteriorate. This happens mainly in the case of agricultural commodities, especially when there is land available to increase production; and still more when productivity and supply outgrow demand. And if, in contrast, land is in short supply, its product —the agricultural surplus— is appropriated by the landowner in whose hands it is concentrated. Price relations will deteriorate very slightly or not at all, or may even improve, but income relations will always worsen as long as the absorption of the lower strata is indefinitely deferred.

10. *Reproductive and consumptive capital*

Diversification, given the social structure and the changes it undergoes, usually accentuates the exclusive tendency of the system. The more and more technically advanced goods in which it manifests itself require that the proportion of non-reproductive (or consumptive) capital be raised in the accumulation process.

Reproductive capital is that which helps to step up productivity and to multiply employment in so far as the fruits of this higher productivity are allocated to capital accumulation. Whereas non-reproductive or consumptive capital, instead of increasing productivity, improves the efficiency of goods as well as their responsiveness to considerations of social status and to the constant manipulation of the so-called sovereignty of the consumer.

Of course, the two forms of capital composition combine together and are closely interlinked. Diversification entails an increase in the proportion of non-reproductive capital, but this would not be feasible unless productivity and the surplus had already acquired very large dimensions by virtue of the accumulation of reproductive capital. This is what happens in the capitalism of the centres; whereas in the peripheral countries it is the inequitable income distribution that prematurely fosters this and other undesirable forms of accumulation of non-reproductive capital —private and public—, prejudicially to reproductive capital accumulation and therefore to the social efficiency of development.

A similar phenomenon is to be seen in the education and training of the labour force, which is consonant with the increasingly high-grade and complex skills that diversification demands as higher-productivity technique is propagated. This applies equally to labour engaged in the production of goods and to that employed in personal and State services. Training in these skills, in turn, necessitates increasing capital accumulation. But as diversification is intensified because of the inequitable distribution pattern, the proportion of consumptive capital used in the training of the labour force also oversteps the mark, and consequently its unfavourable incidence on the accumulation of reproductive capital is likewise excessive.

11. *Power relations and the sharing of the fruits of development*

The displacement of the agricultural labour force is reflected in an impressive degree of population concentration in the larger towns, and this not only because of the requirements of technique, but also owing to the great disparities in distribution. Demand and employment encourage urban growth, and this in turn attracts yet more demand and employment.

The middle strata, which thus expand in urban conglomerates as a result of technical progress and the diversification of demand, gradually clear the way for the democratization process, in despite of major obstacles and vicissitudes. And democratization is manifested in the increasing trade-union and political power of these middle strata.

Trade-union power helps to strengthen the weak sharing capacity which in the free play of market forces characterizes the labour force that is progressively absorbed by the higher-productivity layers of technology. It limits the regressive competition of the labour force employed in preceding technological layers and of its natural increment.

As the formerly disadvantaged middle strata strengthen their sharing capacity in this way, they participate more and more in diversification, together with the labour force which is placed in a favourable position largely by its social power. But the process does not extend to the lower strata.

In the market sphere, the principal source of increase in the productivity of the system is capital accumulation; and, in turn, the income accruing from this higher productivity gives great impetus to State services.

In the State, as the political organ of the system, power relations also play a decisive role in the distribution of its services as well as in their diversification. It is true

that the State performs very important services which are of importance to the whole community and not only to the power groups in the system, but even in this case these power groups exert great influence on the levying of the fiscal resources with which such public services are generally covered.

Apart from these latter, there is another form of distribution of State services, supplementary to that stimulated by market forces, but increasingly important. This supplementary distribution is carried out through political power and the changes which occur in its composition, reflecting those that take place in power relations concomitantly with the changes in the social structure discussed above. And in this way power relations exert a considerable influence on the use of the State's institutional machinery to obtain its services and share out the tax effort which pays for them.

Thus, the economic power of the upper and the social power of the uppermiddle strata allows them to resort to this machinery, on the one hand, to maintain their structural position and their capacity to appropriate the fruits of technical progress, and, on the other hand, to hold out against sharing the fruits in question with those lower down the ladder.

It has already been shown, however, that the evolution of the middle strata enables them to acquire, in addition to their trade-union power in the market, political power as well, with the advance of the democratization process. Thus these strata too can have recourse to the aforesaid institutional machinery, or to other new mechanisms, in order to strengthen their capacity for sharing in State services.

Over and above this participation, power relations affect the absorption of the labour force, its income, and State services, which in consequence of their own dynamics are prone to hypertrophic

growth. The again, part of the labour force which is not absorbed in the market sphere finds a place in State Services, where it is not really needed: this is a spurious absorption of groups which manage to secure it, with or without social power, by virtue of their political influence.

Lastly, political power enables some people to obtain rates of pay higher than those current in the market, or to gain income through forms of collusion between the spheres of the market and the State.

These reflections lead me to mention another of the important manifestations of political power, particularly that of the middle strata. I am referring to public enterprises, which develop when the State, outside the market sphere, sets up enterprises or takes them over. Here too power relations intervene, generally under the impulse, at least at first, of other motivations: those of restricting or preventing the incidence of capital from abroad, or of counteracting the economic and political power of domestic capital. Be this as it may, a public enterprise can hardly avoid falling prey to some who, thanks to their political power, use it as a means to spurious absorption or to incorporation into the privileged-consumer society.

No doubt there are public enterprises which succeed in containing political pressures; but those that are unable to do so help to waste the accumulation potential of their own surplus or of the surplus generated by private enterprise.

It is common knowledge that in private enterprise, according to the competitive circumstances, a criterion of economic efficiency prevails. But in so far as the accumulation potential gained thereby is wasted, the attendant result is the social inefficiency of the system.

The contest for the surplus assumes a different significance when the State has at its disposal abundant resources deriving from the exploitation of a natural source

of wealth. In this case it can meet the demands of the political power of the middle strata without sacrificing—rather, indeed, enhancing—the power to appropriate the fruits of increased productivity which the upper strata wield by virtue of their ownership of capital. Far from losing anything, the latter, in such conditions, usually avail themselves of their political power to defend their surplus against tax pressure.

The relegation of the lower strata continues, however, as this considerable potential for the accumulation of reproductive capital is frittered away in the exaltation of the consumer society. Still, some of the prosperity of those higher up filters down to them.

12. *The critical limit of pressure for participation*

As was stated above—and is worth repeating—the growth rate of the total surplus is higher than that of the product because a more or less significant proportion of the labour force has little capacity to share in the fruits of technical progress.

As changes take place in the social structure, however, the trade-union and political power of that disadvantaged labour force allows it gradually to remedy the weakness of its ability to obtain its share, and likewise the inadequacy of the system's absorption capacity. Thus it improves its private consumption and its consumption of State services, but it does so, as has been shown, at the expense of a growth rate of the surplus superior to that of the product.

Similar effects are produced by the exaggerated expansion of the State's public services, in which a considerable proportion usually corresponds to military expenditure, not dissociated of course, from the imitation of the technology of the centres. And to all this must be added the

spurious absorption of labour observable chiefly in the sphere of State activities.

Accordingly, as these various forms of participation evolve, a moment is reached at which the growth rate of the surplus becomes equal to that of the product, and the greater the extent to which political or trade union power spreads to the lower strata, the sooner will that moment occur. This is the limit beyond which the participation of the disadvantaged labour force cannot go without causing trouble, under the sway of market laws.

Within that limit the consumer society thrives, and could continue to function smoothly if redistributive power were to stop there; but in this there is no regulatory principle, any more than in the growth of the surplus. And once the capacity to share has been acquired, the formerly disadvantaged labour force tries to continue increasing its private consumption and its consumption of State services, as well as its employment in these, at the expense not only of the growth of the surplus but of the surplus itself. The long and the short of it is that the full florescence and the accumulation capacity of the privileged-consumer society are impaired, to the serious detriment of the dynamics of the system.

There are however institutional mechanisms whereby the owners of capital can recoup themselves for the decrease in the surplus: the same whereby they were able to appropriate the structural surplus and retain it indefinitely in their hands. These are monetary mechanisms, and however strong the opposition put up by the responsible authority, the economic and political power of the owners of capital prevails in the end. Inflation then becomes inherent in the system itself when it reaches an advanced stage of its development: social inflation, differing from inflation as it was known in the past, although the

two forms are usually found in close combination.

Inflation upsets the system and causes its social disintegration, and this sooner or later culminates in recourse to another of the State's institutional instruments: the use of force, determined either by a decision on the part of those who hold it in their hands, or by the influence of political power at the summit of the system. The object of the use of force is to overrule or suppress the trade-union and political power of the masses, thus seriously undermining their sharing capacity. In this way it becomes possible to re-establish the dynamics of the consumer society, with the further consequence that the upper strata are enabled to accumulate more capital and consume more and better-quality goods and services, the same being true of the favoured segments of the middle strata.

In any event, these results have a high social cost, apart from their political cost, since they are obtained at the expense of the greater participation in income and employment previously achieved by the bulk of the middle strata, as well as by the lower strata where trade-union and political power had spread to them.

Far be it from me to suppose that the use of force, when it supervenes at an advanced stage in the development of the system, accounts for all the political vicissitudes of the periphery; I only wish to stress one of the consequences of the restoration of the dynamics of the system, which is usually aggravated by unfavourable trends in the external situation.

I am therefore inclined to conclude that the democratization process has failed to solve two fundamental problems: that of the accumulation required for social efficiency and that of equitable distribution. Hence the evidence suggests that democratization has taken a wrong turning and is headed towards self-destruction.

13. *Determinism and deliberate action*

From all this the inference would appear to be that there is an element of determinism in the development of peripheral capitalism, which is strengthened in the course of the various stages of structural change. This determinism certainly does not rule out human action; but men act within the system and cannot escape from its internal dynamics. I am speaking, of course, of the system, not of its transformation, which is a matter of human decisions.

In the market sphere, those who have individual drive, capacity and dynamism help to increase the surplus already in circulation and continually expanding. Clearly, if this surplus were fully utilized the system would steadily gain in social efficiency, but the waste of the accumulation potential prevents this from happening; as a result of which, the system's absorption capacity is weakened, and the lower strata are excluded from the development process, as has so often been said.

In the sphere of the State, two opposite currents contend in the interplay of power relations. On the one hand, dynamic leaders emerge who represent the economic and social power of the upper strata, and who seek to channel certain State services and the corresponding investment towards increasing productivity and the surplus in the market sphere. They also try to contain or regulate the redistributive action of trade-union and political power.

On the other hand, structural changes allow dynamic individuals of another type to come to the fore, who represent the trade-union and political power of the middle and possibly of the lower strata in their endeavours to share in the benefits of development; these are the trade-union and political leaders who play a highly

influential part in the distribution struggle and its conflictive evolution.

Whether the system absorbs these latter dynamic elements, or whether they free themselves from their subordination to the upper strata, largely depends upon structural change. But in any event, nothing prevents the exercise of some individual influence either to moderate or to spur on the conflicts that arise within the dynamics of the system.

While the conflicts are taking place, those other dynamic individuals of course emerge, who have force at their disposal and use it. Herein too there is a measure of determinism, since in their intent to rescue the system from its state of crisis they are faced with only two major options, both of them lacking in authenticity and revealing the intellectual dependence of the periphery: economic liberalism or concentration of economic power in the hands of the State. Both alternatives, notwithstanding their diametrically-opposed character, are incompatible with the advance of democratization. They are an expression of the propagation and irradiation of ideologies from the centres which are quite out of keeping with the specific phenomena of peripheral development.

These ideologies also strike root in those who, in face of the great and increasing social disparities, and perhaps because they feel frustrated at not having gained a foothold in the system, propose to destroy it by violence; their violence on the one hand, and the counterviolence of the State on the other, end by shipwrecking elemental human rights.

14. *The laissez-faire State*

In the light of this brief exposition of the structural components of the system and the changes they undergo, and of the phenomena of propagation from the centres,

it may well be asked whether the image of the *laissez-faire* State, deriving from the ideas of economic liberalism, is in any way consonant with the reality of peripheral capitalism —that is, with the reality of its internal dynamics, to which we have confined ourselves for the moment, leaving its complex relations with the centres, under their hegemony, to be tackled later.

There is no such thing as the *laissez-faire* State. It cannot be said to exist when those in whose hands economic power is concentrated avail themselves of some of the State's institutional mechanism in order to seize or retain the lion's share of the fruits of technical progress; nor can it when, in the course of structural change, the labour force disadvantaged by market laws endeavours to improve both its private and its social consumption by resorting to State mechanisms, thanks to its trade-union and political power. Nor is it possible to speak of a *laissez-faire* State when recourse is had to the institutional expedient of force in order to free the privileged-consumer society from disturbances... Economic efficiency —although not always even that— at the cost of serious detriment to the social efficiency of the system.

15. *Structural disparity in centre-periphery relations*

Let us now take the same sort of brief glance as before at the intricate complex constituted by the centre-periphery system.

The great structural disparities between the centres and the periphery and the corresponding power relation, together with the propagation and irradiation so often mentioned, largely determine the nature of what occurs within the complex.

Capital accumulation, technical progress and demand tend to be concentrated in the centres by their very dynamics:

the centripetal dynamics of capitalism. And the same is also true of trade in manufactures encouraged by diversification. Thus trends emerge among the centres towards international integration of production of increasingly advanced goods: integration among equals or quasiequals.

The periphery lags behind in this process of generation of technical innovations with its dynamic effects on production and trade, because among non-equals no tendency to integration exists.

But, as everyone knows, the periphery is by no means backward in the propagation and irradiation of the more and more technically advanced patterns of consumption. Consumption —the consumer society— is therefore being rapidly internationalized, whereas in contrast formidable obstacles are encountered by the internationalization of production from the standpoint of foreign trade.

The spontaneous expansion of capitalism from the centres to the periphery, over and above the appendicular role of the periphery in respect of primary exports, is nothing but a myth; an outdated myth which is coming to life again of late with the image of the transnational corporations and the exploitation of their technical innovations.

The time-lag in peripheral development caused by centres' concentrative tendencies is reflected — although with a few exceptions — in a definite trend towards disparity between demand in the centres for primary goods from the periphery and demand in the periphery for goods representative of the diversification ceaselessly going on in the centres. Here again we find one of the effects of the great structural differences characterizing centre-periphery relations.

From this disparity stems the periphery's inherent proneness to an external bottleneck, aggravated by the siphoning-off of income mentioned before. And the

centres neither have taken nor are taking any serious steps to mitigate, not to mention eliminate, these external contradictions in the system.

Accordingly, the periphery is striving to counteract the disparity in question by resorting to import substitution, based on protection in view of the technical and economic superiority of the centres. But this protection is often carried much too far.

Substitution is not a static phenomenon; far from it. It moves towards saturation point in respect of products already covered, while the increasing diversification going on in the centres means that new lines of important substitution must be undertaken to counteract the trend towards a bottleneck.

But as these advances are made in import substitution, growing technical complexities emerge which also call for broader markets. Thus the gates are thrown open to the transnational corporations, and these first enjoy the advantages of the domestic market favoured by protection and then, with the incentives afforded by subsidies and other incitements, begin to develop exports.

It is a fact that, hitherto at least, the transnationals have displayed little interest in exporting to the centres, where successive innovations decisively influence their entrepreneurial action. In the periphery they really prefer to produce goods corresponding to earlier innovations, which in the centres are being left behind by others still newer. Nor are the centres making efforts to open their doors to imports of these and other goods which are within the reach of the technical and economic capacity of the periphery. Rather do the transnationals try to exploit those earlier innovations by exporting them to less-developed peripheral countries; and sometimes they succeed in doing so to a surprising extent. But in this way they help to shift the external bottleneck

from some peripheral countries to others, since the peripheral countries have made only modest attempts to construct an adequate framework for the development of their own reciprocal trade.

16. *Co-existence with the centres and the use of force*

In pursuance of their incongruous policy *vis-à-vis* the periphery, the centres promote and support the expansion of the transnational corporations. These share in the economic and political power of the upper strata, and even outrival it; and to this internal power is added the considerable power they wield in the centres. Thus, under the hegemony of the latter, new forms of dependence emerge, which induce a peripheral country to do what otherwise it would not, or not to do what otherwise it would.

Dependence has its counterpart in financial co-operation, which usually increases in proportion to the ease and room for manoeuvre with which the transnationals operate in the ambit of the periphery, or the responsiveness of the peripheral countries to other hegemonic interests of the centres.

Since the transnationals participate in the parry and thrust of power relations, they play an active part in the periphery's internal distribution struggle and in its movement towards a crisis. And as this crisis is gradually generated in the very dynamics of the system itself, with the advance of democratization opposition is also put up in the periphery against those forms of dependence in which the time-honoured hegemony of the centres is manifested, especially that of the principal dynamic centre of capitalism.

Accordingly, the conflicts in the system tend to spread outwards, often with the aggravating circumstance of an unfavourable external situation. Thus the erring peripheral country finds itself up

against the formidable constellation of interests which hold sway over the complex of centre-periphery relations. And in this dramatic climax of dependence punitive attitudes are often adopted.

By the use of force the sentiments of national identity which strive against dependence in the periphery can be temporarily stifled. Once relationships with the centres —relationships mainly confined to the privileged-consumer society— have been thus re-established, a broader horizon is opened up for the transnationals, allowing them to give new impetus to imitative capitalism, within the limited sphere of the privileged-consumer society.

An unsuspected dualism then comes to light in the centres. On the one hand, human rights are ardently defended

—not without a certain selectiveness—and, on the other hand, high praise is accorded to the virtues of a system which in order to gain great dynamic momentum, obstructs democratization in one way or another or even, when it is making real strides forward, suppresses it altogether, to the serious detriment of human rights.

In short, the linkages between the centres and the privileged-consumer society cause those major external contradictions which, when superadded to those of an internal character, accentuate the exclusive and conflictive trends of this type of society. An their combined effects lead to the use of force to reach a purely surface solution, affecting outward facts but not the inner heart of the structure, with all the extravagantly high social and political cost involved.

II

The surplus: its appropriation, growth and circulation

1. *A preliminary explanation of the surplus*

Thanks to the accumulation of capital in the shape of physical goods and training of human resources, the total product of the economy tends to grow faster than employment of labour as a result of the increase in productivity.

The fruits of this higher productivity —as already stated— are primarily appropriated by the owners of the means of production, and only a small fraction of the labour force has a share in them. The rest remains in the hands of the owners aforesaid in the form of a surplus, over and above the remuneration they receive,

where the case arises, for the performance of entrepreneurial activities.

We will now attempt to explain, in the first place, why the owners of the means of production are able to appropriate the surplus; next, why this surplus tends to remain in their hands; and subsequently, why it increases and continuously circulates in the system.

It is worth while to stress the structural origin of the surplus, because the way I put the matter in my former article may perhaps have left the impression that it was more in the nature of a monetary phenomenon. I will now try to rectify that imperfect explanation. The monetary aspect is undoubtedly important, but it relates

only to the manner of appropriation and retention, and not to the generation of the surplus itself, which is a process stemming from the social structure.

The structural origin of the surplus, however, does not account for its retention by the owners of the means of production. It is retained because the productivity increment is accompanied by an increase in demand which manifests itself in the monetary expansion inherent in the production circuit; and this greater demand prevents the higher productivity from bringing down prices, and allows the increase in goods in which it is reflected to remain in the hands of the owners of the means of production, in so far as it has not been shared by the more advantaged labour force groups.

In other words, the surplus is constituted by that part of the productivity increment which is not transferred to the labour force through the spontaneous action of market forces.

This phenomenon, at once structural and dynamic, is of the greatest importance in the development of capitalism; but we shall deal with it only in relation to peripheral capitalism.

As long as the disadvantaged labour force does not acquire sufficient capacity to share in the surplus, this latter continues to grow faster than the total product. Thus it attains, in the course of development, dimensions which enable the owners to expand their consumption, in imitation of the centres, and furthermore to introduce higher-productivity and more efficient techniques, thanks to the increase in capital accumulation.

As the participation of the labour force gradually slows down the growth rate of the surplus in relation to that of the total product, a limit is reached which cannot be overstepped in the dynamics of capitalism; be the size of the surplus what it may, its growth rate cannot fall below that of the product without producing

seriously disturbing effects. Suffice it to make this assertion for the moment in order to show the matter in its true perspective. We will only add that before that limit is reached the surplus has come to be an essential ingredient in the privileged-consumer society. And this means that no brake can be applied to its growth, since it is based on indefinite maintenance of the great distribution disparities.

Lastly, a word must be said in advance on the continuous circulation of the surplus. It should be recalled that the surplus is retained because the increase in productivity is accompanied by an increase in demand and the corresponding monetary expansion. This additional demand does not evaporate within the system, but continues to circulate, changing in composition concomitantly with the increase in goods that higher productivity has brought with it. Otherwise, prices would fall.

The present chapter will be devoted to discussion of these questions.

2. The structural phenomenon

It has already been pointed out that the owners of the means of production, principally in the upper strata of the social structure in which most of them are concentrated, primarily appropriate the fruits of the higher productivity which the penetration of technique brings in its train. Thus the surplus comes into being. We might define it as that part of the fruits of productivity which, in so far as it has not been shared by a part of the labour force in the spontaneous interplay of market forces, tends to remain in the hands of the owners of the means of production, over and above the remuneration for their entrepreneurial activities which they earn by their ability, initiative and dynamism, as well as in return for the risk they run.

Incidentally, in conventional theory

a clear distinction is drawn between this remuneration and entrepreneurial profits. The latter tend to peter out under the pressure of competition as the system moves towards dynamic equilibrium. Herein precisely lies the difference between profits, with their transient character, and the concept of the surplus, which is habitually retained in the manner that will be shown in due course.

In peripheral capitalism the owner of the means of production and the entrepreneur are, in most cases, one and the same person. But the tendency to separate them, so marked in the centres, shows signs of developing as concentration of capital takes place and the dimensions and complexity of enterprises increase. The owner continues to appropriate the surplus, even if he does not fulfil entrepreneurial functions.

And now, after this brief digression, let us pick up the thread of our analysis. The key to development lies in the propagation of the production technique of the centres by means of the accumulation of physical capital and training of human resources that the said technique requires.

Technique is propagated through the continual superimposition of what we have called layers of technology, in which the innovations of the centres are introduced. Albeit with the characteristic time-lag in relation to the centres, and with certain limitations, technological layers of increasing productivity and efficiency are added to preceding layers in which productivity and efficiency are less, and at whose lowest level precapitalist or semicapitalist techniques are still to be found. As this superimposition process takes place, the higher technological layers gradually absorb, more or less rapidly, the labour force employed in the technological layers immediately below, as well as its natural increment. But the earnings of the labour force thus absorbed do not rise correla-

tively with the improvement in its productivity. Great disparities can be seen. That comparatively small fraction of the labour force which can meet the increasingly exigent demands of the new technological layers in respect of skills is in a better position to share in the fruits of higher productivity. In these new layers the relation between demand for labour and supply is usually close; but the lower down the social structure one looks, the more supply expands in relation to demand, and sharing capacity dwindles until it becomes negligible in the lowest income strata. Such is the action of market laws.

The heavier the incidence of competition from the labour force already employed in preceding technological layers of lower productivity, the weaker the capacity to share in the fruits of technical progress becomes, with the descent from one level of the social structure to another; and the larger the proportion of unskilled or less and less skilled labour, the greater that incidence will be. Rightly considered, this is a socially regressive form of competition.

As long as a sizable body of workers remains in such conditions in the lower-productivity layers of technology, this situation will continue to represent a considerable obstacle to pay increases, even for the manpower that is absorbed in technological layers where output per worker is higher.

In passing, the difference between technological layers and income strata should be noted. In all layers, whatever their productivity per man, different income strata of the labour force are to be found, given the disparities in sharing capacity. But in the higher layers of technology, the upper income strata are predominant, whereas the low-productivity layers comprise mainly lower income strata. This point will be more clearly understood when the subject of structural change is tackled.

3. *An unrealistic hypothesis*

The significance of the rate of capital accumulation will now be realized. And here a foretaste may be given of what is to be said in another chapter. The primordial source of such accumulation is the surplus. And the more intensively the surplus is allocated to the attainment of this objective, the more the rate of absorption will be speeded up, and the greater will be the ability of the labour force to improve its income, in the play of market forces, correlatively with the increases in productivity.

In other words, were this to happen the differences in productivity would progressively decrease as little by little the higher-productivity layers of technology displaced those below them.

Undoubtedly, in this dynamic process of relative homogenization of technique there would also be a gradual lessening of structural disparities in earnings although not of functional inequalities, i.e., those which under the sway of market forces would correspond to the differences in the ability and dynamism of the individual workers and their contribution to the production process. Thus, with the passage of time — perhaps a long time —, something like the suppositions of the neo-classical economists would actually occur.

To put it another way, through the spontaneous play of market forces the congenital weakness of the bulk of the labour force in respect of sharing in the fruits of technical progress would be progressively remedied.

But this does not happen, because imitation of the consumption patterns of the centres, and the siphoning-off of resources by these, result in the waste of a large proportion of the surplus, that is, of the capital accumulation potential which productive technique brings in its

train. Hence the exclusive tendency of the system.

Stress must be laid on this point, since it constitutes manifest proof of the regressive significance of market laws in the social structure of the periphery.

It is generally urged, and often over-insistently, that the social exclusion in question is imputable to the tendency of the technique propagated from the centres to employ less and less labour. Then there is talk of the need to work out a technology appropriate to peripheral conditions.

There can be no doubt that if high-productivity techniques requiring less capital could be discovered, peripheral development could take a completely different turn.⁵ While not wishing to pour cold water on such hopes, I am inclined to approach this problem from another angle, although I do not overlook the desirability of a well-organized effort to select and adapt the techniques that are propagated from the centres.

In my opinion, the problem has its roots in the social structure into which the technique penetrates, rather than in the nature of the technique itself. For although it tends to employ less and less labour, thanks to its rising productivity, it also brings with it a steady increase in capital accumulation potential. If this potential were used effectively, technical progress would unceasingly multiply employment; but this does not happen. Much of the potential is wasted, and herein lies one of the more important phenomena of peripheral development, if not the most important of all.

⁵ A CEPAL interpretation that dates a long way back. See CEPAL, *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951. (Printed in Spanish, September 1952 and 1973.)

4. *Say's law and the dynamic process*

The difference between the neo-classical concept of entrepreneurial profits and the concept of the surplus has already been noted above. It should be recalled that according to neo-classical theory, profits tend to disappear in the long run as a result of inter-entrepreneurial competition, either because of pay increases or because of falling prices.

It has just been shown that in actual fact wages do not rise owing to the existing social heterogeneity. As has been repeated over and over again, much of the labour force fails, in the interplay of market forces, to obtain pay increases correlatively with the increase in productivity.

According to the neo-classical arguments, prices would be bound to fall in so far as wages did not rise. But this is not so, since demand expands. Whence does this greater demand originate? This is what we propose to consider now, refining upon the interpretation presented in our previous article.

Perhaps this explanation would be more readily understandable if we were to recall the law formulated long ago by Jean Baptiste Say, according to which supply created its own demand; or, in other words, the income generated in production was converted into demand for the goods produced.

But as in all these classical and neo-classical arguments, the time factor, among other, is overlooked. The income generated in the production of the final goods which at a given moment are on sale in the market creates demand not for those but for other final goods which appeared on the market earlier. This is a matter of the time it takes to complete the production circuit from its primary phase up to the sale of goods on the market. Owing to the time factor, today's supply

does not generate today's demand; it has generated demand before-demand, to put it briefly, not for today's goods, but for yesterday's. It is not the current supply that creates its own demand, but the income paid out by enterprises in the course of production circuits that will end in a future increase in supply. This is an essentially dynamic process.

Clearly, however, if the economy were stationary, if production remained constant, and if there were no change in the employment of labour and no increases in productivity either, the result would be equivalence between the income currently paid out and the current supply, production of which would have begun some time before.

But what would happen, in the meanwhile, if productivity were to be stepped up by the superimposition of new layers of technology, and also improved in the preceding layers? The income paid out to the labour force engaged in production of the future supply would simply not be sufficient to absorb the present supply, increased as it would be by higher productivity. Prices would then necessarily have to fall, in so far as earnings had not risen.

What prevents this from happening is the increase in employment, and in the corresponding income, required for the expansion of future production. Herein lies the origin of the larger volume of demand which enables entrepreneurs to appropriate the surplus.

The growth of employment is a dynamic process, not static as the classical and neo-classical arguments are wont to be. These arguments conceive of reality as a series of positions of static equilibrium succeeding one another through time. Keynesian theory itself went astray in this type of reasoning. This is not how things work out, and it is therefore necessary

to go rather more deeply into the matter, at the risk of indulging in repetition.⁶

5. *Production circuits under way*

The dynamics of development calls for successive increases in fixed capital for the purposes of expanding production. Each capital increment inaugurates a production circuit which takes a varying length of time according to the type of good concerned. Completion of that circuit is followed by completion of another, and so on in succession. We will leave aside these fixed-capital increments for the moment, and confine ourselves to the production circuits.

Each circuit, as has been pointed out, covers various stages, from primary production to the sale of final goods on the market. If we stop to look at any given period in these successive phases of production, we shall find one circuit ending in that period, while another is beginning, and others again are under way and will be completed in future periods.

In the upward movement of production each circuit calls for more employment than the one before, and, in consequence, generates more income and more aggregate demand. And this greater demand partly accounts for the fact that the prices of the goods whose circuit is completed do not fall correlatively with the increase in production due to additional employment and higher productivity.

A point worth emphasizing is that if demand for the goods which in a given period appear on the market at the end of each production process were determined by the income paid out in the course of that

same process, it would be insufficient to absorb the finished goods produced, and prices would fall correlatively with the increase in productivity.

But this does not happen, because demand for the goods appearing on the market is not generated in the corresponding production circuit but in the circuits next under way, which are designed to increase production and will be completed in future periods.

6. *Graph of appropriation*

For clarity's sake, let us have recourse to a graph. It is a rather rough approximation to reality, but does not impair the logic of the argument.

We will examine two different cases of increased production. In the first of these the increment is uniform, or, in other words, it neither increases nor decreases, and the corresponding production circuits are reproduced in constant form once the increase in final goods has been obtained. In the second case, production increments mount steadily, so that the new circuits give rise to higher income than their predecessors.

Each circuit is represented by horizontal bars, along which, in the course of the time taken by the process, the various phases succeed one another until in a specific period they end with the final goods that find their way on to the market. For example, circuit A begins in period I and progresses during the intermediate periods until it is completed in period V.

During the same period V circuit B is under way, which began in period II and will end in period VI, and so on in succession up to circuit E, which starts in period V and will be completed five periods later (not shown in order to simplify the graph).

The income paid out during period V, in the different circuits, is represented by the corresponding vertical bar 5.

⁶For the sake of simplicity, we will omit foreign trade and other transactions. Besides, these are topics with which we have dealt in an earlier study. At all events it should be noted that they make no essential difference to our line of argument.

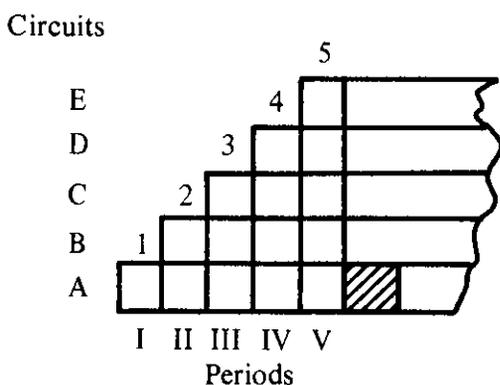
In the case of uniform production increments, this vertical line is the same length as horizontal bar A, which means that the demand generated by the income paid out during period V is equivalent to the income paid out previously in order to produce the goods pertaining to the completed circuit A.

To revert to Say's Law. Supply A does not generate its own demand since the

income paid out in order to produce it was converted into demand for goods produced earlier. Those who earned this income during the course of the circuit did not wait for its completion before buying what they needed. On the contrary, the demand that absorbs circuit A's supply in period V is generated by the income paid out during the same period in circuits B, C, etc., whose output will become available in the future.

Figure 1

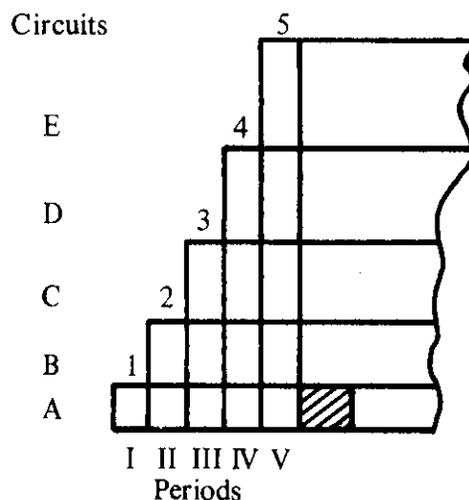
UNIFORM INCREMENT



Consequently, coincidence between supply and demand is attributable not to the cause assumed in Say's Law but to the static conception of the problem which in this as in other cases has distorted the interpretation of what really occurs.

But what would happen in the postulated case of a uniform production increment if productivity were to increase? Simply this: the demand represented by vertical bar 5 would not be sufficient to absorb circuit A's supply augmented by the increase in goods deriving from higher productivity and represented by the shaded area added to supply A. This insufficiency would necessarily lead to a fall in prices.

INCREASING INCREMENT



Let us now pass on to the second case, i.e., that of steadily mounting production increments, which are a closer approximation to reality. For this purpose, each of the bars representing a production circuit is broader than the one before, owing to the increase in employment and the income accruing from it.

Thus, the income paid out in the various production circuits during period V is no longer equal to the income paid out during the time covered by circuit A (which began in period I), but is higher, and all the more so, the more intensive the expansion of production under way for use in subsequent periods. Thus the demand generated by this income in period V exceeds the income

previously paid out in order to obtain the final goods produced in circuit A. And it is precisely this greater demand that allows the increase in goods resulting from higher productivity (and represented as in the other case by a shaded area) to be absorbed without a fall in prices.

Let us take a closer look at so important an aspect of the process under consideration, in which the key to our theoretical interpretation lies. The conclusion to be drawn from this exercise is, in my opinion, categorical. If prices do not fall in accordance with rising productivity, and in so far as the latter is not correlatively reflected in higher earnings, the reason is to be found in the expansion of demand generated in the circuits that are to increase future production.

This explains why the surplus remains in the hands of the owners of the means of production. We have already pointed out that the surplus is a structural phenomenon; but it could neither be appropriated nor retained without the increase in demand stemming from the dynamics of production itself.

7. The monetary expansion inherent in the production process

But how is this increase in demand paid for? Herein lies the monetary element in our explanation.

This too is an aspect of the question which is often passed over in conventional theory, as if monetary expansion could be considered separately from the production process. Monetary expansion is inherent in the expansion of production; and perhaps in my earlier article, in my attempts to incorporate it, I ended by over-emphasizing it, without realizing that I might be regarded as assigning a purely monetary explanation to what is, as I have said before, an essentially structural and dynamic phenomenon.

Let us now introduce the monetary el-

ement. Up to now, in the preliminary approximation previously presented, I have confined myself to saying that the increase in demand generated by the income paid out in the various production circuits under way made it possible to absorb the final goods corresponding to the completed circuits, plus the productivity increment. But the process is more complex, as we shall go on to explain.

Enterprises resort to monetary expansion in order to pay out the income generated in the production circuit under way. This operation is in line with the orthodox principles of the system and consonant with certain rules in which these principles are reflected.

The growth of income and the corresponding monetary expansion generate demand which must be at least sufficient to absorb the final goods emerging, augmented by the productivity increment, if this increment is not to be reflected in a fall in prices.

I said that it must be at least sufficient, because not all the demand created is directed towards the final goods in question. This is a highly important point which calls for emphasis. Part of the demand is deflected towards personal and State services. Thus it circulates in this sphere, becoming converted into reciprocal demand for such services, and only part of it returns to the sphere of final goods.

Accordingly, the demand which thus returns at the end of a given period, plus that created during the same period and directed towards the final goods emerging in the period in question, must be sufficient to absorb these goods, including the increment resulting from higher productivity.

But what is there to ensure this correspondence between demand and supply? There is certainly no exact adjustment mechanism. The process is rather one of trial and error which the monetary authority has to

undertake, thereby demonstrating its ability to act as a regulator in the spontaneous play of market laws (that is, when the trade-union and political power of the disadvantaged strata does not put up opposition to the economic and social power of the strata that are favoured in the income distribution process). Incidentally, the rules of the game are then very clear and effective, both when attempts are made to contain expansion and when it has been excessive, as happens if fixed investment, or private consumption or State expenditure and investment, are covered with increases in the money supply that overstep certain fairly narrow bounds. If we seem to be harping on a familiar theme, it is in order to maintain later, in the appropriate context, that these rules of the game are not applicable when the contest for the surplus, in the evolution of power relations, renders another type of inflation inherent in the system, i.e., social inflation.

To return to the point at issue, the monetary authority is guided by symptoms. If demand falls short of supply, the piling-up of final goods in inventories and the slump in prices induce it to expand the money supply further and to generate a corresponding increase in demand, either in so far as the growth rate of current production is stepped up or inasmuch as recourse is had to other forms of expansionist policy; and if demand exceeds supply and prices start to rise, a brake is applied to expansion.

These internal price movements are related to international prices. If the latter show an inflationary upward trend, as is the case at present, the higher nominal prices of exports and imports offer a wider margin for the growth of the internal surplus, which is no longer entirely due to productivity increments. It may be said in passing that the cyclical movements in the centres thus exert a powerful influence on the periphery. During the upswings the boom in demand

generally raises the prices of primary exports in relation to the price of the final goods which they are used to produce in the centres; and in this way the periphery's internal surplus is compounded by an increase of external origin. The opposite takes place during the downturns of the cycle in the centres.⁷

If the relative deterioration of export prices is persistent, part of the fruits of higher productivity in these activities is thus transferred abroad, with serious effects on peripheral development.

We shall revert to this point when discussing the crisis of the system.

It only remains to examine what part the surplus plays in this circulation of money which accompanies the movements of demand. We have just referred to the money which, in a given period, returns from the sphere of services to that of goods, and is added to the part generated in the latter during the same period and allocated to demand for goods. Its role is to absorb the supply of final goods, including the increment due to the rise in productivity over the period in question. In this way enterprises recover the money they have spent on paying the labour force during that period. And since the income flowing in is higher than that paid out during production of the goods that reach their final phase in the same period, the difference is returned to the enterprises in the shape of a surplus.

⁷ Attention is not devoted here to cyclical movements, which merit special treatment, although in close connexion with the subject-matter of the present article. In my first article I did briefly touch upon the topic. Suffice it to recall on this occasion that the amount of goods in process of production and of final goods deriving from them is governed by these cyclical movements, and so is the surplus. But this does not invalidate my interpretation of the structural phenomena of development.

The surplus thus received by enterprises is in its turn converted into demand for goods and services; and it circulates both in the sphere of services and in that of goods, like the income paid out either to the labour force or in the form of remuneration for entrepreneurial functions.

Accordingly, the surplus that accrues to enterprises in consequence of rising productivity reverts to them, one part through its conversion in a specific period into demand for final goods, and another part after having circulated in the sphere of services.

To this movement new surpluses are continually being added, thanks to successive productivity increments, and to the extent that these latter are not transferred to the labour force; and with these additions, what we have called the global surplus gradually increases. Consequently, it is renewed and grows, whether it is allocated to final consumer goods or to capital goods.

The growth of the global surplus is exposed to the risk of interruption owing to certain cyclical phenomena which prevent its development and lead to a temporary contraction, as, for example, when by virtue of the very mechanics of the system part of the surplus is used to pay out higher income to the labour force. At the present moment, however, I should prefer not to deviate from my main line of argument.

8. *Other characteristics of the surplus*

I referred above to the demand which is deflected from goods towards services: i.e., which for the time being abstains from purchasing goods. If this were not so, demand might prove to be greater than was required to absorb the final goods augmented by the increase in productivity, with the resultant familiar reaction on the part of the monetary authority.

It should be noted here that if recourse were had to savings, instead of to monetary

expansion, to pay out the income corresponding to the production under way, demand would be insufficient to absorb the final goods. This is, in my opinion, a situation typical of a certain phase in the economic cycle. Keynes attributed it to the tendency of the system to generate an excess of savings which reduced consumption, in contravention of Say's Law. His thesis, of course, referred to the centres, and is highly controversial. But a similar tendency to over-saving could not be ascribed to the periphery: yet another testimony to the fallacy of the assumption of universality implicit in the theories of the centres.

These somewhat tedious explanations show why the fruits of higher productivity are not reflected in a persistent price decline. This is prevented by the continuous growth of demand deriving from the production process itself. And as the surplus is converted into demand, it returns to the enterprises in the manner explained above, i.e., it is continually renewed in the process of circulation.

It is not, therefore, through a fall in prices that the fruits of technical progress are passed on to the community, as is assumed by the neo-classical school. Redistribution is effected in a very different and highly inequitable fashion, largely dictated by the interplay of power relations.

From another standpoint, it should be stressed that the composition of the global surplus undergoes continual change.

Demand is subject to constant transformations. It is diversified in consequence of the evolution of technique and income distribution, as will be seen in another chapter; and the surplus shifts all the time. Under the impetus of expanding demand, it favours those goods in respect of which the growth of demand is most vigorous, to the detriment of others where it is relatively weak. Such is the contrast between industrial products, in which diversification is incessant, and agricultural

commodities, where it is very slight. This question is further complicated by differences in productivity. But in any event, the increment in demand does not vanish and allow prices to fall, however unrestrictedly competition between enterprises may operate.

Restrictions on competition, which are frequently imposed, also contribute to the changes in the composition of demand but do not alter its total volume or the amount of the global surplus, except in the case of tariff protection, which, by allowing internal prices to rise above international price levels, increases the surplus at the expense of the income of the rest of the community. A case in point is that of an industrial product in respect of which the income-elasticity of demand is high and, at the same time, the increase in productivity is much greater than in the case of other goods in the aggregate. If competition were fully operative, prices would decrease in relation to those of other goods, which would benefit by the larger disposable income that consumers would thus possess. If competition were restricted, however, enterprises would be able to contain the downward movement of prices; but in neither case would the volume of global demand, the surplus or the overall price level be affected.

There is one very important instance in which the surplus does not shift but tends to crystallize. Land is a means of production of which the supply is limited, and whether it is rural or urban the characteristic phenomenon of land rent makes its appearance. The increase in global demand taking place in the dynamics of development also moves towards the land and raises land rent, a phenomenon too well-known to be dwelt on here. It should merely be stressed that in this way a part of the fruits of the higher productivity of the entire system is transferred to the landowners, simply because the land is in their hands.

Furthermore, the land rent deriving from the overall increase in productivity becomes larger when technical progress finds its way into agricultural activities themselves and raises their productivity. If demand for the corresponding goods is brisk, this rise in productivity is reflected in a surplus, which likewise crystallizes in the form of higher land rent. In contrast, when both land and labour are plentiful and the growth of demand is relatively slow, the productivity increment tends to switch away from agriculture through a fall in prices.

The expansion of overall demand, the limited amount of land available and, at the same time, urban concentration, account for the ceaseless upward movement of land rent in the larger towns. As in the case of land in rural areas, a part of the fruits of the higher productivity generated throughout the system is passed on to urban land likewise. And urban land rent also grows because of technical progress in transport and construction.

But in neither of these two instances is any part of overall demand or of the surplus wiped out.

The surplus has given impetus to capitalism in a very different manner from that assumed in neo-classical theory. I venture to assert that capitalism has never functioned as the latter suggests. It is invariably subject to a historical constant, namely, the appropriation of the fruits of technical progress in different ways, thanks to the concentration of the means of production in a few hands, at the expense of the rest of the community. Before the industrial revolution the surplus crystallized in the tenure of the land by economic power or by the power of the military or the Church; and since the industrial revolution, as a result of the prodigious technical progress to which this has given rein, it has been appropriated by the owners of the means of pro-

duction in which the innovations that constantly raise productivity are embodied.

A final reflection is called for at this point. I have already had occasion to say, elsewhere in this same article, that neo-classical thinking has not the merit of explaining development phenomena. When they discuss prices, the theoretical explanations of the neo-classicists are incontrovertible, as long as they confine themselves to the analysis of what happens in the development of enterprises taken separately, in particular as regards competition, productivity and the income-elasticity of demand for their goods. But there is a fundamental difference between such cases and the global phenomena occurring in the dynamics of development. Thus, when a single enterprise succeeds in improving its productivity and reducing its costs, impelled by the incentive of profit, it will increase its output, and that will bring down

the prices of its goods, if certain bounds are overstepped. To expand production it will be necessary to employ more labour and pay it more. But as a general rule this is of no significance in the rest of the economy, since its influence is virtually imperceptible. The fragmentary reasoning of neo-classical theory, therefore, remains fully valid. But when the expansion of production is general, as becomes the case in the dynamics of development, the series of pay increases received by the labour force prevents prices from falling, and a surplus is generated which is retained and circulates as already explained. To overlook this global aspect, then, represents a very serious defect if the reasoning of neo-classical theory is extended to development; the increase in total demand which is inherent in the dynamics of development should be introduced into the argument in order to reconstruct the theory of prices, taking due advantage of the valuable elements it contains.

III

Structural changes in employment

1. Capital accumulation and absorption of labour

The first step here is to explain in few words the role of capital accumulation—in terms of both physical goods and training of human resources—in the absorption of labour.

This labour-absorbent role is twofold. On the one hand, an increase in reproductive capital⁸ involves a direct or indirect

increase in employment. On the other hand, the additional income and the surplus thus generated are converted into demand for the goods deriving from this process, as well as for personal and State services; and in this demand the indirect effect of capital accumulation on employment makes itself felt.

In turn, the income generated in services gives rise to demand for goods and services. Thus there is a mutual interdependence between demand and employment, although the initial dynamic impulse comes from capital accumulation in enterprises.

⁸Enterprises use reproductive capital and 'consumptive' or non-reproductive capital. Until the time comes to deal with this aspect of the question, suffice it to say for the moment that the former can act as a multiplier of employment and accumulation; the latter cannot.

The growth of the enterprises' output is determined by the direct increase in employment of labour and the rise in productivity due to technical progress; and upon this fundamentally depends demand for personal and State services, and their product.

In services, technical progress is reflected mainly in improvements in their quality and efficiency, rather than in increases in productivity like those occurring in production of goods. But in so far as such increases in productivity do take place, this constitutes an autonomous factor of expansion of demand for goods.

From another standpoint, as personal income rises in production of goods, a process of diversification of demand goes on, in respect not only of goods but also of services. And this implies a characteristic tendency to raise the proportion of employment in services in relation to total employment.

We said at the outset that productivity depends upon accumulation of capital in terms of both physical goods and training of human resources. In physical capital are embodied the technical innovations which result in higher productivity and in better-quality and more efficient goods; while that same technical progress calls for training of the labour force in a wider range of more complex skills, without which the increase in productivity that should accompany physical capital would be partly thrown away.

It should also be borne in mind that certain personal services, as well as State services, contribute in one way or another to more effective utilization of capital, with the consequent increase in the productivity and efficiency of the system.

These preliminary explanations having cleared the way, we will now consider the dynamics of accumulation and employment.

From the standpoint of the propagation of technique, development consists in an endless superimposition of technological layers characterized by increasing

productivity and efficiency upon preceding technological layers where productivity and efficiency are lower. In the course of this process the latter tend to disappear; and the labour force which was employed in them is mainly transferred to technological layers of increasing productivity and efficiency, promoting the homogeneity of the structure.

In the periphery this process necessarily takes a fairly long time, in view of the large proportion of the labour force employed in layers of technology where productivity is very low and incomes are tiny, and even the use of semi-capitalist or pre-capitalist techniques is not uncommon. Despite the many decades that have gone by since industrialization gave its decisive push, the proportion in question is still very significant.

The size of the labour force that has to be absorbed reflects the heterogeneity of the social structure. There are some countries, including most of those of Latin America, where at the time when industrialization began there were large numbers of the labour force that had been traditionally employed in activities using pre-capitalist techniques and yielding them a mere pittance. In such countries, the absorption process was bound to be longer and more difficult than in others where the corresponding labour force was relatively small.

Let us now try to account for this state of affairs. At bottom, the persistence of so great a mass of lower strata in the socio-economic structure, over and above the exceptionally rapid increase in the labour force, is clear evidence of the insufficiency of reproductive capital. And on top of this, there are the effects of the increase in the rate of productivity which accompanies the new layers of technology, as well as of its improvement in the preceding layers.

To examine these various elements let us start from this very simple concept. Accumulation involves a rise in productivity, and this in turn makes it possible

to step up capital accumulation. The intensity of this accumulation process depends upon the proportion of the fruits of higher productivity which is allocated to capital formation.

As we have already seen, that considerable portion of the productivity increment which is not transferred to the labour force is the surplus. And the surplus constitutes the primary source of reproductive and non-reproductive capital accumulation. Accordingly, we will confine ourselves to it in the present argument.

The surplus has one characteristic which should be underlined because of its great dynamic significance. The global surplus, which is gradually formed by the aggregation of successive surpluses, tends to increase faster than the product under the rule of market laws.

For the sake of a better understanding of this tendency we will introduce the concept of rate or tempo. If the rate of capital accumulation is constant, and so is that of the rise in productivity and of increasing absorption of labour in new and higher layers of technology, the growth rate of the product will also be constant, if the product/capital ratio does not vary. Why, then, does the surplus grow faster than the product? The explanation is very simple and of a structural character. Owing to the socio-economic structure, the growth of productivity at a constant rate brings with it the familiar wide disparity in the distribution of its fruits, since, while that part of its fruits which is transferred to the bulk of the labour force increases less than productivity, the part which remains as the surplus increases more. And as the growth rate of the global product is constant, that of the global surplus will obviously be faster.

Constant rates have been postulated for simplicity's sake. But even if they were not constant, the distribution disparity would still be the cause of the difference between the growth rates of the product

and the surplus under the rule of market laws.

Herein lies the origin of the privileged-consumer society. For in the course of development the increase in the global surplus enables the owners of the means of production in the upper income strata to expand their consumption—at the expense of an increase in the consumption of the rest of the community—without reducing the rate of reproductive capital accumulation. But even if this rate remains constant, the growth of the surplus still outstrips that of the product.

Perhaps I may be allowed a brief digression here. Not all that part of the increment of the surplus which does not go to capital accumulation is deflected to the consumption of the upper strata. When market laws are opposed by the trade-union and political power of the disadvantaged labour force, this latter improves its capacity to share in the fruits of higher productivity. Only up to a critical point, however, beyond which the privileged-consumer society reacts by resorting to powerful State mechanisms, in an effort to defend itself and go on developing its dynamics, which can only be kept up by virtue of the system's great distribution disparities. Social inequality is inherent in the consumer society. But the time has not yet come to broach so important a topic.

To return now to our line of argument, we were seeking to explain why the lower strata are still so largely employed at very low levels of productivity. This situation persists because the rate of capital accumulation is not high enough for it to fulfil, to the greatest extent possible, its role of absorbing the labour force drawn from the lower strata in technological layers of increasing productivity. And the rate is not high enough because, as the surplus grows, the part which should be earmarked for accumulation is spent on consumption by the upper strata. The role of labour absorption can never be properly discharged

unless the rate of accumulation is raised as much as necessary by the allocation of an increasing proportion of the surplus to that end.

This is the serious consequence that attends the waste of the accumulation potential of the surplus occurring in the privileged-consumer society, in addition to the siphoning-off of income by the centres, which are linked to that society by such close ties.

But there is something more. The problem of absorption bears not only on the labour force that is stagnating in the lower strata but also on the growth of the labour force throughout the social structure.

This growth has been exceptionally rapid in recent decades, which implies that the rate of capital accumulation ought also to have risen to prevent aggravation of the absorption problem. But there is nothing in the system that will lead spontaneously to such an adjustment. Thus, the higher rate of population growth, as long as the rate of accumulation does not rise, means that manpower is left redundant, with the consequent accentuation of the tendency to exclude the lower strata from the development process.

The increase in the rate of productivity has a similar effect. It results in less absorption of labour per unit of capital, or, in other words, as the rate of productivity rises the rate of absorption proportionally decreases. And if the rate of accumulation does not increase, the volume of redundant labour which accompanies the higher rate of population growth becomes larger still.

Once again we are up against the waste of potential. If the increase in the rate of productivity were used to raise the rate of accumulation of reproductive capital, the absorption of labour could not only make up its leeway but could be carried farther. However, as this does not happen, not only do the members of the lower strata employed in low-productivity layers of technology

remain where they are, but they are joined by the manpower which has become redundant because capital accumulation is insufficient. It is in these strata, be it noted, that redundancy acquires the greatest proportions, both owing to changes in demand, as will be seen later, and because there the highest population growth rates are found.

I hope that these explanations will have shed some light on the nature of peripheral capitalism. The privileged-consumer society is the offspring of propagation and imitation of the patterns of the centres in a very different social structure. The marked heterogeneity of this structure, combined with the play of power relations, allows appropriation of the fruits of the technical progress brought from the centres to reach the height of inequality. And in the course of development this inequality makes it possible to imitate the more and more advanced consumption patterns of the centres and at the same time to propagate increasingly high-productivity and efficient techniques, which necessitate a larger proportion of non-reproductive (or consumptive) capital. All of which entails the immense social cost of exclusion and redundancy.

The socio-economic structure also affects the rate of population growth, since the propagation of the scientific and technological discoveries made in the centres, which protect and prolong human life, is of very unequal incidence. Where the proportion of lower strata with minimal productivity and tiny incomes is very large, the decrease in the mortality rate is not accompanied by anything like as intensive a reduction in the number of births as in the middle and upper strata. It is common knowledge that among the poor the psychosocial changes which in the course of development bring down the birth rate in the other strata do not appear to take place.

All this accounts for the limited ambit of the consumer society. Within those bounds

it may attain great prosperity and a high degree of economic efficiency which calls forth wondering admiration both at home and abroad, notwithstanding the persistence of the sub-consumer society at the bottom of the system.

2. The surplus and the social efficiency of the system

There are some who believe that by virtue of these achievements the system could also acquire social efficiency; but they do not pause to reflect that its dynamic exaltation is based precisely upon its lack of social efficiency. The point is not that the system is failing to work properly, but simply that it is like that; it is a socially vicious system.

And it is still more so when suppression of the trade-union and political power of the disadvantaged strata permits the squeezing of income improvements previously secured by virtue of their increased sharing capacity. The upper strata are thus enabled to expand their consumption yet more and at the same time to raise the rate of capital accumulation.

The social efficiency of development depends essentially upon the rate at which the higher-productivity layers of technology absorb labour from the lower layers, as was explained above. If this process were carried out satisfactorily, those lower layers would gradually disappear, and the layers immediately above them would successively take their place. And thus, in the course of time, as the formerly very high proportion of the labour force employed at lower-productivity levels decreased, the process of regressive competition which prevents earnings from increasing correlatively with the increase in productivity would be progressively set right.

How far could this process go? It is worth elucidating this aspect of the

question to obtain a better understanding of the nature of peripheral capitalism. If the surplus were used entirely for accumulation, an austerity-type capitalism would result, in which the owners of the means of production, rising above the temptations of the centres, would use for consumption purposes only the payment they received for their entrepreneurial functions.

The labour force would thus obtain a steadily increasing share in the fruits of higher productivity, thanks to the growing competition among enterprises to recruit the manpower required for their expansion, and also to the progressive weakening of regressive competition. According to the neo-classical method of reasoning, through this process the privileged-consumer society would gradually disappear, giving way to equitable consumption.

Some thought should be given, however, to the fact that the surplus is, too, a primary source of accumulation. And if it were reduced in this way, the accumulation effort would be increasingly weakened, unless the labour force assumed responsibility for accumulating capital. But there is nothing in the spontaneous operation of the system that might be conducive to substitution of this new form of accumulation for accumulation by the owners of capital.

In reality, the system does not function on these lines. No such austerity is to be found in peripheral capitalism, increasingly exposed as it is to imitation of the consumption patterns of the centres. The labour force, disadvantaged by the operation of market laws, has no way of sharing in the fruits of higher productivity but by the exercise of its trade-union and political power; and when it strives to go beyond the limit referred to before, the owners of the means of production do not resign themselves to the euthanasia of the privileged-consumer society. They

have at their disposal powerful means of reacting. But the moment has not yet come to deal with this subject.

It is plain to reason that for the dynamics of any system whatever capital accumulation is an indispensable requisite. Accumulation is a role that is performed by the surplus in peripheral capitalism; but the surplus also plays a second role, to the detriment of the first, namely, that of encouraging the consumer society, besides transferring to the centres part of the fruits of higher productivity.

The image of an austerity-type capitalism, in which the surplus is used to the utmost extent possible for accumulation, is manifestly remote from reality where the periphery is concerned. The owners of capital are subject to two opposite tendencies: one pushes them in the direction of increasing their capital accumulation in order to extend their economic power and expand their activities; the other promotes obsessive imitation of the consumption patterns of the centres. The first tendency may possibly prevail in an initial phase of development, but not afterwards, when the surplus acquires dimensions which allow consumption to be increased more intensively than capital accumulation. The rate of accumulation must be sufficiently high, however, to give momentum to the dynamics of the system.

3. *Diversification and changes in employment*

Let us now revert to the absorption process. We have described how the labour force moves up from the lower layers of technology to those of increasing productivity; but nothing has been said of the changes which simultaneously take place in employment, and which, in their turn, influence power relations, as will be seen in due course. We will now deal with this aspect of the question.

These changes in employment depend upon the variations which occur in demand for goods and services as per capita income increases and distribution disparities become more marked.

As demand expands, the goods and services towards which it is directed are incessantly diversified; the propagation of technique raises productivity, and this encourages imitative capitalism to adopt new patterns of diversification, which also derive from constant innovations in the centres.

This diversification takes place both in production of goods and services to meet market demand, and in State services, which are supplied as a result of political and administrative decisions.

In both cases power relations make their presence felt: in the sphere of the market, because it is upon them that income distribution mainly depends; and in the sphere of the State, because they considerably influence not only the size and composition of State services, but also the incidence of their cost, as well as the spurious absorption of labour, that is, absorption which does not respond to considerations of economic efficiency. In contrast, these considerations are predominant in the market sphere.

To go back now to diversification: as regards goods, it is a platitude that demand for primary commodities, especially foodstuffs, generally grows at a relatively slow pace, once the initial stage of development is over. For well-known reasons, diversification is very limited in the case of these goods, except as regards methods of processing.

In contrast, however, diversification would appear to be limitless in respect of demand for industrial goods. Here technique and demand influence each other as the process evolves in the centres; technical innovations, given impetus by

scientific progress, stimulate the diversification of demand, and diversification in its turn acts as a spur to technical innovations.

As the consumption patterns of the centres are propagated and diffused throughout the periphery, the diversification of demand presents a steadily increasing contrast between demand for primary goods, with a relatively low income-elasticity, and demand for manufactured goods, whose income-elasticity is relatively high. Hence the characteristic shift of the labour force from primary production to industry, and likewise to those services where similar diversification is taking place as technique advances, in personal and State services alike.

These changes in demand are matched by changes in the employment of the labour force. Obviously, employment tends to increase faster in activities where demand for goods and services grows more rapidly, to the detriment of employment in activities where the growth of demand is relatively slow. Thus in the dynamics of employment great shifts of manpower occur from what might be termed labour-expellent activities to those that are labour-absorbent. Such transfers also take place on account of the natural growth of the labour force.

4. *Labour redundancy*

In these movements a very important role is played by the growth rate of productivity. It should be recalled that the more this rate increases, the higher must the rate of accumulation rise in relation to the total product. What happens, however, as has already been explained, is that a more or less substantial proportion of accumulation potential is wasted in imitation of the consumption of the centres, as well as in the siphoning-off of income effected from abroad.

All this of course reduces the capacity of the labour-absorbent activities to employ not only the natural increment of their own labour force, but also the manpower displaced from the labour-expellent activities. And when in addition productivity increases in the latter, the adverse effects on employment in such occupations produced by the diversification of demand are augmented by those accompanying this higher productivity.

This is one of the gravest manifestations of the insufficiency of capital accumulation. Agriculture affords the most striking case in point. When higher-productivity layers of technology are superimposed and the rate of accumulation is not what it ought to be, part of the labour force is left redundant, and either remains unemployed or underemployed in the rural areas, or migrates to the towns to look for work. But since capital accumulation is insufficient in the labour-absorbent activities, the people thus displaced are not employed in higher-productivity layers of technology. At best, their relatively meagre income promotes the regressive absorption of labour, mainly in a proliferation of personal services requiring little or no special skill. Hence it can be seen that the existence of absorption is not enough to eliminate the problem of the lower strata stagnating in the sub-consumer society; it is also necessary that the absorption be effected at rising levels of productivity.

A situation similar to that of agriculture, although not exactly the same, is to be found in the intermediate and lower layers of technology in production of other goods — principally in artisan-type activities or low-productivity industries. In such cases demand usually shifts towards more advanced goods, to the detriment of employment in the activities in question, and this aggravates the redundancy problem if there is not sufficient absorption capacity.

In face of these facts, the neo-classical ideologists usually say that if there is redundancy in the system it is because wages are too high for the labour force to be absorbed. This extraordinary thesis, however, does not do justice to strict neo-classical reasoning, since according to this argument, if wages fell prices would have to follow suit, as will be shown in the relevant chapter. Only, unfortunately, in peripheral capitalism what really happens instead is that the surplus increases for the greater comfort and recreation of those who enjoy a place in the privileged-consumer society.

Obviously, then, the insufficient absorption capacity of the system is reflected in the deterioration of incomes in the lower strata of the social structure in relation to those in the upper strata, in so far as the latter share among themselves, in one way or another, the fruits of higher productivity.

A similar deterioration also takes place in the relative prices of certain primary products, in particular agricultural commodities, above all when available land, and, of course, labour, are so plentiful that production tends to outgrow demand, especially if productivity rises as a result of technical progress. When land is in short supply or demand is very brisk, the surplus created by the increase in productivity crystallizes, so to speak, in land rent. This point will be discussed again later.

5. *Reproductive and non-reproductive (or consumptive) capital*

Attention was drawn above to the influence of diversification on the exclusiveness of the system. The unequal distribution of income strengthens this influence and helps to bring about other structural phenomena with which we will now deal. We have

several times referred to the imitation of the consumption patterns of the centres at the expense of capital accumulation and the absorption capacity of the system; but what is involved is not only consumption in itself but also the capital used to produce advanced goods and services, when there are others less advanced that could satisfy the consumer requirements concerned, although not in exactly the same way. We are referring to what we have termed *consumptive capital*, to distinguish it from *reproductive capital*. Demand for these more advanced goods issuing from new layers of technology tends to eliminate the demand for goods from lower-technology layers which need less capital and often absorb more labour; and this elimination process is sometimes intensified by competitive prices. Of course, the replacement of one layer of technology by another is a characteristic of development, and is almost always desirable from the standpoint of individual satisfaction. But it is a premature substitution, satisfying those who enjoy, albeit in differing degrees, privileges in respect of distribution; and this goes on despite the fact that reproductive capital accumulation is insufficient to fulfil its proper role in the labour-absorbent activities.

The distinction referred to above is by no means a trifling matter. A little thought will show that in the evolution of the technique of the centres two trends exist: one directed towards raising productivity per worker, with which we have been concerned up to now; and the other, towards achieving more and more advanced and diversified types of goods and services with increasing capital inputs. In other words, there are techniques that multiply capital and employment and techniques that consume capital, at the expense of subsequent accumulation and of employment. It should be noted, however, that with the progress of technology the two kinds of

technique are usually combined, although in different proportions.

As has been remarked elsewhere, objections are often raised to the technology of the centres on the grounds that it tends to reduce employment because of the greater density of capital per worker. It is felt to be a technology inappropriate for the periphery. But no account is taken of the fact that it is precisely in the saving of labour that the inestimable virtue of these techniques resides, if the choice between alternatives, where they exist, is wisely made.

But it is only half a virtue, so to speak; for to make it complete, the fruits of higher productivity would have to be used, to the greatest extent possible, for the accumulation of reproductive capital in order to increase employment and income.

Let us now take a look at the reproductive capacity of capital. We may begin by assuming a specific capital increment, which is used to step up production with less employment of labour than in the case of the capital previously accumulated. Let it be further assumed that the fruits of this higher productivity are devoted to obtaining a new increment in reproductive capital, using the labour saved before. Thus the effect on employment would be compensatory. But from the dynamic standpoint there is something more important, namely, that the increase in reproductive capital will give rise to an additional increase in employment; and if the process continues on the same lines, not only compensatory but also additional employment will be generated. In other words, as the fruits of rising productivity are continuously allocated to increasing reproductive capital, employment will expand enough to absorb more labour than is saved through the higher productivity achieved.

Very different is the case of consumptive or non-reproductive capital. Let us

assume an initial increase in productivity whose fruits, instead of being earmarked for reproductive capital as in the preceding instance, are allocated to consumptive capital, that is, to means of production designed to put out technically advanced goods that will meet the requirements of demand better than before. The production of these consumer goods would also generate compensatory employment, but successive increases in productivity would not occur, nor would additional capital and employment be created as in the case of reproductive capital. There would be no progressive accumulation.

This seems the right moment for a word of warning which is not unimportant. It was assumed, in order to simplify our argument, that the fruits of higher productivity were devoted in their entirety to the production of reproductive capital goods. But this does not really happen, since only a part of them is invested in this way.

Thus the same compensatory effect on employment is not produced. But this is equally true for both reproductive and consumptive accumulation, and does not invalidate our previous line of reasoning. The only thing is that total compensation in respect of employment will take longer to achieve, and all the longer still, the smaller the proportion of the fruits of productivity earmarked for accumulation.

Let us go a little more deeply into the significance of these phenomena. In the technological progress of the centres there is a measure of correspondence between the two kinds of technique. In reality, the growing accumulation of reproductive capital, with continual increases in productivity, makes possible the progressive advance of diversification and of consumptive capital techniques. Obviously, it would be irrational to expand production of the same goods beyond a certain point. The diversification of goods incorporat-

ing more and more advanced techniques is an indispensable requirement of the dynamics of capitalism; and if this entails increasing the proportion of consumptive capital in the whole, the reason is that productivity has risen sufficiently to make that possible, due account being taken of distribution disparities.

A clear case in point is that of the diversification of durable consumer goods, where a number of gradations by efficiency are found, which call for increasing amounts of capital and more and more highly-skilled labour. The efficiency of a good consists not only in its intrinsic capacity to satisfy needs, but also in its ability to respond to other considerations. And we cannot in fairness ignore the criticisms levelled in the centres themselves against the ceaseless arousal of new requirements as a result of the prodigious development of the mass communication media, which are becoming more and more adept at manipulating the sovereignty of the consumer. In demand for these advanced goods and in their proliferation there are, too, elements of conspicuous consumption and social climbing. But even apart from all this, the propensity to prefer what is technically more advanced is very understandable.

It is a preference that largely depends upon personal income. The more inequitable income distribution is, the stronger will be that preference on the part of the more fortunate. And it is precisely herein that the serious incongruity of peripheral capitalism lies, since in order to produce increasingly advanced goods more capital per unit of output is required, and this is prejudicial to reproductive capital accumulation.

A less inequitable income distribution would obviously be favourable to those patterns of consumption which call for less consumptive capital.

Whichever way one looks at it, the diver-

sification described, costly in social terms, is effected at the expense of the reproductive capital which needs to be accumulated as intensively as possible, in order to absorb, at higher levels of productivity and income, the labour force employed in lower-productivity layers of technology.

It should be pointed out that these problems occur not only in the upper income strata, but also, to an increasing extent, at the higher levels of the middle strata. And to these the limited ambit of the privileged-consumer society is confined.

From another standpoint, diversification helps to accentuate the trend towards external disequilibrium. For while it is true that the position is eased by import substitution in respect of such goods, especially in the initial phases of the process, it is equally undeniable that the intermediate and capital goods required for domestic production have to be imported, and this tends to counteract the relief obtained, apart from the limits set by technology and fragmented markets. Furthermore, as diversification proceeds in the centres, part of the increment in peripheral demand which cannot be satisfied by import substitution is deflected centrewards.

Reverting to the line of reasoning I was following before these digressions, I would say that the consumer society displays other kinds of waste of accumulation potential which are due not so much to the advance of technique as largely to traditional considerations of social status. The most striking example is afforded by housing. Beyond a certain point, which could be determined only empirically, far too much consumptive capital is spent on housing, and this not only among the upper strata, but among part of the middle strata as well. Here the effect of income distribution privileges is manifest. Thus reproductive capital accumulation poten-

tial is wasted, and this, as happens in other cases of imitative consumption, weakens the labour-absorbing capacity of the system. This is one of the principal factors of frustration in the dynamics of peripheral capitalism.

Again, a high proportion of non-essential consumptive capital is common in State investment, both in infrastructure and in some types of public monuments. Certainly neither the sphere of the State nor that of the market is characterized by austerity in peripheral capitalism.

The waste of capital is not confined to production of goods alone. It is also observable in the field of highly-skilled personal services which are performed in the centres on increasingly advanced lines. Where medical services are concerned, for example, the training period for professionals involves considerable capital requirements, both because of the increasing efficiency demanded of such services by virtue of the progress of science and technique, and also as a means of limiting access to the profession with a view to enhanced prestige and bigger fees. Well-authorized critics have pointed out that capital investment for training purposes could be reduced if paramedical services were developed and certain procedures were simplified. But here too the distribution privileges of the upper and part of the middle strata make imitation of the centres possible, while the lower strata often lack the most elementary services. There are various professional services of which the same might be said.

The subject of education has also been much discussed. Eagerness to reproduce the institutions of the centres (often spurred on by the opportunities of skilled employment thus afforded) leads to the allocation of a disproportionate amount of capital to higher and secondary education, with the consequent neglect of the lower strata. And even when these have access to primary education, its results

are often very unsatisfactory because incomes are so tiny.

Thus the socio-economic structure exerts influence in two major ways. On the one hand, institutions for the training of personnel and provision of services are largely responsive to structural power disparities, and, on the other, these disparities substantially affect the capacity to use the services provided.

Let us now pause to examine the most important conclusions to be drawn from all this, as regards both goods and services. No one could deny the immense contribution that technique has made to human welfare, especially if present ways of life are compared with those of only a few generations back. But what can be denied is the desirability, from the standpoint of development, of imitating patterns of consumption which the centres have achieved thanks to their large-scale capital accumulation and to an average income whose level is several times higher than those attained in the periphery.

Nothing in the operation of the system is calculated to lead spontaneously to the solution of this problem. On the contrary, distribution disparities make for its aggravation, since in so far as they encourage diversification, the proportion of consumptive capital tends to rise at the expense of reproductive capital, to the detriment of the social efficiency of the system.

The social cost of all this is enormous, since the expansion of the consumptive capital required makes increasing inroads on the reproductive capital necessitated by the magnitude of the labour absorption problem. The whole process contributes to the exclusiveness of peripheral capitalism. Since advanced consumptive-capital techniques are spreading more and more, reproductive technique cannot penetrate in depth into the lower strata of the social structure. Hence too the conflictive element in peripheral capitalism, for as time goes by, the fruits of higher pro-

ductivity are no longer enough to satisfy the increasing pressure of consumption on the interplay of power relations.

In all this can be seen the interrelationship of these aspects of the socio-economic structure. The more and more advanced patterns of consumption of goods and services prevailing in the centres are

propagated throughout the periphery by virtue of the enormous distribution disparities resulting largely from the power relations that emanate from the social structure. And in their turn these phenomena react upon the social structure, with the consequences just described.

IV

Structural changes in power and income distribution

1. *The sharing capacity of the middle strata*

As will be recalled, under the rule of market laws the fruits of higher productivity are more and more unequally distributed. The following are the major aspects of this inequality:

—The income of the upper strata tends to rise faster than productivity, owing, on the one hand, to the appropriation of the surplus by the owners of the means of production, and, on the other hand, to the capacity of part of the labour force to share, thanks to its high levels of skill, in the fruits of increased productivity. It is essentially in these strata that the consumer society evolves;

—The income of the middle strata grows more slowly than productivity because of regressive competition, although the effect of the latter lessens as the scale of skills is ascended;

—The income of the lower strata, which have little or no share in the fruits of development, is minimal.

However, the sway of market laws over income distribution is not indefinitely maintained; rather is it a characteristic of the initial phases of development. As these phases are left behind and technique is propagated through industrialization and the development of other activities, the

middle strata gradually expand, both by virtue of their own natural growth and because they absorb labour from the lower strata. This process, the urban concentration of the labour force concerned, its increasing cohesion, the progress of education and the influence of the mass communication media, gradually pave the way for the march of democracy, although not without great difficulties. And as this happens the trade-union and political power of the middle strata begins to grow, albeit with very different degrees of intensity in different social groups.

This power, which gathers strength as development proceeds, counterpoises market laws within the sphere of the market and is also used to bring certain State mechanisms into action in order to offset or overcome the effects of those laws both on earnings and on employment.

Trade-union power is used chiefly in the sphere of the market to limit or eliminate regressive competition, push up salaries and wages and defend the improvement already obtained; and political power in the sphere of the State, to attain the following objectives:

—to procure and increase social consumption;

—to expand employment beyond the bounds set by economic efficiency in the market sphere, when State services grow to excess by virtue of their own dynamics;

—to secure spurious employment of labour, especially the labour force in the middle strata that is affected by the weakening of the labour-absorbent role of capital accumulation.

None of this applies to the labour force in the lower strata, inasmuch as it lacks political and trade-union power.

With the development of these various ways in which the disadvantaged labour force obtains a share in the fruits of higher productivity, the growth rate of its overall income rises, and, as the trade-union and political power of the strata in question increases, catches up with the growth rate of productivity. But this is the limit which cannot be overstepped without seriously jeopardizing the dynamics of the system; for if trade-union and political power tries to make the growth rate of income outstrip that of productivity, it will have to do so at the expense of the surplus, and this will have an unfavourable effect, not only on capital accumulation, but on the very privileges of the consumer society. This problem will be dealt with in another chapter in the context of the crisis of the system. The present reference to it is intended to give some idea of its dynamics in face of the structural changes accompanying the propagation of technique.

2. Different kinds of power in relation to income strata

In the following pages we will examine the significance of the different kinds of power that intervene in income distribution and redistribution. But stress should first be laid on the essentially dynamic nature of the distribution process, since structural changes take place incessantly, and so do changes in the power

relations emanating therefrom. We have just seen that as a result of these structural changes, alongside the growth of the economic power of the upper strata and of their capacity to appropriate surpluses and increase the amount of the global surplus, the trade-union and political power of the middle strata also develops. When this happens it would appear that the political power of the upper strata weakens, while the concentration of capital is maintained, and with it the ability of the owners of the means of production to enlarge the global surplus. Nevertheless, once the limit referred to is reached, political power, backed by the economic power which has continued to grow, finally asserts itself, and weathers the crisis of the system by resorting to the use of force.

Analysis of the different kinds of power and power relations may usefully be preceded by a word as to the correspondence between them and the income strata over which they exercise paramount influence.

Hitherto we have been talking about upper, middle and lower strata, but without defining the significance of these terms. For, as always happens when a quantitative scale is in question, it is impossible to establish a clear-cut dividing-line. The borderlines are manifestly indeterminate, but this in no way invalidates our reasoning. Furthermore, the point is one that will prove important in the praxis of change.

It should be recalled in passing that we have likewise discussed, and likewise in brief outline, the privileged-consumer society which is based on the upper strata, and the sub-consumer society of the lower strata. And there is no room for doubt as to what these extremes imply. But between the two extremes lies a whole range of situations. Where does the sub-consumer society end and the diversification of consumption in the middle strata begin?

The economic power bestowed by ownership of means of production is concentrated in the upper strata and, albeit with less dynamic significance, in the middle strata too. The possession of means of production diminishes with the descent from one stratum to another until in the lower strata it becomes relatively negligible.

Social power makes its appearance in a small proportion of the labour force which is incorporated partly in the upper strata, and, above all, in the middle strata and their higher income steps. It finds expression both through the skills whose technical complexity increases with the ascent of the scale of capacities, and through conventional skills. This is the labour force which has benefited in the course of development, although in degrees which differ greatly among its members.

In any event, the said labour force, precisely because it is in a favourable position in the absorption process, experiences a spontaneous improvement in its income as productivity rises. For that it has no need of trade-union power. But lower down the scale regressive competition begins to operate and trade-union power becomes a necessity in order to secure a better share in the fruits of higher productivity, especially where skills are rudimentary or simply non-existent.

As will be remembered, to the middle strata corresponds the labour force that has been absorbed in technological layers of rising productivity and is acquiring redistributive power. The workers that are not absorbed remain in the lower strata and have no such power; and those that do belatedly secure a very partial and incipient form of it move up into the middle strata.

Thus the play of power relations in respect of income distribution is reflected both in the sphere of the market and in that of the State. In the former, the possessors of economic power and social power accept the rule of market laws, while trade-union

power is used to offset the action of those laws. Similarly, in the sphere of the State, the relations between income distribution and these various kinds of power depend upon the way in which the latter are projected in politics. From the standpoint of participation in the fruits of higher productivity, the State is really an expression of those power relations into which the electoral weight carried by the labour force is increasingly incorporated, in so far as democratization goes ahead without hindrance in the middle and also the lower strata. These are relations that alter in the course of structural changes, and are eminently dynamic, not static.

The contention that power relations are the main determinants of income distribution by no means implies a denial of the influence wielded by the capacity and dynamism of individual figures who rise above the strata from which they have emerged, as will be seen in due course.

Let us now go on to analyse the different kinds of power. The only aspect of the matter with which we are concerned, be it noted, is that bearing on distribution phenomena. The socio-economic structure, of course, is much more complex; but to deal with it would be impossible without going beyond the strict confines of development.

3. *Economic power*

Economic power is mainly the prerogative of the owners of the means of production, who are increasingly concentrated in the upper strata. They are closely linked to those who handle the banking and financial machinery of the system and who frequently combine ownership of means of production with their own specific role.

Since the role of monetary expansion in the formation of the working capital of enterprises has already been explained, it seems needless to mention the importance of those who carry responsibility in the

banking world, especially when, in addition to the financing of working capital, recourse is also had to bank credit for the purposes of fixed investment or purchases of existing assets. And the limit is not far off beyond which these operations acquire inflationary characteristics, as fairly often happens in peripheral capitalism under the influence of dominant interests. These complementary activities, while they do not generate surpluses through a rise in productivity, make it possible to appropriate and retain them, and even to increase them on an inflationary basis, at the expense of the rest of the community.

Special consideration has already been given elsewhere to land tenure, which has not the same dynamic significance as capital accumulation. Urban land is not a source of surpluses; rather is the surplus generated in enterprises deflected towards it. But its owners share economic power with the owners of capital and with those who handle banking and financial machinery, so that they project their interests into the political field.

Allusion has several times been made to the concentration of capital, and the time now seems to have come to explain it. It has two aspects: on the one hand, concentration of the owners of the means of production, in relation to the rest of the community; and, on the other hand, inequality in the concentration process, since it takes place mainly in the upper strata.

The basic explanation of the first aspect lies in the fact that a high proportion of the capital of enterprises is accumulated through investment of a part of the surplus generated in the enterprises themselves, and also a part of the income of their leading executives, in which there is usually a substantial element of surplus. This does not mean that the other members of the labour force do not accumulate capital; they do, especially the middle strata, in the upper ranks of the labour force. A

considerable proportion of this accumulation, however, takes the form of consumptive capital which does not generate a surplus, the principal case in point being housing.

Moreover, it is readily understandable that, save in exceptional cases, enterprises have little interest in spreading accumulation among their staff, since that might imply, with the passage of time, the intention to share with the executive personal the decision-making power of the enterprises themselves.

Let us now look at the second aspect of the question, which we regard as highly significant. Why is concentration increasingly intensified in the upper strata of the owners of the means of production? In point of fact, the inequality that is manifested in these strata engenders a greater inequality. Those who possess most of the means of production are in a better position to accumulate capital; their situation is advantageous for introducing new layers of technology, and the more intensive is concentration, the more privileged they are in this respect. Hence a considerable amount of the fruits of higher productivity in those new technological layers, and, consequently, of the accumulation potential which this represents, ends up in their hands. And although they do not accumulate as much as they could, at all events they accumulate more than the other owners of means of production lower down the scale of tenure. Thus the propagation of technique and the socio-economic structure tend to favour the strong rather than the weak.

The lower the position of the owners of means of production in the scale of tenure, the less is their capacity to introduce the techniques of the centres. And thus as the capital at their disposal is relatively scanty, so too is their participation in the surplus, since that smaller capital makes it difficult to adopt higher layers of tech-

nology of increasing productivity. Furthermore, the lower down they are in the scale, as was have already pointed out, the more difficult it becomes to obtain access to bank credit and financing, as well as to the sources of technology.

All this explains why, as a general rule, the lower the position of the entrepreneur in the scale of ownership, the lower will productivity be.

Dynamic entrepreneurs, however, surmount these difficulties; and when they do so, and make technical progress, the object in view is frequently not to produce the same goods, but to participate in the process of diversification in line with demand and with the changes in it brought about by distribution privileges.

From the trend towards concentration far-reaching consequences stem, and one of these relates to the management of enterprises. In small and medium-sized enterprises, management is closely linked to the ownership of the means of production, and since as a rule intermediate and lower layers of technology are involved, the surplus too is small or medium-sized. It might therefore be said that the lower the position of entrepreneurs in the scale of ownership, the bigger is the proportion of their income that derives from their personal work.

In contrast, the higher up we look in the scale of ownership and also in the scale of productivity of the technological layers, the more the surplus increases, and thus a decrease takes place in the proportion of income corresponding to the remuneration of entrepreneurs. This effect is accompanied by another which is also of outstanding significance; for with the introduction of new layers of technology and the increase in concentration, greater importance attaches to the function of the executive and technical personnel who collaborate with and are appointed by the owners. Thus the periphery is developing, although to a much less marked extent, the same tendency as exists in the centres to

dissociate management from ownership of the means of production. The work of management is increasingly shouldered by the executive and technical staff, but the owners continue to appropriate the surplus. Their role is therefore reduced to their election and to the performance of certain functions which, although they do not necessarily redound to the greater efficiency of large enterprises, strengthen their power. Important shareholders, or their representatives, serve on various boards of directors, especially in the case of groups of companies whose formation is facilitated by the concentration of capital and easy access to financing from other sources; and also when the aim is to co-ordinate the development of several enterprises, often with restrictions on competition.

It is really a matter of an internal constellation of interests whose influence on the political parties and State authorities is thus considerable, since, *inter alia*, it facilitates obtaining modifications of customs duties, subsidies or other privileges which help to swell the surplus.

In this constellation of interests the transnational corporations become articulated. They are increasingly active agents of the introduction of new layers of technology and therefore of the creation of surpluses. They generally make a marked contribution to the expansion of production, but after a certain time they also turn into active agents of the siphoning-off of income abroad.

4. Social power

In peripheral capitalism two components go to the making of social power: training opportunities on the one hand; and the possibility of using them on the other. Both components are considerably influenced by the social structure.

Some CEPAL studies have helped to highlight the fact that opportunities for education and training depend largely

upon the political power of the upper and middle strata, although in very different degrees, whence great disparities derive. Thus, to cite extreme cases, there is generally a notable contrast between the resources earmarked by the State for the education of the upper and middle strata and those allocated to that of the lower strata, in some countries that have not yet succeeded even in eradicating illiteracy.

Obviously, too, access to the opportunities in question declines with the descent in the income scale. For instance, in cases where primary education has been extended to the lower strata, their family incomes are too tiny for them to take due advantage of it. And this is of course more marked in respect of secondary education; not to speak of university education, where the participation of the lower strata is minimal, to refer once again to extreme cases.

We are simplifying a serious problem in which other elements of a different kind are usually present. But enough has been said to draw attention to the privilege implicit in social power, which is of so much importance in the distribution of the income of the labour force.

The higher and more complex are the skills required, the greater is the influence of structural privilege on training in such skills, irrespective, of course, of individual differences, with which we will deal elsewhere. Moreover, competition between entrepreneurs to recruit possessors of such qualifications in the market induces them to give these skilled personnel a larger share in the global surplus than they would obtain if the latter did not tend to increase continuously in the course of development, in contradiction to the assumptions of neo-classical theory. Market forces help those who have acquired skills to climb the ladder, but they do not help in acquiring them. Such is the influence of the socio-economic structure.

This observation relates, of course, to

the skills that become more and more indispensable with the propagation of technique in the various manifestations of development. But the influence of social power affects not only them but also what we have called conventional skills. These are mainly the qualifications required for general State services, and for a whole extensive range of professional activities which are chosen not only for reasons of income, but in the light of traditional considerations of social status. Accordingly, in peripheral development there is a marked tendency to overdo training in these conventional skills, which in itself represents an additional factor of waste of capital.

This frustration of social power leads to the use of political power to secure the spurious absorption of redundant manpower with conventional qualifications in general State services and in public enterprises. To this last point we will revert later.

5. Trade-union power

It will be recalled that with the penetration of technique and the accompanying structural changes, the middle strata grow progressively larger. Only a fraction of them, however, has enough social power to acquire the skills which the new technique demands. The majority do not command these skills, or possess them only in an inferior and rudimentary degree, because they have insufficient social power or none at all. Consequently, their chance to share in the fruits of higher productivity through the spontaneous action of market forces grows less and less the lower down the scale of skills we look, and the supply of labour increases, exposed to the regressive competition which has already been explained elsewhere.

This is one of the most serious distribution problems, since under the rule of

market laws this mass of workers has relatively little redistributive power, and only in the course of time might gain a measure of strength as structural disparities were gradually reduced.

Clearly, then, distribution disparities are inherent in the development of the system. Accordingly, other kinds of power assert themselves, which come to the fore with the advance of democracy, as the middle strata are enlarged by industrialization and the expansion of other labour-absorbing activities.

If the capacity to share in the fruits of higher productivity were inherent in the play of market forces, as is assumed by conventional theories, trade-union power would have no reason to develop. But as this is not the case, the propagation of technique and the consequent changes in the social structure lead to the emergence of this kind of power together with political power, with the aim of counteracting the effects on distribution produced by the economic power of the owners of the means of production concentrated in the upper strata and by the social power of the advantaged labour force.

In reality, all this goes to make up one single system: the system of power relations. To denounce the trade-union power of the masses as anathema because it implies violation of economic laws is a serious *non sequitur*, since the economic and social power which it is opposing is not the result of those economic laws but of the socio-economic structure.

If, with the passage of time, this confrontation of powers culminates in conflictive situations and in a crisis of the system, this is due to the system itself, inasmuch, as has already been observed, the evolution of power relations is determined by no regulatory principle based on considerations of equity.

This lack of an equitable regulatory principle is apparent not only in power

relations in general but in trade-union power itself, which is far from being homogeneous. It usually carries more weight at the strategic points of the system and in those big enterprises where the surplus is high. In such cases, regressive competition has been largely eliminated, whereas this is not so in other activities in which a large proportion of unskilled or only slightly skilled labour is required, and in which regressive competition is strong, precisely because such manpower is so plentiful. In cases like this the State is invoked to support trade-union claims.

6. *The State and the composition of political power*

The State, being the political organ of the system, and therefore subject to changes in the composition of political power, is of considerable importance in the distribution of the fruits of higher productivity through the services it provides, the corresponding employment and the levying of tax revenue to cover the cost of such services. From the standpoint of distribution, the State is an expression of the existing power relations.

It has already been noted that the incidence of power relations is also heavy in the sphere of the market, where the relations deriving from the social structure and its changes influence distribution, and this in turn affects the diversification of demand and employment, which, again in its turn, operates upon the aforesaid changes. The situation would therefore seem to be similar, but there are very significant differences.

Whereas in the market sphere demand for goods and services is given expression through the expenditure of personal income, whatsoever pattern income distribution may have followed, in the sphere of the State the linkage between income and services is different. Save in exceptional

cases, the services provided by the State are financed with tax revenue which is drawn not necessarily from the income of those benefiting by the services but from that of other social groups. Thus, some groups may enjoy a sizable share of services for which other groups have paid.

Both cases reflect the composition of political power and the modifications it undergoes as the result of structural changes. In the course of these the dominant power of the upper strata finds itself opposed by that of the middle strata, as the democratization process advances, and finally by that of the lower strata, which the process in question is slow to reach. Thus a distinction might be drawn between different combinations of power, or if it is preferred, different phases, although one must beware of the risk of lapsing into an over-schematic presentation of the democratization process.

The first phase is that of outward-directed development, prior to industrialization. Political power is then essentially in the hands of the upper strata —landowners, financiers and big businessmen— and is shared by those who enjoy social power in the conventional forms prevailing at the time. External demand appreciably influences the generation of the primary production surplus, and the part left by foreign enterprises in the host country is distributed at the dictates of the market forces, whose interplay is undisturbed by the intermediate strata consisting mainly of the traditional middle class. The lower strata represent a very high proportion of the labour force which is widely scattered and has no power at all in the rural areas.

In a second phase, industrialization and, in general, the propagation of technique outside export activities are incipient; and to the primary production surplus is gradually added that generated by the new activities. Thus new elements are incorporated into the upper strata,

whose political power remains considerable in face of the weakness of the middle strata, which are beginning to expand as a result of the penetration of technique. Distribution is still governed entirely by market laws, owing to that same weakness and to the use of the State's potential instruments of repression, always ready for application in case of any troublesome redistributive effort.

In a third phase, the enlargement of the middle strata and the urban concentration which industrialization and, in general, the propagation of technique involve —through their direct and indirect effects— pave the way for the democratization movement. The upper strata, however, manage to mitigate, if not to nip in the bud, the incipient trade-union and political power that democratization is bringing to the disadvantaged strata. To that end they resort to different procedures: the manipulation and mobilization of masses or clientele under direction from the top of the system; the co-opting of political and trade-union leaders, and their incorporation in the system with some participation in its advantages. In any case, democratization is largely formal, rather than substantive, and accordingly trade-union and political power develops within narrow limits.

The fourth phase represents the natural corollary of the third. It is characterized by the emergence, in the middle strata, of a clear awareness of their interests, thanks to their progressive expansion, to education and to the growing influence of the mass communication media. And through the exercise of trade-union and political power their former relationship of subordination to the power of the upper strata begins to melt away, so that their leaders acquire a capacity for bargaining and compromise, both as regards income redistribution and employment, and in respect of aspirations outside the economic field.

In the fourth phase the trade-union and political movement gains greater momentum. New leaders emerge whose activities are more and more directed towards exacerbating the distribution struggle, rather than easing its pressure. And the claims for redistribution which subsequently begin to be voiced by the lower strata as well drive the system to a critical limit beyond which its stability is seriously jeopardized.

Incidentally, in all this too a part is played by propagation and irradiation from the centres, whose democratic ideas and institutions acquire telling significance in the periphery in the course of the aforesaid structural changes. Thanks to this, the trade-union and political power of the middle strata gives increasing impetus to the tendency to extend the advantages of development beyond the restricted ambit of the privileged-consumer society.

In the successive phases just described, changes take place both in the composition of State services and in the manner of covering their cost.

In the first phase, in addition to providing the general services that to a greater or lesser extent are of interest to the whole community, the State, in channelling public expenditure, responds primarily to the requirements of the upper strata, as it does in its investment in infrastructure.

But as the subsequent phases succeed one another, the political power of the middle strata obtains services to satisfy its own social consumption, which are superadded to other State expenditure or investment.

These social services, as well as the other State services, also reflect another kind of pressure exerted by the middle strata, which relates more to employment and earnings.

At all events, in this latter case as in the former, the middle strata are trying

to remedy in the sphere of the State the adverse effects of market laws.

Employment is obtainable in two ways. The first is linked to the growth of services to an extent incompatible with the considerations of economic efficiency that prevail in the market. Services are over-amplified in relation to the strict requirements of demand; they are really the product of their own dynamics, of aspirations to bureaucratic hypertrophy and to higher incomes. Nor, of course, do these services abstain from the premature propagation of diversification and consumptive capital techniques, such as takes place in the market sphere.

Clearly this means that more employment is created, not only for those who command the skills demanded by technique, but also for those who have acquired conventional qualifications.

This over-expansion of services is not incompatible with good management: but it often becomes so, owing to the spurious absorption of labour. In so far as the system, because of the insufficiency of capital accumulation, fails to fulfil its labour-absorbing role, the redundant or unemployed labour force, particularly in the middle strata, uses its political power to secure its spurious absorption in State services. The lower strata, as a general rule, have much less power to do so.

Public enterprises constitute a special case which is far too important to be left out of the present analysis. Apart from the ideological motives which in some cases promote their establishment, they have frequently become necessary as an alternative to a transnational corporation or as a means of counteracting the economic and political power of the upper strata. But at the same time, it is undeniable that even when this has not initially been a paramount objective, they have often represented the political road to participation in the surplus which is generated in

the enterprise, and which is used partly to raise earnings and facilitate the access of the senior staff to the consumer society. But often, too, their own surplus is dissipated in spurious absorption of labour, when this does not take place at the expense of the surplus pertaining to the rest of the economy.

These remarks, of course, are not meant to justify economic inefficiency on the part of public enterprises, but to enable their case to be viewed in a broad perspective, as one of the manifestations of a process of redistribution. There are some, it should be added, who regard the public enterprise as an instrument for changing the system; but while positive contributions have admittedly been made, it cannot entirely elude the play of power relations.

Apart from what has just been said of public enterprises, all these different ways of sharing in the fruits of higher productivity of which, as stated above, the middle strata in particular avail themselves by virtue of the political pressure they can exert, naturally have important effects on the growth of the surplus; for, in the last analysis, the tax revenue which defrays the cost of State services and investment represents a burden on it. We are not alluding only to those investments in infrastructure which help to increase the surplus, or to those which are genuinely necessary for the performance of the State's functions, but also to the conspicuous investment which responds to other all-too-well-known motivations.

We have just seen how political power, which was originally confined to the upper strata, is gradually shared, by the middle strata in particular, and may ultimately be extended to the lower strata. To whatever extent this happens, however, the political power of the upper strata will remain considerable. For, as already pointed

out, while the political process is thus spreading its effects, the concentration of economic power is intensified. Even if the impact of the said process slows down the growth rate of the global surplus, this latter continues to expand, and thanks to this the upper strata increasingly enjoy the advantages of the consumer society. They will have to make concessions to the pressure for redistribution from below, but their political power is more than sufficient to defend the institutional bases on which their growing economic power is built up.

7. Political power and the mass communication media

The ramifications of the political power of the upper strata are a matter of common knowledge. They include financial contributions to the political parties and to their dynamic figures; introduction of politically influential personages into the boards of directors of enterprises, or employment of their professional services, both privately and in affairs of State; and other forms of participation through political channels.

In addition, account must be taken of the close relations of the mass communication media with the privileged-consumer society. These merit separate consideration, especially in the case of the press.

The evolution of publishing techniques—an integral part of production technology—necessitates an increasingly large amount of capital, and this does much to intensify the concentration of capital, as is the case with other enterprises. There is really a symbiosis between the big newspaper enterprises and journalism proper. But the latter tends to be subordinated to the former. The days are long gone by in which journalism required a relatively small amount of capital accessible to those who wanted to disseminate

ideas and influence public opinion. That state of affairs was intimately bound up with the original concept of the freedom of the press in political liberalism; but the hard facts have undergone a fundamental change.

It is becoming increasingly evident that newspaper enterprises are closely linked to the evolution of the privileged-consumer society, and are largely dependent upon commercial advertising. The journalistic function is strictly obliged to meet publicity's demands. And however broad its field of criticism, there would be no room for an attack in depth on the consumer society, or on the systematic manipulation of what the neo-classical economists call the sovereignty of the consumer. Much less could it impugn the very foundations on which the system is based. What is more, the success of advertising depends upon the circulation of the newspaper; to boost circulation is an inviolable watchword. And although there are noteworthy cases of circumspection and a sense of social responsibility, there are others, by no means uncommon, in which for the sake of a wide circulation commercial considerations alone prevail.

One important factor of circulation is criticism of governments rather than of the system: an expression of the freedom of the press; a mighty conquest of liberty. But it is the liberty of the owners of the means of production of the enterprise.

This again bears witness to the interdependence between the penetration of technique and the social structure and its changes. Because of the demands of technique, a big newspaper enterprise shares power with the other large enterprises whose economic power is substantial. The former is, up to a point, a member of the system of the privileged-consumer society, however wide and varied the range of its political opinions. It is so inasmuch as the requirements of circulation lead it

to trumpet abroad the superlative merits of that society. And by doing this it joins with the factors that animate the distribution struggle, apart from those which in some instances stem from its own bias.

This bias is considerably influenced by the structural changes that take place and the resulting changes in power relations. Thus, as the political power of the middle strata expands, the press responds increasingly to their interests and aspirations. New organs of the press are added to those which maintain their firm ties with the upper strata.

A certain ambivalence then makes itself apparent, particularly when democratization starts to forge ahead. Its advance is encouraged by the press, which at the same time continues to offer its stimulus to the consumer society. This, as we know, tends to develop within a limited ambit, whereas the march of democracy, urged on by the press, carries downward the advantages it brings. This ambivalence helps to accentuate one of the deepest-seated contradictions of the system, namely, the increasing disparity between the course of economic development and the political process, an aspect to which we have already made repeated reference.

In alluding to ideologies I am not necessarily thinking of those which are definitely opposed to the system, although obviously there is little room for them in these newspaper enterprises. Nor do I refer, of course, to those cases in which enterprises are established for the propagation of such ideologies rather than for the sake of an economic interest which could not, of course, be sustained by an inherently limited commercial publicity. They have other sources on which to draw for funds. In any event, freedom of expression is the primary concern of those who share the ideologies of these organs of the press.

On every side, the individual freedom

of expression proclaimed as one of the basic principles of political liberalism is seen to be hampered in practice, even when the democratization movement is in full swing. It is not easily accessible, as are, in contrast, public services, which are open to all those who are able and wishful to use them.

It is a commonplace that radio and television are acquiring such increasing importance as to jeopardize, in some cases, the prosperity of newspaper enterprises. Like these, they too need a great deal of capital and are usually similarly dominated by the interests of commercial advertising. There is, however, a by no means negligible difference when access to these media is accorded to any who wish to make use of them. Even though this access is paid for, it still represents a positive approach to solving the problem of freedom of expression; for it perhaps signifies the beginning of a separation between the enterprise as such and the genuine medium of diffusion of ideas and ideologies.

To these observations on the freedom of the press I should like to add one concluding remark. As will be pointed out later, mobility does exist in peripheral capitalism, but those who 'get somewhere' join the privileged members of the system and in one way or another obstruct the arrival of others. There is a similarity between this process and what happens in the case of freedom of the press.

This freedom is still deeply meaningful, and its significance is never better understood than when it is restricted or suppressed by the State's power of repression, or when the State takes over the press.

Where democratic liberalism prevails, anyone who wants to establish a newspaper or periodical can do so. The drive of dynamic personalities has made itself felt here as in other human activities. But although this implies a strong element of

freedom of the press, it is far from constituting a satisfactory response to that original concept of which we spoke before.

Such dynamic personalities, endowed with great entrepreneurial capacity, surmount in one way or another the formidable obstacles represented by capital requirements. And those who are successful acquire great power, power which is given by the freedom of the press, freedom to serve their own ends. But this by no means signifies free access for others, or equality of opportunity for all those who have ideas to express or ideologies to defend.

Nor is this all. The capacity to form a great newspaper enterprise, the capacity to guide its economic management, does not necessarily coincide with journalistic ability proper. And in the last analysis, entrepreneurial interests, so closely linked as they are to the consumer society, tend to take precedence of the role that political liberalism used to assign to the journalistic function. And sometimes a great contradiction arises between the enterprise as such and the convictions that may be urged, a contradiction which could hardly be understood without thinking in terms of the limited ambit of development privileges.

8. Individual differences and social mobility

We have explained the considerable influence of power relations on the distribution of the fruits of higher productivity. But this does not mean denying the existence of individual differences; in that case, to escape from neo-classical theories we should have tumbled into the opposite extreme. A very important form of social mobility does indeed occur, enabling certain individuals to triumph over the power relations resulting from the social structure, whatever their original place in the system. Thanks to their

capacity and dynamism, their ability to turn their experience to good account, they outstrip their fellows and increase their income, climbing to higher —sometimes much higher— strata than others who set out from the same starting-point. But when this happens they end by joining in the privileges of the system, and contribute to the exclusive and conflictive effects by which it is characterized, despite their positive contribution to development.

These differences primarily affect the surplus itself. If we have underlined its structural character, we must not forget its dynamic significance, since the growth of the surplus is determined by the increase in productivity which is due to the superimposition of new layers of technology and the improvement of techniques in the layers immediately below. And it is here precisely that the above-mentioned differences in capacity, drive and experience make themselves felt. Those who are outstanding in these qualities in the entrepreneurial sphere forge ahead and move upward more rapidly than others; they are the dynamic elements of the system, and their contribution is usually of great importance within the limited ambit of development.

Conventional theory is to some extent right in considering distributive advantages justifiable for the entrepreneurs who have contributed most to the improvement of productivity under a system of free competition; but privilege does not consist in profits themselves, but in the fact that however unrestricted competition may have been, a part of the fruits of higher productivity, which are considerable in peripheral capitalism, is retained on top of what was retained before, that is, it goes to increase the global surplus. The surplus is in the last analysis a structural privilege.

Rightly considered, it is in the persistence of this privilege that the fundamental

defect of imitative capitalism lies, for on it the consumer society rests at the expense of accumulation. I do not deny that social mobility allows the more dynamic individuals to increase their holdings of the means of production, but as a general rule, those who make good in this way, with the undoubted merit of overcoming opposition, end by joining the consumer society, as was noted above. And if they do not, those who have inherited the means of production in question generally do, even if they have not the same dynamic qualities.

In short, by wasting accumulation potential in this way they are hampering the social mobility of others, who, if they had the means to do so, might prove more efficient. More intensive use of this potential in introducing changes in the system would give greater opportunities of mobility to a larger number of individuals who might distinguish themselves by their capacity and dynamism. To pursue this subject further, however, would be to trespass too far on the ground that will be covered in a subsequent study on the Theory of Change.

We have already said elsewhere that social power enables its possessors to acquire the skills necessitated by the propagation of techniques. Here too there is an element of social privilege; but there are also individual figures with dynamic qualities who rise from below —sometimes from the very bottom— and by their tenacious efforts succeed in learning those skills and improving them through experience. Then again there are those who have social power and show great dynamic abilities which enable them to distinguish themselves and outstrip others risen from the same strata. But when they reach higher levels much the same thing happens to them as to those who shine in the entrepreneurial field, for as they climb they improve their

capacity to participate in the fruits of technical progress and gradually secure a share in the privileges of the system, including greater social power.

At all events, those individuals who, by virtue of their dynamic ability or of their social power, or thanks to a combination of both, possess the skills called for by the propagation of technique, find themselves in a more favourable position than others to share in the surplus to whose enlargement they contribute to a greater or lesser extent. The bigger the surplus, the more willing are enterprises to raise wages and salaries when supply lags behind demand for this skilled labour force. Exactly the opposite happens at the other extreme of the social structure.

A fundamental distinction must therefore be drawn between structural income distribution and individual differences in income. The structural distribution results from the play of power relations which are constantly altering with the changes in the social structure, and in their turn influence those changes. Individual differences correspond to varying degrees of ability and dynamism.

Here I should like to slip in a pertinent comment. Since the weak capacity of the labour force to participate in the productivity increment constitutes the structural origin of the surplus, those who are at the opposite extreme and in a better position to obtain their share thus benefit by the structural disparity, a situation which is reflected in the deterioration of income relations between the two groups.

This deterioration affects not only the lower strata but also that proportion of the middle strata whose ability to obtain higher pay lessens when the labour-absorbing role of the system loses strength, whereas the sharing capacity of the above-mentioned relatively small fraction of the labour force grows greater as the rate of productivity rises.

In other words, the improvement of the earnings of the labour force that possesses the skills increasingly demanded by technique largely depends upon the incapacity of the disadvantaged labour force to push up its wages correlatively with the increase in productivity. Such is the nature of the deterioration in income relations which is liable to occur in the spontaneous play of market forces.

V

Structural disparities in centre-periphery relations and the hegemony of the centres

1. *The centripetal dynamics of capitalism*

There could hardly be anything less realistic than that inveterate belief in the indefinite expansion of capitalism according to which it was merely a matter of time until this expansionist movement would spread progressively all over the world.

Let time do its work. The centre-periphery set-up did not fit into such a concept at all.

The dynamics of capitalism is quite a different thing. Capitalism, however thriving, has always tended to keep development to the centres themselves; and when it penetrated into the periphery in the days of outward-directed development

it did so in order to obtain supplies of primary commodities. The centres placed investment there with that end in view, generating what were sometimes very large surpluses. But these surpluses, in so far as they were not needed for the continued expansion of production for export, were siphoned off by the centres in response to incessant innovations. And the part which in the play of power relations the centres left for the periphery was also largely channelled back towards the centres themselves through imports purchased with the aim of imitating their patterns of consumption.

This explains why during the period of outward-directed growth capitalism was not favourable to integrated development of the periphery, over and above primary production; the peripheral countries were excluded from the spontaneous industrialization process. Not with malice aforethought, but by the very dynamics of the system — an essentially centripetal dynamics.

Thus an increasing structural disparity between centres and periphery supervened, and the economic and technological superiority of the former steadily increased. Accordingly, when adverse international events compelled the periphery to embark upon a deliberate industrialization process, it came up against wide disparities between its own productivity and that of the centres, and had to resort to protection in order to undertake import substitution. During the initial phases it relied entirely on its own efforts; but in the course of time substitution has attracted the transnational corporations. They invest to exploit their innovations, especially those that may be termed 'second-line', i.e., not the very latest. But they do not invest indefinitely, since the time comes when the surplus they generate is likewise transferred to the centres: a kind of siphoning-off which combines with the tendency of peripheral demand to shift

towards the centres in quest of increasingly diversified goods, in so far as these cannot be obtained through import substitution. The centripetal dynamics of capitalism reasserts itself after a spell of fleeting illusions.

One of these illusions has consisted in cherishing the hope that the transnationals would play a decisive role in the expansion of exports of manufactures to the centres, thus incorporating the periphery into the voluminous flow of trade in industrial products which has developed in these latter. But hitherto this has occurred only on a very small scale, because of the very dynamics of the system and its innovations.

The truth is that the portentous appearance of the transnationals on the scene contributes notably to the internationalization of patterns of consumption, but not so much to the internationalization of production, which is stimulated in the centres by technological progress. The transnationals forge increasingly close links with the consumer society of the periphery and do a very great deal to exalt it. But they do not counteract its exclusive tendency, because in the last analysis this is due, of course, to the waste of capital accumulation potential in imitation of the consumption of the centres, and to their centripetal dynamics.

Such is the myth of the indefinite expansion of capitalism, which has been fading out with the passage of time, as has that other illusion of peripheral development in the image and likeness of the centres.

The centripetal dynamics of capitalism exerts a profound influence on the development of the periphery, as has already been explained, and on its relations with the centres, with which we will now go on to deal.

Since the capitalism of the centres does not promote the integrated development of the periphery, this takes place

with a lengthy time-lag: a time-lag which entails a number of very important consequences that have come to light in our centre-periphery system, namely, the great structural disparities, the fragmentation of the periphery, its external vulnerability, the deterioration of the terms of trade and the concentration in the centres of economic and technological power. All this goes to prevent reproduction of the capitalism of the centres.

These various points, which are, of course, closely interrelated, will now be considered in turn.

2. The great structural disparities

The time-lag in the development of the periphery should be examined in the light of the past. Initially the periphery played a passive role in what we have called the days of outward-directed growth. At that time it really constituted a sort of appendix to the centres, whose function was to supply them with the primary commodities they needed, at a low cost. Moreover, the propagation of the technique of the centres was chiefly confined to serving this purpose. And peripheral development depended upon the degree of intensity with which this passive function was fulfilled, and which in some cases was very marked and created favourable conditions for subsequent industrialization. But this latter process was not the consequence of the spontaneous development of capitalism.

Owing to the very dynamics of the system, from the outset of the industrial revolution the fruits of the higher productivity achieved through technical progress were not spread throughout the world, but were retained in the centres themselves. There, accordingly, demand steadily increased, and there too, profiting by this process, innovations and industrial

diversification developed. Demand and innovations were spurs to one another.

Despite a few budding industrialization efforts in some of the peripheral countries during the phase of outward-directed growth, the periphery performed the specific role incumbent upon it in the outdated schema of the international division of labour, and was broken up into a number of compartments converging separately upon the centres, with very little reciprocal trade.

The significance of all this should give food for thought. While in the centres industrialization progressively changed the social structure and disseminated the fruits of technical progress downwards, the social structure of the periphery lagged farther and farther behind. It is true that the upper strata shared with the centres, although in differing degrees, the fruits of technical progress chiefly in respect of primary production, but the masses benefited only slightly or not at all.

This articulation between centres and periphery during the phase of outward-directed development split apart in the great crises of the centres (the First World War, the Great Depression and the Second World War). Until then, demand in the periphery, especially that of its upper strata, had been satisfied with imported goods. The crises in question made it exceedingly difficult for this to go on. Industrialization thus became a necessity: undertaken at first in order to produce at home what could not be imported, and later, carried along by its own momentum; and the advent of this process threw into sharp relief the technical and economic inferiority of the periphery from the standpoint of competing with the centres.

3. Peripheral industrialization and the transnational corporations

Industrialization was based primarily on

import substitution. Furthermore, it was asymmetrical. And in the light of experience it is clear that a symmetrical process would have been preferable, combining protectionist duties with various kinds of incentives to exports. But in face of the crises in the centres, the idea of a great export drive would have been a pipe dream.

In those early days of industrialization, active import substitution proved enough to counteract the inherent proneness of peripheral development to an external bottleneck. It should be recalled that this tendency is due to the structural disparities which the time-lag in development brings about in centre-periphery relations.

Owing to these disparities, demand for industrial goods produced by the centres, under the continual stimulus of diversification, expands rapidly in the periphery; whereas in the centres—save in exceptional cases—demand for primary commodities from the periphery grows relatively slowly, in addition to which some of these commodities are superseded by synthetic substitutes as a result of technical innovations.

To begin with, the centres were opposed to industrialization of the periphery, but later they found it fertile ground for the expansion of the transnational corporations. Attracted by protection, the transnationals have played an increasingly important part in the import substitution process, either for the direct satisfaction of the consumer society's requirements, or in order to facilitate other imports, especially those incorporating the constant innovations of the centres.

However, it is common knowledge that import substitution has its limits and becomes more difficult and complex when these are overstepped. Export promotion then becomes an indispensable requisite in order to offset the tendency towards an external bottleneck.

A good many people believed that the penetration of the transnational corporations into the periphery would make a notable contribution to the export of manufactures to the centres. The transnationals would be powerful instruments which, thanks to the internationalization of production, would enable us to participate in the copious flow of industrial trade together with the centres. But in practice things have not worked out like that. The transnationals have vigorously promoted the internationalization of consumption in the periphery, rather than the internationalization of production, inasmuch as they have not helped to establish new ways of taking part in the international division of labour. The periphery therefore remains largely excluded from the trade flows of the centres, as formerly from the industrialization process. This is the consequence of the structural disparity in centre-periphery relations.

What is more, until a few years ago the transnational corporations betrayed reluctance to export manufactures. Since then, however, they have reacted to the incentive of subsidies with impressive results; but relatively very little of this trade has reached the centres.

It may well be asked why, in this export effort, the transnationals have placed emphasis on exports to other peripheral countries rather than to the centres. As has already been pointed out, the dynamics of the centres is closely linked to the innovations that make for diversification; and it would therefore seem that the transnationals are not interested in undertaking them in the periphery, at any rate for the present. On the other hand, it does suit them to exploit there those newest products of yesterday's industry, or 'second-line' goods, which in the centres are being ousted by the still newer and more and more technically advanced products in which today's and tomorrow's inno-

vations take shape. They exploit in the peripheral countries innovations which in the centres are no longer such. The lot of the periphery is always to lag behind.

But why should not the transnational corporations use the periphery as a base from which to launch at least a part of the vanguard innovations? I am inclined to think that the lower-wages argument carries little weight, except in special instances, for in the case of those advanced goods the essential thing, apart from the expanding market of the centres themselves, is the scientific and technological infrastructure and the training of human resources to meet increasingly exigent requirements at all technical levels. These factors represent obstacles which, in combination with the narrow social base and the fragmentation of the peripheral economies, are hardly surmountable by means of export subsidies, however liberal these may be.

Again, the centres put up opposition in several ways to the admittance of those manufactures in which the periphery, by its own efforts, has achieved or could acquire competitive capacity. These are generally less advanced and less technically complex goods, for which the centres' demand tends to grow much more slowly than for the frontline products.

The transnationals, of course, are not interested in producing such goods, which do come within the reach of the domestic enterprises of the periphery. But they are not yet covered by the liberalization policy which has done so much for the expansion of trade in advanced goods in the centres. What is more, to the existing restrictions other new ones are often added which hamper peripheral exports to a still greater extent.

It is therefore understandable that enterprises producing the same sort of goods in the centres —goods for which demand grows relatively slowly— resort

to their political power and to that of the trade unions to keep imports out. If this has happened in boom periods when some centres have had to bring in foreign workers in order to expand production, all the stronger will be their opposition in less favourable circumstances such as those prevailing at present.

Notwithstanding all this, the transnational corporations, persistently encouraged by the centres, have been penetrating more and more deeply into the periphery, to the manifest detriment of the autonomy of peripheral development and of its national significance. There are some who opine that this must be accepted, as a means of removing the external obstacles to Latin American development. That objective has not been attained, as already shown; but dependence has increased.

We said at the beginning of this chapter that the myth of the spontaneous propagation of the capitalist dynamics of the centres in peripheral development has been exploded, like that of the social efficiency of peripheral development. Both were myths that arose out of an inveterate belief in the role of economic incentives and of market laws. That such a role exists, and is generally positive, there can be no doubt. But the incentives operate within certain structures and power relations which, as propagation and irradiation from the centres into the periphery take effect, involve deepseated contradictions, both in centre-periphery relations and in internal development.

Perhaps a few years ago it was impossible to imagine such contradictions in centre-periphery relations; but not to recognize them now would be veritably inexcusable. Yet this is what is happening. The centres remain entrenched in a position that is completely negative as regards the requirements of a new international economic order —a body of ideas that in

reality are not new, since they have been fruitlessly canvassed for more than two decades. And the periphery, as a general rule, persists in expecting of such a new order what can only be achieved after a radical and tenacious effort to bring about change. The new order must not be a means of continuing to boost the privileged-consumer society.

4. *The fragmentation of the periphery*

If a dynamic approach to these problems is adopted, it would seem unlikely, even were it possible to secure the application of a liberalization policy in the centres, that this would constitute the final solution of the peripheral bottleneck problem. This problem will acquire formidable dimensions as the peripheral industrialization process advances and is rapidly extended to countries where it is still incipient. Nor is it easily conceivable that the centres, in face of the periphery's potential imbalance, will increase their coefficient of imports from the periphery much beyond certain limits.

At all events, the periphery has not yet made a vigorous and sustained effort to exploit the considerable potentialities of reciprocal trade. It has not been capable of breaking down the outdated trade system under which each peripheral country converged separately upon the centres. It is true that the latter, and in particular the chief dynamic centre of capitalism, did not take a sympathetic view of certain efforts on the part of peripheral countries in the early days; but later they supported these attempts, when they realized that by doing so they could open up a promising field for the expansion of the transnationals. They have urged, however, that this expansion should take place entirely without intervention on the part of the governments, without any effort at rational distribution of the production of capital goods and intermediate goods, an end

which would not be attained as a mere result of tariff reductions.

All the same, thanks to such tariff reductions and to export subsidies, the transnationals have discharged a very important role in the peripheral countries' reciprocal export trade in manufactures.

But the governments have devoted little care to ensuring reciprocity. The more industrially advanced countries of Latin America are exporting larger and larger quantities to less developed countries, although without concerting measures that would enable the latter to develop their own industrial exports. Consequently, the less developed countries have transferred some of their import trade from the centres to the more advanced peripheral countries, thereby relieving the latter's trade deficit. However, this would not seem the most rational way of resolving the bottleneck problem from the standpoint of the periphery as a whole.

5. *The vulnerability of the periphery*

The development of capitalism proceeds in cyclical form. And the cycle is reflected in the periphery more intensively than in the centres, owing to the dominant role still played by primary exports, the prices of which fluctuate more sharply than those of final goods.

As a result of the cyclical fluctuations, in boom periods the peripheral countries are inclined to lose sight of the latent trend towards external bottlenecks; whereas in the downswings this trend reasserts itself in a form that is generally more difficult to counteract by the countries' own autonomous decision.

Such things are the consequence of the structural lag that we have already attempted to explain. If the periphery had played the same active part in industrial trade as do the centres, the proportion of total exports represented

by its primary exports would have steadily declined. And thus the cyclical movement of total exports would have been less sweeping; but this is not how matters have turned out.

The foregoing situation has another major consequence. As a general rule, the peripheral countries have overdone the import substitution process and have frequently extended it to final goods, especially in less technically complex lines of production. In this way they have introduced an element of great rigidity into imports, the effect of which is felt above all during the cyclical downturns. Through substitution, the proportion of total imports represented by final goods has considerably decreased. And imports are made up chiefly of raw materials, intermediate products and capital goods, i.e., items whose compression would have serious effects on economic activity; or again of products, such as foodstuffs and other essential consumer goods, in respect of which substitution policy has seldom been inspired by far-reaching foresight.

With this loss of flexibility, more and more difficulties attend upon an expansionist policy, however cautious, aimed at mitigating the adverse effects of a decline in exports on internal development. The compressible margin of imports has largely, if not entirely, disappeared. And if the periphery persists in following such an expansionist policy, there is nothing it can do but resort to international loans. The main object of such operations is no longer to increase capital accumulation, but to cover, in the last analysis, the requirements of consumption and debt-servicing itself. Consequently, the growth of the external debt is not always accompanied by a correlative increase in production capacity. It is needless to underline the gravity of these facts in themselves, when they reach a certain pitch, especially if a little thought is given to their significance in dependence relations.

When starting to discuss this point we said that external vulnerability, intensified in the way that that has just been shown, is a consequence of the structural time-lag and of the centripetal dynamics of capitalist development. A time-lag which, as has already been explained, is also reflected in the fragmentation of the periphery. This fragmentation has been among the factors that have made import substitution more difficult and costly in respect of intermediate and capital goods, which, in addition to their technical complexity, necessitate broader markets than those of individual countries. Perhaps this is the principal reason for overdoing final goods substitution, since it is easier and more expeditious. But, as pointed out elsewhere, the periphery has not yet been able to face up resolutely to the task of changing the old system of the peripheral countries' convergence upon the centres.

6. The terms of trade

This is the subject of one of CEPAL's original theses, and was among the considerations upon which the inescapable necessity of industrialization was grounded. Set forth in somewhat simplified fashion, the thesis aroused criticisms which sometimes made useful contributions to its refinement. I will go on to state its main propositions, already partly dealt with in an earlier chapter.

It relates first and foremost to the weakness that generally affects primary commodities, especially foodstuffs, in structural changes in demand and employment. Demand for such products tends to grow relatively slowly in comparison with demand for industrial goods, which becomes increasingly diversified as per capita income rises. Similar disparities arise in demand for simple services. All these phenomena are intensified by the great inequalities in income distribution.

Employment of course follows in the track of these changes in demand. As will be recalled, manpower moves from the labour-expelling to the labour-absorbing activities.

This switch-over takes a considerable time, and all the longer, of course, the greater is the waste of capital accumulation potential, apart from other factors.

The labour force in the strata concerned is engaged largely in the periphery's primary production, particularly agriculture. And when it shifts into labour-absorbent activities, regressive competition on the part of the manpower remaining in these strata prevents it from raising its income correlatively with the increase in productivity, as was explained at the appropriate point.

When, moreover, thanks to technical progress, productivity rises in the case of primary commodities, the fruits of this higher productivity are diverted away from agriculture. To prevent this from happening, it would be indispensable for the labour-absorbent activities to fulfil their role very vigorously indeed; but they do not.

To whom are the fruits of the higher productivity transferred, in greater or lesser degree? Mainly to middlemen in the production process or to the consumers of the final goods which emerge from that process; but if the natural resource in question is in short supply, this trend is counteracted, and land rent in agricultural or mining areas rises proportionally.

Where primary exports are concerned, the transfer is usually made to the centres, because of the relative deterioration in the prices of such commodities in comparison with those of the diversified goods which are imported. This is a matter of market laws. If in one way or another their play is counteracted, the trend towards deterioration is promptly interrupted. This is, in essence, the CEPAL thesis.

It is certainly not a question of something inherent in primary commodities, but of a trend which predominates throughout a long period of transition until the system reaches its maximum absorption capacity. And upon industrialization is incumbent a role of supreme importance in this connexion.

A long period of transition. So long that even the centres have had to adopt measures to counteract the trend towards deterioration, especially when the increase in productivity has been intense. We will refer to this when we deal, in another study, with neo-classical theories.

Let us now look at a further highly important aspect of this question, relating to the diversification mentioned above. It is worth while to recall the sequence of events: growing productivity and rising income, inequitable income distribution, progressive shift of demand towards goods that are being increasingly diversified. Now, the more intensive is this movement of demand, the more capable are the labour-absorbing activities of retaining the fruits of productivity in the form of a surplus; and the less the extent to which those fruits are retained in the labour-expelling activities.

We have seen that the explanation of this last phenomenon lies in the abundance of manpower in those layers of technology where productivity is very low, as well as in the inadequate performance of capital accumulation's absorbent role. We might assume the contrary, i.e., such intense fulfilment of the process of absorption that the differences in workers' earnings would be gradually smoothed out until incomes came to be the same for all occupations requiring the same technical skills, whether they were labour-absorbing or labour-expelling activities. As this happened, the tendency for the productivity increment in these latter to be transferred would be modified, with no decline in the

relative prices of the goods they produced; and the income relation between labour-expelling and labour-absorbing activities would progressively improve. But this is a highly unlikely hypothesis, in view of the insufficient absorption capacity of the system.

An increase in productivity is therefore not enough to ensure the improvement of income relations. It is also indispensable that the labour force should be able to obtain higher salaries and wages so that it can participate in the absorption of the productivity increment.

From the centres, again, comes the reiterated recommendation to raise productivity in agriculture. Of course this would have to be done by improving technique, especially as regards land yields; but such action is far from enough, for if the absorption capacity of the system does not increase, the productivity increment will tend to be transferred, either internally or externally, according to the product concerned. And as this process takes time, it is understandable that the labour force resorts to its trade-union and political power in order to share in the fruits of higher productivity. At all events, the basic solution depends essentially upon intense use of the accumulation potential. And this, as we know, is incompatible with the consumer society and its increasingly close linkages with the transnational corporations: a patent manifestation of the centripetal trend of capitalism to which we alluded at the beginning of the present chapter.

As long as the labour force employed in agriculture fails to improve its sharing capacity, the productivity increment will be transferred outside it or will push up land rent, according to the degree of liveliness of demand. When land tenure is concentrated in the upper strata, as is generally the case in the Latin American region of the periphery, the regressive

trend in income distribution will be strengthened.

Hence an argument stems of which the centres are wont to avail themselves in order to oppose commodity price stabilization agreements, even when these are not aimed at systematically improving the terms of trade; it is alleged that their adoption would represent artificial interference in market laws, to the greater benefit of the privileged sectors of the periphery. It has already been pointed out, and moreover is common knowledge, that fluctuations of external origin are seriously prejudicial to the regularity of development, to the disadvantage of all concerned. What is more, conjunctural deterioration of the terms of trade does much to stiffen the periphery's attitude of insistence on measures that will steadily improve those terms. It seems worth while to dwell for a moment on this point.

When a conjunctural improvement takes place in the terms of trade and income relations in export activities, the landowners' surplus rises and so also does the income of the skilled labour force. Its demand for diversified goods therefore increases and it acquires new habits of consumption. When the downswing supervenes, it becomes very difficult to squeeze the consumption thus expanded. Protests are then raised against distributive inequity at the international level, without a moment's regard for internal inequity.

To put it another way, the terms of trade relate to the goods formerly imported and not to the new goods that are technically more advanced; these are generally higher-priced and strictly speaking are different goods. It is, of course, quite explicable that any who purchase them after recovering the same income as before should consider that their situation has worsened. The terms of trade could have been kept stable throughout the cyclical fluctuations, but the income relation between centres and periphery would have deteriorated. And

so it would within the periphery itself, as between labour-expelling and labour-absorbing activities.

The centres object to these so-called artificial interferences with market laws, maintaining that they will benefit the great landowners whose land rent is very large. Although it is not so in all cases, since a number of medium-scale and even small producers participate in export activities, this argument undeniably has something to be said for it when the problem is viewed from the standpoint of the social equity of development.

Be that as it may, those who receive this large land rent form part of the upper strata on which the consumer society is based; and it is well known that their interests tie in very closely with those of the transnational corporations.

This is yet another proof of a certain inconsistency on the part of the centres. For fluctuations in prices, and to a far greater extent their deterioration, seriously jeopardize the orderly development of the consumer society.

7. The concentration of power and the hegemony of the centres

We remarked elsewhere that the centripetal trend of capitalism accounted for the time-lag in peripheral development. We have also explained the principal consequences that this involves, except for those concerning power relations, to which we will now devote some attention.

While the centres steadily increase their economic and political power, the periphery perpetually lags behind. And the growing power of the former is accompanied by very significant manifestations of economic and technological superiority, together with the emergence of ideas, ideologies and new cultural patterns which tend to spread to the periphery in those processes of propagation and irradiation to which we have

attached so much importance in peripheral development.

This, in short, is the historical phenomenon of the economic, political and strategic hegemony of the centres, especially of the leading dynamic centre, which has become a capitalist superpower.

Long before this, the United States constituted the hegemonic power of the American continent, always ready to prevent the intervention of other powers in what it used to —and still does— regard as its own sphere of influence. In those days, fundamental differences in economic and social systems did not enter into play at the international level. But now they carry a great deal of weight. And the socialist superpower finds in the way in which the other exercises its influence, as well as in the conflictive and exclusive character of peripheral capitalism, a very important front on which to undermine, by the propagation and irradiation of its own ideologies, the hegemony of the capitalist superpower.

The interests of the hegemonic centres are promoted and defended through many different forms of action and persuasion: trade concessions, financial resources, military aid, certain methods of exerting overt or covert influence on public opinion and governments, and, as an ultimate possibility, punitive measures which sometimes culminate in the use of force.

The centres, especially the capitalist superpower, apply these various forms of action and persuasion in such a way that the peripheral countries, in widely varying degrees, find themselves subject to decisions made in the central countries, or constrained either to adopt decisions which otherwise they would not take, or to refrain from adopting them even when they would have liked to do so. Such is the phenomenon of dependence, which must not be confused with other important elements in centre-periphery relations.

This is not the place to deal with political and strategic interests, however important they may be, but with economic interests.

We have already noted the leading role played by the transnational corporations in these economic interests. Clustered around them in the centres there is a constellation of diverse interests; and among these one common denominator of solidarity exists, which, although not always visible, becomes vividly apparent when from time to time friction occurs in centre-periphery relations.

Underlying these relations is always to be detected the weight carried by the transnationals in the centres within the sphere of the State. And thanks to this and to their economic and technological superiority, they also exercise considerable influence in the periphery, and acquire a great deal of internal political power, even when they do not openly participate in party politics: a political power which sometimes outrivals that of national enterprises and appreciably sways the decisions of peripheral governments.

The transnationals also exert a powerful influence on the press and other mass media, especially on account of their close linkage with the privileged-consumer society. This influence transcends the sphere of economic interest, and sometimes extends to the promotion or defence of certain political or strategic interests of the capitalist superpower, whether in the form of open support or through discreet unwillingness to countenance subversive criticism. All this, of course, with the collaboration of certain international news agencies that are highly skillful in their selection or presentation of information or in giving a subtle slant to their comments.

As regards the economic interests of the transnationals, their most important decisions are taken in the centres with an eye to their global interests, which may or

may not coincide with the interests of development. For example, from this last standpoint, in a specific peripheral country it might be economically expedient to promote certain branches of production or exports, although other countries might be better qualified from the angle of economic efficiency or viability.

There are cases in which decisions are not adopted by the transnational corporations but by governments in the centres which are guided by their own interests and take no account of the unfavourable impact of those decisions on peripheral interests. Examples that always come to mind are provisions that place a ban on exports to specific countries or on processing materials coming from countries to which the leading centre, whether the others follow suit or not, is applying punitive measures. Nor can those directives be forgotten which, prompted by considerations of external disequilibrium, have led to the untimely repatriation of profits obtained in the periphery.

Large countries possessing broad markets, or endowed with an abundance of natural resources that are in short supply in the world, are in a better position to confine this penetration of the transnational corporations to specific fields of activity and to negotiate the terms on which it is allowed. All the more so if their leaders have a lively awareness of present and future national interests, and are able to rid themselves of those doctrinaire notions which attribute to the transnational corporations a very different role from the one they really play in peripheral development.

Everyone knows what pains the governments of the centres take to encourage the expansion of the transnationals in the periphery, emphasizing their dynamic significance, both in the so-called modernization of the countries concerned, and in the internationalization of production.

This attitude is usually accompanied by a few trade concessions to peripheral countries, as well as by a flow of financial resources, through either bilateral or multilateral channels.

When granted mining or petroleum concessions, the transnational corporations, thanks to their economic and technological superiority, have been able to appropriate a substantial proportion of the surplus. Although with the passage of time the peripheral countries have strengthened their formerly feeble bargaining capacity, the image of the transnationals that was built up in the past still casts its shadow on public opinion, whether the question at issue is one of natural resources or of the penetration of the transnationals into industry and other domestic activities.

In industry, their acknowledged capacity to generate surpluses is often reinforced by protection or subsidies, although these are less justifiable than in the case of domestic enterprises because of the higher productivity of the transnationals.

Furthermore, the very fact of exploiting their innovations enables the transnational corporations to restrict competition and enlarge their surpluses. And the extension of their operations to many countries makes possible certain arrangements or practices which are very understandably considered questionable because of their potential adverse effects on development. This uneasiness is enhanced by the secrecy surrounding such operations and the suspicion it arouses, which is intensified by the impressive size of the transnationals.

As we were saying, the introduction of innovations facilitates restrictions on domestic competition. But furthermore, in foreign trade, there are usually tacit or explicit understandings between enterprises in respect of prices or operational margins, to the decided benefit of their surplus.

We have mentioned more than once that the transnationals exalt the consumer

society. But theirs is not the merit of establishing it. It could not exist without the great distributional disparities whose origin lies in the social structure of the periphery. The transnationals take advantage of them with acknowledged dexterity.

It would be a great mistake to suppose that the periphery invariably resigns itself to the idea that these and other problems are adamant facts which have to be lived with. Whether we call it nationalism or not, awareness of their own identity and of the autonomy of their decisions is certainly displayed by the peripheral countries, especially when democratization makes headway. But the possibilities of translating this awareness into terms of practical attitudes are a very different matter.

This is not the place for a systematic analysis, but merely for reference to a few significant cases, such as that of countries which attempt to attract the transnationals in some branches of their developing industry, while they reserve for public enterprise the exploitation of certain resources or basic activities. Positive results have also been obtained by the establishment of a commitment on the part of certain transnational corporations to export a specific quota of their output, in exchange for the opportunity to take advantage of a growing domestic market which holds out considerable promise.

Clearly, the fragmentation of the periphery is a serious obstacle to a policy of this kind, as well as to the effective role that the transnationals might play in the development of certain important lines of reciprocal trade.

8. *Underdevelopment and dependence*

We have given a definition of dependence relations in order to forestall not uncommon misunderstandings. For instance, underdevelopment, as it is sometimes

called, is attributed to dependence. This is to confuse dependence and periphery. The concept of the periphery covers at once the manifestations of dependence and the exclusive as well as the conflictive trends which characterize underdevelopment. As remarked elsewhere, if all the tokens of dependence were to disappear by magic, the exclusive and conflictive trends would still persist.

In contrast, if the dynamics of capitalism were what it is usually imagined to be and the transnationals invested and re-invested indefinitely in the periphery, the absorption capacity of the system would be strengthened and underdevelopment would be progressively eliminated. Whence this paradoxical conclusion would be reached: the higher the degree of dependence, the greater would be the social efficiency of the system!

But the system does not function like this. And the aim pursued by the transnationals is not to achieve social efficiency but to reap, sooner or later, the harvest of their investments.

Those who blame dependence for underdevelopment are forgetting a very important fact which we have repeatedly explained in the present article: the exclusive character of peripheral capitalism, and also its conflictive trends, are primarily due to the internal waste of capital accumulation potential, largely imputable to the consumer society and the great distributional disparities upon which it is based. Without these disparities, the transnationals would not find such fertile ground for their expansion in the periphery.

Let us not lay upon other shoulders, therefore, responsibilities that are the periphery's own. The responsibility of the centres is very great; so is that of the periphery. It is a shared responsibility. To think otherwise is not objective. But undoubtedly, as the ideological controversy of the two superpowers is reflected in the

periphery, to attribute underdevelopment to dependence is a persuasive political argument.

Dialectics certainly has inexhaustible resources to draw on. Since technology and patterns of consumption come from the centres, to these —we are told— peripheral underdevelopment is ultimately due. And why not go farther and pin the guilt on the scientists of the centres, to whose efforts we owe the stupendous development of the techniques of production and consumption? And also the technology that protects and prolongs human life!

Equally extravagant is another idea according to which the prosperity of the centres is due to the siphoning-off of income from the periphery. This process is of great importance for the peripheral countries. But to ascribe to it such an effect means overlooking the consequences of the enormous technological progress made in the centres, which, of course, is not exempt from the evils characteristic of its ambivalence.

The truth is that the scientific, technological and cultural legacy inherited by the periphery is immeasurable. The problem does not lie there but in the passiveness of the periphery, in the definitely imitative nature of its capitalism. It is not a question of forgoing this incessantly enlarged and renewed inheritance, but of turning it to account in a spirit of creative adaptation.

9. *Cultural dependence*

There is certainly room for adaptation of this kind in technology, as already noted. But the essential thing is to take the utmost advantage of its accumulation potential. This is frittered away in the consumer society, in the disproportionate growth of the State, in the siphoning-off of income by the centres. In our eagerness

to develop in the image and likeness of the centres, we have failed to establish authentic ways and means of our own whereby to influence the forces of development deliberately and with clearly-defined objectives in view.

It is true that propagation and irradiation from the centres are becoming more and more intense. And they do not occur in the economic field alone, but also in a wide range of cultural manifestations, thanks chiefly to the mass communication media. This is a very serious problem, which has been discussed by thinkers who possess an authority that I lack. Nevertheless, I will venture to make the following brief observations. The strength of a peripheral country's personality depends largely upon its ability to take advantage of the cultural heritage to which we referred and use its creative capacity to promote the formation of its own culture. Without for a moment denying that internal factors of great significance enter into this, it would be idle to disregard the influence of the mass communication media. They propagate and irradiate the intellectual and artistic manifestation of the centres not only on account of their intrinsic value, but also because of the technical superiority of the media themselves, because of the considerations of economic interest by which they are usually guided, and also because of their ideological intention. It is a very difficult (although not an impossible) task to rise superior to these propagation phenomena, especially in a fragmented periphery.

If we have always spoken of propagation and irradiation it is in order to draw attention to an important distinction. Propagation is something deliberate, in which the mass media play a powerful part, whereas irradiation is spontaneous. It often happens, however, that these two forms are inextricably combined.

10. *Ideological dependence*

This is the case with something that touches us very closely, namely, the ideas and ideologies of the centres. The spontaneous irradiation of what is thought and written there has been and still is very vigorous. But deliberate and systematic propagation is also carried out.

The intellectual irradiation of the neo-classical theories which form the basis of the contemporary version of economic liberalism — with which we will deal elsewhere — dates back to the mid-nineteenth century. Neoclassicism, apart from its intrinsic significance, represents an alternative to Marxism. The spontaneous irradiation of these two theories in the periphery has been and still is powerful. But highly intense too is their deliberate propagation as part of the ideological contest between the two great superpowers.

It is true that economic liberalism is a good deal adulterated in practice. Its principal manifestation in the periphery is usually the suppression of the trade-union and political power of the labour force in order to overcome a crisis of the system: a proceeding patently divorced from democratic liberalism.

It is not generally understood in the capitalist superpower that economic liberalism and dependence relations are incompatible with the march of democracy and the inalienable exercise of human rights. For the many who suffer the consequences of this incompatibility, the expressions of human solidarity that emanate especially from the main centre of capitalism when human rights are violated come as a great relief. And with a little imagination, with a little pious hope, it might be possible to see in them signs of a fundamental change of attitude towards the periphery, and, if the reader likes, towards the radical transformations

that it needs to undergo if thriving and equitably-balanced development is to be made compatible with a genuine democratization process. Preaching the cause of democracy is of supreme importance, but it is far from enough; just as international acts of exorcism do not suffice to stop the aforesaid violations of human rights, especially when repression makes it possible to restore, in some cases, the harmonious articulation of the transnationals with the consumer society.

Such is the option that economic liberalism offers as a means of weathering the crisis: the consolidation of social inequity. It is not surprising, therefore, that the opposite alternative proves alluring. Experience highlights, however, the anxious perplexity of those who expected that the concentration and management of the means of production in the hands of the State would bring with it democratization and all that democracy implies for personal freedom. But that of course calls for a very different conception of the political régime and of human rights.

Between these two diametrically-opposed alternatives, promoted by the ideological contest between the two superpowers, comes the irradiation of redistributive democracy. The political parties that incarnate this ideology in Western Europe are also expending effort upon propagation and on support for the parties which are striving to restore institutional normality in peripheral countries where the rule of force prevails, or to forestall the imposition of such a régime. This trend towards the internationalization of democracy might be of incalculable value, over and above its immediate significance. Nevertheless, what is fully justified in Western Europe does not entirely meet the demands of the peripheral situation. To shake off a régime of force and restore institutional normality so as to clear the way for re-

distributive democracy without making radical changes in the system would be once again to risk the advent of another crisis, in the possible course of a subsequent political cycle. What is required is to change the system with a view to much intenser capital accumulation than at present, or, in other words, so as to exploit the accumulation potential of the surplus to the full, and alter the composition of the capital accumulated. This must be the starting-point for a dynamic and rational distribution of income, although not to the exclusion of immediate measures to improve the position of the lower strata: the transformation of the system and the institutional transformation of the State.

A tenacious effort to convince outsiders is needed, but we shall have to begin by convincing ourselves. Convincing ourselves that it is possible to change the system in such a way as to reconcile equity, thriving development and the advance and consolidation of the democratic process. With all this I hope to deal in another article.

11. *A far-reaching outlook*

Meanwhile I should like to close this chapter with a final observation. In my long life first as a national and then as an international civil servant, I have seen the capitalist superpower—even when it had not yet attained that status—make tremendous mistakes in relation to the periphery and particularly to the Latin American region, which certainly cannot claim exemption from them. And I think that the biggest of these mistakes, that of the greatest significance for the future, perhaps for a not very distant future, is to play all its cards in favour of a system which is becoming more and more vulnerable from the social and political angles, and, above all, from the ethical standpoint: a system which is

increasingly exposed to subversion, repression and the betrayal of democracy.

It is easy to understand the strategic concern of the capitalist superpower to prevent the ideologies of the socialist superpower from influencing political movements in the periphery which, if they come to power, will naturally seek the latter's support, with all the diverse consequences that can be imagined. But I do not want to harp on the old strings of the cold war. Though deliberate propagation might be avoided in a conceivable separation of spheres of influence — a new manifestation of dependence —, the irradiation of ideologies will continue to flourish in face of the great defects of peripheral capitalism: irradiation of today's ideologies or perhaps of tomorrow's.

However efficacious countersubversion measures, internal repression and the external use of force may prove in given sets of circumstances, it is obvious that

they attack symptoms but not deep-lying causes. Hence the need for a far-reaching outlook, if in this nuclear age some value still attaches to certain political and strategical considerations of the capitalist superpower in this hemisphere: long-term considerations which contrast with the very narrow view of things reflected in the play of economic interests in centre-periphery relations. Thus in the attitude of the centres to the Latin American region of the periphery there is a flagrant contradiction which it has not yet been possible to resolve.

In centre-periphery relations a far-sighted outlook is required, such as, without necessarily impairing fundamental economic interests of the centres, will endeavour to find broad areas of agreement which, besides being compatible with the autonomy of peripheral development, will allow dependence to be gradually left behind and the way to be cleared for progressive forms of interdependence.

VI

The crisis of the system

1. *The dynamics of the system and the vulnerability of the surplus*

The vicissitudes to which the system is exposed are many and various. But when I speak of its crisis I am confining myself to the sort of situation in which the exacerbation of the distribution struggle, for want of a political consensus — very difficult to obtain, anyhow —, leads to the use of force to restore its dynamics.

The tendency of the system to move towards a crisis is an expression of the structural changes that take place in it

and the concomitant changes in power relations. When in the course of structural change the trade-union and political power of the middle strata develops over against the power of the upper strata, the distribution struggle waxes increasingly fierce until it culminates in the aforesaid critical denouement.

This is why we have so insistently emphasized the role played by the democratization process. While it is incipient, or is contained in one way or another, the trade-union and political power of the labour force is non-existent or very slight.

And the system, from the standpoint of distribution, functions without major upheavals.

It should not be understood, however, that the crisis originates exclusively in the endeavours of the labour force disadvantaged by market laws to secure a better share in the fruits of higher productivity, either by means of wage increases or by recourse to State machinery with a view to obtaining employment and improving its income. For it also resorts to its trade-union and political power to recoup itself for the adverse effect of other factors on the improvements already won. Of course, when the power in question is negligible, these other factors can operate with no significant resistance from the labour force. The system may suffer disturbances, but without reaching such a crisis as may fundamentally jeopardize its dynamics.

Its dynamics is endangered, however, when the redistribution struggle adversely affects capital accumulation and the consumer capacity of the upper and upper-middle strata. It is worth while to recall what has been explained elsewhere about the evolution of the surplus. There are structural phases during which the growth rate of the total surplus is higher than that of the product because of the weak redistribution capacity of the labour force. But as trade-union and political power develops and this weakness is remedied, whether the aim of the labour force is to recoup losses or to improve its share in the fruits of higher productivity, the growth rate of the surplus gradually diminishes until it is the same as that of the total product. Thus a limit is reached which cannot be overstepped, for if trade-union and political pressure continues the surplus will decrease in relation to the product.

The significance of this last point must be clearly understood. Before that limit is reached, the consumption of the

upper strata has also been growing faster than the product. Consequently, even at the limit there is still a great deal left that is, so to speak, redistributable. But the consumer society fights for its privilege and, sooner than accepting any such compression, which would also affect capital accumulation, will react by raising prices. And this triggers off the inflationary spiral, which, sooner or later, leads to the use of force.

The truth is that no system can develop its dynamics without an increase in capital accumulation. Only in view of the nature of peripheral capitalism, if it is to regain its endangered dynamics, the consumer society must also be re-established, and this is done at the expense of the participation achieved by the labour force.

We will now try to explain these aspects of the problem, beginning with the internal factors which build up the internal crisis, and then going on to deal with the external factors with which they are usually combined. We start with the former not only for methodological reasons, but also to show that their action alone suffices to unleash the crisis. The external factors, according to their direction and intensity, may either mitigate or accentuate the effects of the play of power relations.

2. Internal factors of participation

The internal factors make themselves felt in the sphere of the market and in that of the State, as the trade-union and political power of the middle strata develops. This power does not reach the lower strata until they are belatedly caught up in the democratization process.

In the sphere of the market, trade-union power struggles to push up salaries and wages and to defend the improvements already obtained and, therefore, the private consumption of the said middle

strata; this power, as we know, enables the labour force that is not favoured by market laws to counteract the regressive competition of those working in lower layers of technology. The consumption increment thus achieved, as long as it does not reach the critical limit, is not obtained at the expense of the consumption of the upper strata, but is superimposed upon it. In reality the disadvantaged strata use for consumption almost everything they gain in the struggle and do not contribute to reproductive capital accumulation. In so far as they do save, it will be mainly in the form of consumptive capital. The latter is not taken into account in our analysis, since it does not invalidate our argument.

Manifestations of trade-union power are also found among the labour force favoured by its social power, when, in addition to the effects of this latter, it increases its earnings by means of restrictions on entry into certain activities or on their exercise. Here too, the result is an increase in consumption, although among the upper strata of the labour force investment often takes the form of reproductive as well as of consumptive capital.

In the sphere of the State, the middle strata, thanks to their political power, evolve different ways of sharing in the fruits of higher productivity; for example, they seek to obtain services which are of special benefit to them, to extend the scope of these and other services, and to secure in all of them spurious absorption of manpower that they do not really need.

Let us now look at the significance of these three aspects which have just been mentioned.

The services that the middle strata seek to develop for their own benefit relate above all to their social consumption in respect of education, health, social security and housing. As in the case of the exercise of trade-union power, however, this im-

provement is additional to the consumption of State services by the upper income strata, thanks to their political power.

But there is also another very important factor. State activities are not subject to the same economic criteria as prevail in the sphere of the market. As already pointed out elsewhere, they obey a dynamics of their own which leads to hypertrophic growth, both through the influence of the technological progress in State activities, and through propensities to swell the ranks of the bureaucracy beyond what is justified by the needs of the community.

The dynamics of State services, in addition, fosters the spurious absorption of labour, and here too the political power of the middle strata makes its influence felt. This is a tendency which primarily reflects the system's lack of capacity for genuine absorption of the labour force increment, owing to the insufficiency of capital accumulation. But it is also furthered by those who possess conventional qualifications and who, for reasons of tradition or social prestige, use their political influence to gain a foothold in State services.

Thanks to the economic criteria to which we have referred, there is usually a higher degree of efficiency in the sphere of the market than in that of the State, especially when public enterprises are affected by political motivations. But it would be a mistake to make this comparison without adding a not unimportant rider. It is true that economic efficiency helps to increase the global surplus; but since a large proportion of this is wasted in the consumer society, it also does much to aggravate the social inefficiency of peripheral capitalism, with effects similar to those produced by the economic inefficiency of the State services.

We have mentioned State investments. There are some, such as those in infrastructure, which help to step up productivity,

whereas others involve waste of capital, especially investment in public monuments and of other conspicuous types; the resources diverted into these tend, in the last analysis, to reduce the surplus more and more as the power of participation of the labour force is strengthened.

Lastly, price increases occur which, although they are in origin nothing to do with the distribution struggle, help to exacerbate it; the most outstanding case in point, because of its dimensions and persistence, is that of land rent. It has already been explained elsewhere how the increase in demand for space, owing to the growth and concentration of the urban population, as well as the overall rise in productivity, tend to push up urban land rent. The rise in the cost of land services, so to speak, affects the surplus in two different ways. On the one hand, it increases the costs which the enterprises try to transfer to prices; on the other hand, the rents paid by the labour force are higher. In both instances the latter will strive to improve its earnings when it has the power to do so. The effects, of course, are unfavourable to the surplus.

Much the same thing happens when internal demand for agricultural commodities, if unaccompanied by increases in productivity or by the expansion of the area under cultivation, causes prices to rise.

There are other external factors whose incidence is similar, but the time has not yet come to discuss them.

3. Power relations and the tax burden

Power relations largely determine the nature of State services, except those of a general nature which are of interest to the entire community, although to an unequal extent. They influence these latter much less than the others, or not at all. Nevertheless, power relations are always of great importance in connexion

with the levying of tax revenue, which is required both to cover the costs of such services and for State investment.

We know, moreover, that power relations keep pace with the changes in the social structure. When in the initial phases of these modifications the trade-union and political power of the labour force is non-existent or incipient, the burden of the resources required to cover State disbursements falls largely upon the middle and lower strata, whether the services concerned are of interest to the whole community or only to the upper strata. But as time goes by, the former groups gradually acquire some capacity to recoup themselves, especially the middle strata, and by virtue of their trade-union and political power they endeavour to shift part of the tax burden on to the upper strata.

Obviously, however, under the political compromises between the different strata, much of the expenditure relating to social consumption is covered with taxes which affect the middle strata, although not necessarily the same people that they benefit; and sometimes too the burden falls on the lower strata who obtain none of these benefits, or only a fraction of them.

In short, the taxes in question impel the labour force to try to recoup their losses by recourse to their trade-union power.

In this process, of which the object is to shift the tax burden upwards, two important cases arise.

The first is that of the labour force which has acquired skills, mainly in consequence of its social power. If demand for these skills is in keeping with the increasing requirements of the propagation of technique, wages and salaries tend to rise correlatively, and there is no need for trade-union power to secure compensation for part, if not the whole, of the tax burden. The labour force with conventional qualifications is in a different

position, and its weakness in respect of the relation between demand and supply does not permit it to recoup itself in this way. In order to do so, therefore, it has to resort to its political or trade-union power.

If the labour force favoured by market laws does not need trade-union power to ease the tax burden, the workers who are disadvantaged in the play of market forces do indeed need it, and achieve it to a greater or lesser extent as their position is strengthened with the advance of the democratization process; in this case all these pressures bear on the surplus. The same applies to the tax burden which falls on the owners of the means of production in the shape of taxes on their income from the surplus, whether from that of the same enterprises in which it is generated, or from that of others to which it is transferred in its process of circulation.

4. The critical limit of the system and the inflationary spiral

Thus we approach the system's critical limit. In order to understand what happens when this is reached, it is worth while to recall an indispensable requirement of the dynamics of the system. If the consumer society is to operate smoothly, it is essential that the growth rate of the surplus should be at least the same as that of the global product. Otherwise, if the pressure of the middle strata through the various forms of participation which have just been described, and the incidence of the tax burden on the surplus, were to prevent the fulfilment of this requisite, the attenuation of the surplus would reduce the rate of accumulation, and that would bring down the growth rate of the product and would correspondingly reduce the part of the surplus earmarked for the consumption of the

upper strata. In this case, enterprises would endeavour to retrieve the surplus by raising prices in order to restore the dynamics of the system.

Whether price increases can really be put into effect in the market ultimately depends upon the reaction of the monetary authority, which in this case has two options open to it: to restrict credit in order to prevent prices from going up, in line with the traditional formula; or to agree to expand it so as to allow them to do so. The decisions involved are of course of considerable importance.

If the first option is chosen, the only way in which enterprises can cope with the increase in salaries and wages is by recourse to the surplus. In this connexion, suffice it to recall the mechanism of monetary appropriation of the surplus in order to understand the serious consequences of such an attitude. If future production is to expand, it is essential to increase present employment. The resultant income increments are reflected in an expansion of demand whereby the present increase in production can be absorbed. This demand must be accompanied by the corresponding monetary expansion; otherwise, if the monetary authority were not to make a positive response, and enterprises had to resort to the surplus in order to pay out the additional income earned by the labour force, there would be no such expansion of demand, since the increase resulting from the higher income paid out to the labour force would be offset by the decrease in demand on the part of those who had the surplus at their disposal. Demand would therefore prove to be insufficient to absorb the production increment, and prices would fall. This is, in summarized form, the explanation we gave in the appropriate chapter.

In the case we were considering, if the production increment is combined with the effects of wage increases, the former

could not be absorbed on the market unless demand grew more vigorously, and monetary expansion too would have to be greater if the pay increases were to be transferred to prices. Otherwise, the fall in prices would be accentuated, with the consequent contraction in production.

Here we have something more serious than the conjunctural contractions which frequently occur in the system, since this latter can spontaneously overcome them. But the case under consideration is different. The lower level of activity resulting from the contraction will tend to persist indefinitely if the monetary authority withholds its consent to expansion; and the adverse consequences which this involves are all too well known. Sooner or later, therefore, the monetary authority will be compelled by force of circumstances to change its attitude, if trade-union power makes it impracticable to squeeze wages. Higher prices and the inevitable monetary devaluation will then allow the surplus to be re-established.

It must be understood, however, that for this to happen an indispensable requisite is that salaries and wages should not be raised again in proportion to the rise in prices. This is a technical requirement without whose fulfilment the inflationary spiral could not be averted.

The problem that this poses is not, however, of a purely technical nature, but has profound social implications. The re-establishment of the dynamics of the surplus makes it possible to restore not only the system's accumulation capacity, but also the evolution of the consumer society. This means, all things considered, that if the privileged consumption of the upper strata is to be recovered, it will be necessary to squeeze the consumption of a sizeable part of the labour force which has previously exercised its trade-union and political power of participation. Herein lies, in my opinion, a basic flaw in the

system. But let us not anticipate what will be discussed at the appropriate point in the present chapter. Suffice it to say here, that in view of the nature of the system, in order to fulfil the technical requisite which consists in keeping salaries and wages down to prevent an inflationary spiral, trade-union and political power must be brought to heel by the use of force. Such is the foredoomed outcome of an exclusive and conflictive system!

We said before that the intention of the monetary authorities to prevent inflation by applying the brake of a restrictive policy ends, sooner or later, by making monetary expansion unavoidable. Thus the monetary authority is faced with an insuperable dilemma: either to accept inflationary expansion from the start, or to find itself compelled by force of circumstances to bow to it later.

In any event, the inflationary spiral, rather than securing the re-establishment of the dynamics of the system, culminates in its economic breakdown and its social disintegration. Although these are familiar phenomena, a few points of great significance for our analysis may be briefly noted here.

First and foremost, a rise in earnings to compensate for price increases does not allow the dynamics of the surplus to be restored until prices go up again. Even then, the recovery of the surplus is ephemeral, for in its turn it involves a further wage and salary increase in the course of the spiral. Capital accumulation and the rate of development suffer by this, with all the ensuing adverse consequences, among them the flight of capital abroad.

Next, attempts to control the effects of inflation by stabilizing prices, or keeping up the external value of the currency, or preventing the necessary readjustment in public utility tariffs, or abstaining from increasing tax rates, sooner or later end by giving fresh impetus to the inflationary spiral.

The distribution struggle is exacerbated as the social groups that have been lagging behind extend their capacity to obtain redress, so that the spiral becomes still more uncontrollable.

And this veritable anarchy in the matter of participation seriously weakens the incentives to enterprises to place new investment and discourages labour from increasing productivity.

In all these ways conditions are created that are propitious to the use of force for the purpose of re-establishing normality.

5. *External factors*

We shall now take a look at the main external factors which influence these phenomena; but the question at issue is no longer the effect of factors which help to squeeze the surplus, but that of external factors which affect its actual size. In this case again, it will be impossible to achieve the dynamic recovery of the system without adverse consequences for the labour force.

There are three main factors that affect the surplus in this way, namely: the cyclical fluctuations of external origin and the conjunctural deterioration of the terms of trade; the structural deterioration of the terms of trade; and the negative movement in inflows of international financial resources.

In discussing the first factor it is worth while to recall what was said in another chapter about the surplus in export activities, which is considerably influenced by the cycle and price fluctuations in the centres.

During boom periods in the periphery, the exogenous increase in the surplus, caused by the rise in the value of exports, is augmented by that resulting from the domestic production process, and thus the total surplus is enlarged with the consequent increase in accumulation and consumption capacity, especially in the upper strata,

because of both the direct and the indirect effects of this supplementary contribution. This affords a wider margin for the middle strata to improve their sharing capacity, according to their degree of trade-union and political power.

When the downswing supervenes, the surplus is reduced because of the contraction in exports; but as in the meanwhile consumption will have increased and State services will have been expanded, the restoration of the dynamics of the system cannot be secured unless both are squeezed, except in so far as a countercyclical compensatory policy can be applied.

Such countercyclical measures call for a far-sighted and cautious policy which is seldom adopted. Moreover, they do not possess the merit of compensating export activities for the fall in prices. Consequently, here again we find ourselves faced with power relations. The producers of export commodities will use their power, which is generally great, in an endeavour to attain that end by recourse to devaluation of the currency. And if they succeed in this attempt and thus restore their own surplus, they will once again have done so at the expense of the labour force, both in the sphere of the market and in that of the State. Devaluation, provided that the labour force has sufficient trade-union and political power to react against its repressive effects, suffices to trigger off the inflationary spiral, or to intensify it if it already exists.

I am not, of course, advocating a policy, but pointing out certain exigencies of a system that functions, as I am trying to show, on vicious lines.

When a deterioration takes place in the terms of trade for exports, it is impossible to determine whether it is of a conjunctural or of a structural character; only time can tell. If it were structural, the action called for would no longer consist in circumstantial measures such as I have just

mentioned, but in a policy of production adjustments through which the external imbalance caused by the deterioration could be counteracted. All the more reason still for the re-establishment of the surplus to entail, as before, devaluation of the currency, under the influence of the political power of primary producers.

In this as in the foregoing case, obviously it would not take long for the dynamic effects of devaluation to be dissipated in an inflationary spiral, if the concomitant rise in prices were to be followed by increases in income and taxes, apart from other consequences.

A deterioration in the terms of trade also takes place when import prices rise, as has happened in the case of petroleum, among others, owing to inflation in the centres.

This involves internal price increases which, if they bring about the corresponding rise in pay for the labour force, also have the effect of squeezing the surplus. This suffices to generate the inflationary spiral and a devaluation of the currency when the trade-union power of the labour force disadvantaged by market laws is strong enough to offset the real damage to its income in the distribution struggle.

In contrast, in countries exporting oil and other natural resources whose prices improve in relative terms, it is possible to satisfy the various demands of the distribution struggle without affecting the surplus — rather, in fact, contributing to its increase. By this means the crisis of the system is warded off, although perhaps not indefinitely.

In conclusion, consideration should be given to the last aspect mentioned: the inflow of external financial resources. In this there is a positive phase, followed sooner or later by another of a negative character, which makes its appearance in two important instances: through the

resources brought in by the transnational enterprises and through contributions to the State for its investment.

In the first instance, the transnationals, when they make their investments, increase the rate of accumulation, as well as the growth rate of the surplus, by virtue of their acknowledged efficiency, with favourable effects on the rate of development. But all this is paid for when the net inflow is reduced or becomes negative as new investment decreases and the financial remittances from earlier investments increase. Much the same thing happens with funds for State investment.

It is understandable that when the trade-union and political power of the disadvantaged labour force has developed very substantially, these financial movements, according to whether they are positive or negative help to relieve or to intensify the distribution struggle and the system's tendency to reach a crisis.

6. The crisis of the system and the use of force

Let us return to the crisis of the system and the use of force to suppress or contain the trade-union and political power of the labour force, in which event the currency can be devaluated in order to allow prices to rise, without a correlative increase in the pay of the labour force. And if the pay squeeze transfers income to the privileged strata and especially to the owners of the means of production, it may even be possible to succeed in raising the rate of capital accumulation, and therefore the rate of development, above that prevailing before the system's critical limit was passed.

The increase in the rate of development steps up demand for manpower equipped with the ever-widening range of skills which that development requires, in contrast with the harm inflicted on the bulk of the labour force by the squeezing of their real

pay. What is more, these circumstances are usually attractive to the transnationals and to funds from abroad, which brings in a new factor that is favourable to development, provided that this movement remains positive.

Unquestionably, the re-establishment of the dynamics of the system entails a significant social cost, in addition to the huge political cost incurred by the use of force.

The pay squeeze is an answer to various needs. It is necessary, of course, in order to restore the rate of capital accumulation and perhaps to raise it; but also to give fresh impetus to the consumer society since in this accumulation and privileged consumption are closely linked. Thus the consumption of the many who have lost their redistributive power is squeezed in favour of the consumption of the few who have regained their power to increase the surplus. Nor is this all.

The consumption of the adversely-affected labour force will have to be squeezed still more in so far as it has not been deemed desirable, or possible, to reduce state expenditure, the expansion of which has contributed to the critical attenuation of the surplus. The incidence of this phenomenon is very different, in a régime in which the power of the labour force is suppressed, according to whether it is social consumption that is concerned, or the spurious absorption of the labour force in State services, or the services that by their own dynamics have grown beyond what would be permitted by considerations of economic efficiency. It should be borne in mind, moreover, that the use of force generally involves a considerable increase in the expenditure in question.

As has already been remarked, in peripheral capitalism the production effort is strongly slanted towards the privileged-consumer society of the upper strata. It is there that the rate of development is

usually high, sometimes very high, whereas it remains minimal at the other extreme, that of the sub-consumer society of the lower strata. It is essential that this should be so if the surplus is to grow continuously for the greater benefit of the privileged group. And another essential requisite is that, up to a point, the aspirations of the middle strata that are disadvantaged under market laws should be contained. It would not be wise to allow their power of participation to penetrate too far into the domain of the surplus, especially when this is already somewhat circumscribed by the expansion of State services, or by an unfavourable trend in relations with the centres. And these requisites can only be effectively met if the democratization process is contained, or if, when it has reached a certain pitch, it is suppressed by the use of force.

Any system, if it is to be dynamic, requires ceaseless capital accumulation. Accumulation must necessarily be effected at the expense of the growth rate of consumption. But when, in order to weather the crisis, the consumption of the labour force is squeezed, the idea is not to allow the latter to accumulate for itself, but to enable the upper strata to do so once again, while at the same time they recover their ever-increasing consumption capacity. Moreover, the characteristic process of concentration of capital continues, generating new surpluses and bestowing upon those who have the capital in their hands the true key to development in peripheral capitalism.

7. The crisis of the system in relations with the centres

The world-wide nature of development explains why the consequences of advancing democratization in the periphery extend beyond its geographical frontiers. They are sufficient in themselves to provoke

redistributive reactions, but the problem is deeper-seated and more complicated than that.

As they forge increasingly close links with the consumer society, the transnational enterprises share political influence with the most powerful strata in the periphery. Thus they participate in the distribution struggle and, as it becomes polarized, increasingly feel its effects.

But the consequences of the march of democracy are not confined to these. They go farther, for in the periphery they include a growing awareness of its own personality, aspirations to participate increasingly in decisions affecting the community, efforts to learn to do what outsiders, by virtue of their technological and financial superiority, are doing inside the countries themselves. The transnationals cannot escape the implications of this growing sense of national identity; on the contrary, they lay a flank wide open to criticism, especially on the part of those who impugn the system from within or from outside it. Their gigantic size, their tendency to penetrate inordinately far into the peripheral economy, the impenetrable secrecy in which their operations are shrouded, the suspicion that their international sphere of action is favourable to certain manipulations, are well known to constitute matters of great concern in the periphery. Accordingly, feelings and aspirations antagonistic to this new manifestation of the hegemony of the centres assert themselves, and gain renewed vigour.

All this is added to the siphoning-off of peripheral income by the transnationals and to their over-large share in the fruits of the technical progress which, it is true, they themselves introduce, but mainly to serve the consumer society. And their increasing influence in the latter affords them the possibility of adopting decisions which do not take the national interest into account.

Thus it is understandable that not only in the distribution struggle but also in the political struggle the transnationals are the object of diverse and sometimes vehement reclamations. The lack of a régime to settle the limits of their action, to stipulate reciprocal rights and duties, means that measures adopted unilaterally by a peripheral country, whether justified or arbitrary, mobilize against it all that formidable constellation of hegemonic interests which surround the transnationals in the centres; and then punitive measures of various kinds ensue, which, as must not be forgotten, sometimes go so far as the use of external force.

In this case too, as in that of internal affairs, political liberalism is self-devouring, largely because of the adulteration of economic liberalism in international relations.

Democracy and national sovereignty are essential and indefeasible concepts of political liberalism. But when the advance of democracy tends by its own dynamics to lead to the internal use of force, that same dynamics jeopardizes the sovereignty of the weakest in the play of international power relations.

Clearly, then, the internal use of force and the democratic regression it implies help not only to re-establish the smooth evolution of the consumer society, but also to promote its consubstantiation with the transnationals.

But the use of force cannot be kept up indefinitely. Sooner or later internal pressures begin to be exerted in favour of a return to institutional normality, as is the current phrase.

I ask myself now whether those of us who devote ourselves to disentangling the complex problems of development have offered solutions that are capable of extirpating the deep-seated flaws in the system and at the same time are inspired by inviolable human principles. To

confine ourselves to holding those who have the means of using force responsible for doing so to surmount the crisis, or laying on those who advocate the return to institutional normality the responsibility for opening up the way to new political

cycle, really means shirking our own responsibility for finding solutions that will meet the inescapable demands of the periphery's situation at the present vital moment in its history.

VII

The protagonists and the crisis of the system

Is there an element of determinism in the system?

We have discussed the various forms of power and their interrelationships, and have explained too how the play of these power relations leads in time to a crisis of the system. But nothing has been said so far of the protagonists of development, except for a few observations relating to social mobility. The various forms of power find expression through different protagonists, outstanding among whom are those who in the discharge of their role show the greatest ability and dynamism both in taking advantage of conditions favourable to development —alike in the internal field and in the international sphere— and in endeavouring to cope with and counteract unfavourable changes in those conditions.

This is really deliberate action on the part of the aforesaid protagonists to serve their aspirations and interests to the extent permitted by their degree of power and their ability and dynamism. At all events, it goes on within the system and in line with the structural changes taking place therein.

In the course of the development of the centres certain principles have emerged, together with the corresponding rules of the game, which the periphery has endeavoured to follow in order to ensure

the smooth functioning of the system. But these principles are not automatic; the timeliness with which they are applied, and the manner of doing so, depend upon the decision and ability of the protagonists. And this relates both to the system's regular operation, and to the rules that have to be followed when it has been thrown into disorder by violations of the principles in question.

The possibility of abiding by these principles varies appreciably in different structural phases. It ultimately depends upon how much power to share in the fruits of higher productivity has been acquired by part of the middle and perhaps the lower strata.

This possibility is considerable when the power of participation is non-existent or very slight; but it is not so when that power, in the course of structural change, grows to such an extent that in its clash with the power of the upper strata the distribution struggle is exacerbated and the inflationary spiral supervenes. In this case, the rules of the game become inapplicable; or there simply are none to cope with the crisis of the system.

It would seem, therefore, that the system is subject in its evolution to a measure of determinism in which its re-establishment depends upon the use of force, i.e.,

upon the intervention of new protagonists formerly marginal to the system.

1. *The role of the various protagonists*

We observed above that the protagonists of development are an expression of the various forms of power and the changes that occur in power relations. They act in two different although closely related scenarios: that of the market and that of the State. And when these modifications in power relations take place, the protagonists who play their role in both scenarios during the early phases of structural change are joined in the course of the process by new ones whose action influences the changes in its turn.

During periods of outward-directed growth, as we already know, the upper strata are dominant in the market scenario by virtue of their economic power and their social power, and also in the State scenario, thanks to their great political power. The State machinery is of use to the upper strata both in buttressing and defending the bases of the system, and in obtaining State services for their own benefit and shifting the tax burden to the lower strata, as explained above.

It is the political protagonists that offer this response to the interests and aspirations of the upper strata. And in fulfilling such a role they also share, in one way or another, in the fruits of higher productivity, and at the same time avail themselves of the State apparatus to secure the largely spurious absorption of their electoral clienteles, formed mainly by the traditional middle classes. This, however, does not represent the advance of the democratization process during the phase of outward-directed growth, but is one of the ways of containing it.

With the expansion of the middle strata the trade-union protagonists come to the fore, their aim being to satisfy the interests and aspirations of the labour

force in the market scenario; and in the sphere of the State, new political protagonists emerge. But the power of participation which the two sets of protagonists represent is limited, both by the weakness of the democratization process and by different combinations of manipulation, repression, mobilization of clienteles and co-opting of the protagonists in question which contain or obstruct the genuine progress of the democratic movement. We have already spoken of this elsewhere, but a reminder is worth while to give a better grasp of our explanations.

These new trade-union and political protagonists acquire increasing influence as the changes in the social structure clear the way more freely for the march of democracy. The impediments that restricted their action begin to melt away, and as this happens the power of participation of the middle strata increases, as well as their capacity to defend the share they have managed to obtain during the struggle.

This phase, as will be recalled, is followed by another during which the trade-union and political protagonists carry the power of participation to such a pitch that the inflationary spiral becomes inherent in the system.

Then it is that the protagonists of dissidence make their appearance: those who repudiate the system in its entirety. The lower strata have very little share, if indeed any at all, in the participation process. This serious manifestation of social injustice, and the anarchical participation of those who have in one way or another obtained the benefits of development, are active elements in the creation of this dissidence; and so are the incapacity of the system to absorb the increment in the middle-strata labour force, and the displacement of manpower from the lower strata, whence unmistakable signs of frustration and rebellion emanate. Dissidence, in its zeal to destroy the system, is

thus conducive to violent action, especially when insufficient dynamism is combined with external factors that produce adverse effects.

All these are circumstances increasingly favourable to the appearance of the final protagonists, namely, the holders of other State instruments, those of force, hitherto potential, but now brought into effective operation, and used deliberately to restore the smooth functioning of the system.

2. *The protagonists and inflation*

We stated earlier that when the critical phase of development supervenes it becomes manifestly impossible to regularize the functioning of the system by the mere application of the familiar rules of the game for combating inflation.

The same is not true of those phases of development in which the trade union and political power of the middle strata is non-existent or merely incipient. Inflation has been frequent, of course, in the past, but it has been due to pressures very different in kind from those which are exerted later, when the power of the middle strata develops.

The former are inflationary pressures due to factors that derive not from the middle strata, but from certain groups in the upper strata. The interests of these groups are served by political protagonists who are powerful enough to overcome the more or less energetic opposition of the monetary authority and to secure inflationary expansion of credit, or who violate on their own account the State's principles of financial austerity, with similar results.

The fact that the middle and lower strata react weakly or not at all means that in this way inflationary enlargement of the surplus is possible. But this course cannot be followed indefinitely, since those

groups, and others who have suffered in the upper strata themselves, end by making their unrest felt and even bringing about a change of political protagonists that reinstates monetary and financial control. And to that end the rules of the game that have been infringed are applied once again.

Let us now look at the difference between this kind of inflation and the sort that occurs when the power of the middle strata to share in the surplus has acquired great importance. When the process thrusts on towards the critical limit of the system, price increase and the consequent inflationary spiral become inevitable, however much the monetary authority may strive to prevent it, as has already been explained in the appropriate context. This social type of inflation becomes even more acute if it is accompanied by the other forms of traditional inflation.

In the case of traditional inflation, the monetary and financial authorities suppress it and the surplus is reduced to the dimensions that are consonant with the orderly functioning of the system. In the other case, that of social inflation, there is no really effective way of staying the course of the spiral; only attempts can be made, which end in frustration. The authorities have grown impotent, however much influence has come to be exercised again in the political scenario by protagonists who try to contain economic disruption and social disintegration. Rather than succeeding in this, they will often end by supporting the claims of the affected groups, or will step down in favour of other protagonists prepared to do so, as a result of which new impetus is given to the spiral.

3. *The deliberate action of the protagonists*

If in the critical phase of the system very little can be done to avert these serious consequences, the question may well be

asked whether in previous phases of its evolution deliberate influence could be brought to bear on the course of events so as to prevent the system from heading towards that critical phase.

I believe that the combined effort of protagonists with ability and dynamism in the political and economic scenarios may greatly influence the rate of development and its regularity during certain structural phases. But this positive influence weakens and ultimately vanishes when the distribution struggle is exacerbated.

As far as the political protagonists are concerned, their positive influence manifests itself when they show themselves capable of discerning the requirements of development with foresight, especially as regards infrastructure, the training of human resources, orderly and efficient administration, and satisfactory external co-operation; and if they are wise in their application of the rules of the monetary and financial game when the trade-union and political power of the middle strata is non-existent or still very slight.

As regards the protagonists in the economic scenario, it should be recalled that upon their ability and dynamism, as well as upon their decision to accumulate capital, depends the introduction of new layers of technology. And this in turn necessitates considerable skill in recruiting personnel for enterprises who will meet the more and more exigent requirements resulting from the propagation of technique, — a point on which so much stress has been laid elsewhere.

In this connexion it should not be forgotten that the surplus contains not only a structural but also a dynamic element. And the dynamic element depends essentially upon these various protagonists in the scenario of the State and in that of the market.

4. *The system and its integrated components*

Unquestionably, the combined action of protagonists possessed of great ability and dynamism, both in the State and in the market scenario, can speed up the rate of development and the growth of the surplus, especially when external circumstances are favourable. This combined action, however effective it may be, is accompanied in the course of time by structural changes and the corresponding changes in power relations, which confront the former protagonists with the new protagonists of the political and trade-union movement. This is the internal logic of a system increasingly open to propagation from the centres and imitation of their patterns.

Propagation of new layers of technology and of the patterns of consumption of the centres; a serious contradiction, to which is added the siphoning-off of part of the surplus by some of the transnationals, whose protagonists do much to build it up.

But this is not all; from those very centres the scientific and technological discoveries which protect and prolong human life are likewise propagated, and all the more intensively, the more dynamic and capable are the agents working in this field of social activity.

Such is the system. All these elements are an integral part of it, and in explaining its operation they cannot be arbitrarily separated, nor can any one of them be set aside. The system has its internal logic, as was pointed out before, and when in the course of its structural changes the political and trade-union protagonists emerge in the middle strata and their power is strengthened, this power is increasingly used to counteract the adverse effects of market laws on the earnings and employment of the labour force.

Here too the ability and dynamism of the political and trade-union protagonists reveals itself under the impetus of another

form of propagation from the centres. This favourable environment fosters the spread of the democratic ideas and institutions whose advancement is indispensable if the protagonists in question are to play their part in the development of the middle strata. But neither are these strata immune, of course, to the propagation of the patterns of consumption of the centres. There is no *cordon sanitaire* around the upper strata; on the contrary, the middle strata—especially at the higher levels—try to imitate them too. And the public enterprise usually constitutes one way of doing so through political channels, besides playing its role in the spurious absorption of labour.

If the growing power of these political and trade-union protagonists oversteps the system's critical limit, the final outcome is the disruption and social disintegration of the system. For, as has been explained, its dynamics preclude a reduction in the surplus, to whatever extent the size of the latter may have allowed the consumer society to flourish. It is then that the protagonists of force make their appearance in the political scenario, in default of deliberate action to change the system.

The surplus, moreover, is exposed to the unfavourable effects of the external bottleneck. The relatively slow growth of exports resulting from the structural disparities between centres and periphery reduces the surplus, and this entails a decline in the rate of development, with all its negative implications.

The consequences are more serious still when the external bottleneck is aggravated by a deterioration in the terms of trade. If the political protagonists who represent the exporters' interests make an effort to restore the surplus by means of devaluation of the currency, the social cost of this other operation will be borne mainly by the labour force, and not by a part of it only. And in this case, as in the

foregoing, if the power of the middle strata prevents the full re-establishment of the surplus, the suppression of this power, by the use of force, will make it possible to give new momentum to the dynamics of the system, at the huge social and political cost which cannot be too often stressed.

5. *Technobureaucracy and planning*

Mention has more than once been made of the technobureaucracy, a manifest effect of the penetration of technique on the evolution of the State. Its members are not political protagonists, but usually influence them; and they do so with widely differing degrees of technical ability in their purpose of bringing deliberate action to bear on development.

The technobureaucracy carries, among other responsibilities, that of applying the rules of the game, which are not automatic in character. They call for discernment, foresight and ability to withstand the various pressures exerted by economic and political interests, which increase commensurately with the complexity of development.

Because of this same complexity, a quarter of a century ago, planning began to be viewed as an effective instrument of development. Effective in diagnosis, and also, as it was hoped, in carrying conviction to the political protagonists so that deliberate influence could be exerted on the course of events; all of which considerations induced CEPAL to advocate planning.

It was assumed that planning would correct two great defects of the market so that it could work properly: its lack of a time horizon and its lack of a social horizon.

With regard to the first aspect, it was believed that planning would make it possible to anticipate the structural changes that needed to be introduced with foresight into the economic and social

infrastructure, and into the composition of production so as to counteract certain persistent trends towards internal and external disequilibrium, and to strengthen the peripheral economy besides, by simultaneously raising its rate of development.

Orderly internal development of industrialization was necessary, and at the same time the introduction of technical progress in agriculture, for which purposes vigorous impetus had to be given to capital accumulation. International financial resources would serve to encourage the periphery's own accumulation. And all this necessitated planning. By this time we had reached the early 1960s. It was clear that capital accumulation was insufficient in face of the effects of the increase in productivity brought about by the introduction of new layers of technology, and in view of the high rate of population growth over the past two decades.

All the greater, therefore, was the need for planning, that is, for deliberate and systematic action to influence the forces of development and encourage individual initiative, so that it might contribute to the attainment of the major objectives of the plan.

The euphoria of the early days was succeeded by disillusionment and indifference, if not actual repudiation of the whole concept of planning. Several factors contributed to this result, and are worth placing on record because they are the very same that lead to the crisis of the system.

Insufficient accumulation led CEPAL, in the early 1960s, to present some projections which sought to show, in statistical terms, the possibility of stepping up the rate of accumulation, raising the rate of development and securing faster and larger-scale absorption of the labour force, especially from the lower strata. But that entailed some sacrifice of the

consumption, or the consumption increment, of the upper strata. This was the first attack—very prudent and circumspect, to be sure—on the consumer society. The course indicated would permit of dynamic rather than static income distribution, while not precluding some immediate redistributive measures.

But very little has been done to fulfill these objectives, despite the efforts made by enlightened actors on the political scene. And in the meantime, the distribution struggle has been growing more and more heated in the countries that had already entered upon the advanced phase of peripheral development. Planning is impossible in the midst of economic disruption and social disintegration.

Another factor, however, has done much to produce this result. We have just referred to the trend towards external disequilibrium. In the boom years that preceded the economic recession in the centres, development proceeded in a very favourable external environment. The terms of trade improved, successes were achieved in a policy to encourage exports of manufactures and the flow of international financial resources was voluminous. It is not surprising, then, that the tendency towards external disequilibrium was thought to have been overcome. What is more, the very existence of such a tendency was denied, and it was viewed as a mischievous notion spawned by CEPAL to justify the import substitution which it advocated. No wonder, therefore, that with the disappearance of the earlier concern for the external bottleneck another of the justifications of planning lost its cogency.

6. The protagonists of populism

As already pointed out, deliberate action can do very little to counteract the development of the crisis which the distribution struggle brings in its train. This cannot be

achieved through the use of State mechanisms by either the political or the economic protagonists. However great the capacity and experience acquired by these latter, they are as powerless as are the politicians and the trade-union leaders to contain the process, in default of a political consensus.

But although it is impossible to exert a positive influence on the course of events in such circumstances, they do afford a favourable opportunity to political protagonists of another type, those of populism.

These last try to utilize the State machinery on their own behalf or on that of their electoral clientele. And they infringe the rules of the game, when these might be effective, and throw the system into worse disorder when the distribution struggle makes application of the rules impossible. Sometimes their lack of financial restraint starts the inflationary spiral, or accentuates it if it has already been developing.

These protagonists operate in all the structural phases, and in all they are liable to find groups of entrepreneurs and financiers predisposed to abuse, to speculation or to collusion with the agents in question to serve their reciprocal interests.

How do the protagonists of populism emerge in the system? The elements we have been discussing here do not give us the key, which might perhaps be found in the Paretian theories of the undulatory movement of dominant groups. Or will anthropological research have to be conducted in order to understand these phenomena of human behaviour?

7. *The protagonists of economic liberalism*

Under a régime of force, planning might be a positive instrument to encourage the development of the consumer society, but

as under such a régime economic liberalism usually flourishes, doctrinaire resistance to planning has been very strong.

The main reason for this blossoming of economic liberalism is that in the light of certain neo-classical interpretations the trade-union and political power of the labour force is the principal factor counteracting the system's inherent propensity to equilibrium; this power, therefore, should plainly and simply be suppressed.

Once this paramount aim has been achieved, there is nothing to prevent the principles of economic liberalism from being conveniently trimmed to accommodate dominant interests, or to fit in with certain technocrats' particular conception of the requirements of reality.

All this covers a whole range of attitudes combining the theoretical capacity and the practical skill of the new technico-bureaucratic constellation which shares responsibility in the system with those who have decided upon the use of force.

Inter alia, the way in which inflation is combated illustrates this clearly. The monetary authorities, which had formerly become powerless, regain their strength, although they do not always show a thorough understanding of the nature of the present new type of inflation. It is now a social inflation which is different from although often accompanied by the traditional kind.

For example, when traditional inflation is due to excessive monetary expansion, the raising of the rate of interest, if not direct restrictions on credit, constitute the only way back to monetary normality, after a transient phase of contraction in economic activity.

What happens, however, is that the monetary authorities, impelled by a sort of dogmatic virtuosity, resort to the same procedure when they are faced with social inflation. However tight a pay squeeze is imposed on the labour force, the correction

of inflation is not instantaneous, but entails a difficult period of transition, during which other factors, of inflation must be attacked. In order to speed up the treatment, recourse is had to what are known as real rates of interest, that is, rates in which the degree of inflation is incorporated, and which therefore are, obviously, counterproductive in their effects.

As already explained, in order to increase production an essential and inescapable requirement is to expand employment and raise the income paid out to the labour force; and if to these higher earnings—however severely real earnings may have been squeezed—is added the generally exorbitant cost of the real rates of interest, the only way out for enterprises is to transfer this new cost component to prices.

And so great is the contradiction implicit in this policy, that far from increasing production it ends by discouraging it, since the expansion of credit, in so far as it takes place, absorbs in itself its very high cost, to the detriment of employment: inflation is damped down by poking up the fire?

I make this assertion because what I have been describing militates against the very dynamic effects that are pursued. For in order to prevent enterprises from obtaining inflationary profits, by the application of real rates of interest, these profits are switched over to banking and financial activities. Moreover, the very understandable difficulties in which enterprises find themselves do not attract investment of the profits thus transferred. In contrast, a new type of consumer society thrives in this way, for the profits in question, diverted from genuine investment, are used outright to boost imitation of the consumption of the centres, especially when these imports are encour-

aged that are necessary to meet the demands of privileged consumption. Consumption and the accumulation of consumptive capital are exalted alike.

Serious differences of opinion also arise in connexion with unemployment. While some see in it a cause for concern, others maintain that real salaries and wages ought to drop until unemployment is absorbed when the system achieves equilibrium. The surplus, of course, is disregarded.

Views on the subject of international trade are also widely divergent. Some take prudent steps to correct the abuses of protectionism and withstand pressures from outside to go further and abolish protection altogether, just when the structural bottlenecks are beginning to make their appearance again. While others, impelled by their unshakeable faith in market laws, which are bound to carry harmony and balance on to the international level, hope that if protection is done away with, the centres will facilitate the entry of peripheral exports.

The attitude of certain neo-classicists to the transnational enterprises is too important not to be mentioned here. But according to some, the doors should be flung wide to allow them, in specific cases, to fill up the room left by the elimination of public enterprises; whereas others propose to improve the public enterprise and impose conditions on the activity of the transnationals, so that particular development objectives, such as exports of manufactures, can be fulfilled.

Be this as it may, however high the degree of intelligent virtuosity with which neo-classical principles are followed, there will be no possibility of simultaneously attaining the great objectives of economic efficiency, social efficiency and respect for fundamental human rights.

Notes and comments

A forecast of world oil prices

J.W. Mullen

Background

This paper presents a summary of a forecast of world crude oil prices that was developed in a study soon to be published in CEPAL's *Cuaderno* series.¹ The forecast is unusual in the sense that it argues that real world oil prices will be substantially below those now being predicted for the rest of this century by many authorities on the subject. Specifically, it argues that the most likely price of internationally traded crude oil will decline from its level in July 1978 of 9.74 dollars of 1975 per barrel (12.70 dollars per barrel in current prices) to 8.63 and 7.05 dollars per barrel, FOB Persian Gulf, in 1990 and 2000, respectively. By way of contrast, many forecasts point to real oil prices remaining steady, or increasing (and, in some cases, quite sharply) during the eighties. There is widespread agreement that real world oil prices will probably increase rather rapidly during the nineties.

The record of oil prices in the past

The study begins with two simple questions: what has been the record of world oil prices in the postwar era: and how might that record be explained? It is argued that explaining the record of world crude oil prices in the past is an indispensable prelude to predicting them convincingly in the future.

The study isolates four distinct periods of world crude oil prices: 1945-1949; 1950-1957; 1958-1970; and 1971-present. The mechanics of price formation in each of these periods is examined at length from the point of view of three

causal variables: the upward pressure on price born of rising demand acting on increasing long-run industry supply costs; the structure of the world oil industry; and the complex of energy policies in the industrialized, market-directed economies. From an economic point of view, the price of world oil, or of any other commodity for that matter, is explainable by the operation of these three variables —economic scarcity, industry structure, and government policy.

The study concludes that, in all four periods, changes in the economic scarcity of world crude oil do not explain changes in its price. Quite the contrary: throughout the entire postwar era, the world oil industry has been capable of supplying far more crude oil than demanded at existing prices. The fact that the price of world oil has remained consistently far above its long-run supply cost in the postwar era reflects the operation of a continuously acting block to competition. This block has its origin in the structure of the world crude oil producing industry, on the one hand, and in the complex of energy policies in the industrialized market-directed economies, on the other.

The forecast: General approach

With this historical review as background, the study then concentrates on the forecast of world crude oil prices in 1990 and 2000. Two forecasts are presented. The first is a forecast of the most likely price of world crude oil in 1990 and 2000. However, realizing that the probability that either of these most likely prices exactly will emerge in those years is virtually zero, a Bayesian-based forecast is also presented of the probability distribution of price about each of these two most likely prices in each of those two years.

The forecast of most likely prices was developed in the following way. An estimate was made of the upper and lower limits on the price of world oil in 1990 and 2000. An analysis was then made of the pattern of expected changes in the structure of the world oil industry and in the

¹J.W. Mullen, *Energy in Latin America: The historical record and future prospects*, CEPAL *Cuaderno* series, November 1978. This study examines the policy implications for energy planners in Latin America's oil-deficit countries of expected prices for world oil. It also provides a brief description of the pattern of growth and change in Latin America's energy industries over the past quarter of a century.

complex of energy policies in the industrialized countries, terminating in an assessment of their probable impact on the price of world oil. The forecast technique was selected and applied, and the strengths and weaknesses of the forecast were appraised.

A variety of forecasting approaches were reviewed, and the qualitative (i.e., intuitive) forecasting approach was selected: "...the forecast... was generated qualitatively. Quantitative forecast methods were considered, but they were rejected. The review of world crude oil prices presented earlier argued that in the post-war era there have been four analytically distinct periods of price formation, not just one. The application of least-squares or related techniques would be indefensible because of the serious heteroskedasticity involved. In general, statistical forecasting procedures are rejected because they are incompatible with the large element of instability inherent in the process that generates world crude oil prices and also because of the extended duration of the forecast period, 1978-2000. These reservations are relevant to both time series forecasting techniques and to the variety of causal mathematical modelling predictive techniques as well. This latter collection of techniques are particularly inappropriate in so far as they also presume knowledge of the value of a series of independent, causal variables and their functional relationship not only in the past but over the next quarter century as well. In these circumstances, it seems better to predict price itself, qualitatively and directly".

Crude oil price limits

The price of world crude oil in 1990 and 2000 will be contained within two theoretically identifiable limits: price will be no lower than the long-run incremental cost of supplying natural crude oil in a competitive market for it; and the price of crude oil will rise no higher than the minimum long-run incremental cost of synthetic crude oil. The study estimates that, with crude oil production in the Persian Gulf rising by five per cent per annum during 1978-2000, the long-run incremental cost of production there will rise from a maximum level of 0.25 dollars of 1975 per barrel in 1977 to 0.40 and 2.00 dollars per barrel in 1990 and 2000, respectively, FOB, Persian Gulf. Prices lower than these levels in those years will evoke an insufficient supply of world crude oil. These prices are the economic floors to price in a competitive market for world oil in those two years: all else is economic rent.

The upper limit on world crude oil prices is given by the long-run incremental cost of synthetic crude oil, approximated in the study by the cost of extracting oil from coal in the eastern United States and converted to an FOB, Persian Gulf, per-barrel-of-oil equivalent basis. This level of cost (calculated with a twenty per cent opportunity cost of capital) is seen as falling from an estimated level in 1977 of 15.94 dollars per barrel to 13.65 and 12.31 dollars per barrel in 1990 and 2000, respectively, FOB, Persian Gulf.

By way of summary, then, the price of world oil in 1990 will be contained within the range 0.40-13.65 dollars per barrel and in 2000 within the range 2.00-12.31 dollars per barrel, FOB, Persian Gulf, all prices in dollars of 1975. The lower limit of each of these two price ranges is that which would emerge in a perfectly competitive market for world oil, and the upper limit is the price toward which market price would tend in a monopolistic market for world crude oil. As noted earlier, in July 1978, the price of world oil was 9.74 dollars of 1975 per barrel, FOB, Persian Gulf.

Industry structure and government policy

The study then focuses on the operation of the industry structure and government energy policy variables during the forecast period. A variety of factors are examined analytically in this regard, including chiefly the following: changes in the supply of crude oil produced for the world oil market; OPEC accommodation to these expected changes in supply; competitive forces within the OPEC membership and between it and the major oil companies; the strategic stance of the oil-importing industrialized countries on the question of the price of world oil, that is the degree to which these countries, and particularly the United States, act as price-takers or price makers.

The analysis points to a simple conclusion: as in the past, so in the future, the key step in forecasting world oil prices is judging the degree to which the force of competition, born of an immense price-cost gap, continues to be contained over the forecast horizon. In this regard, the study concludes that the net result of the operation of the industry structure and energy policy variables during the forecast period will be to reduce the price of world crude oil during the eighties and more rapidly during the nineties. In both cases the expected decline in price is moderate, and precipitous changes in price, either upward or downward, are not anticipated.

The forecast results

The study argues that during the eighties real world oil prices will decline, on the average, by one per cent per annum *vis-à-vis* 1.1% during 1951-1957. During the nineties, the rate of decline in price is expected to accelerate to two per cent per annum *vis-à-vis* 7.1% during 1958-1970 (Diagram 1).

Diagram 2 shows the results of the Bayesian-based probability exercise for the price of world crude oil in the year 2000. It suggests that the chances are about three-out-of-four that the actual price of world oil in that year will fall in the range of 6.30-8.81 dollars of 1975 per barrel, FOB, Persian Gulf. The odds are about twelve per cent that price will be either above or below this broad range of price in the year 2000. Within the 6.30-8.81 price range, higher prices are more likely than lower prices. Additionally, the most likely price in 2000 (i.e., 7.05 dollars of 1975 per barrel, FOB, Persian Gulf) is far above the estimated level of long-run incremental cost of crude oil supply in the Persian Gulf in that year. It is also above the minimum safeguard price adopted by the International Energy Agency and by the European Commission in 1976: 6.30 dollars of 1975 per barrel (7.00 dollars in 1976 prices). Finally, the forecast price is above a rough estimate of levelized development and production cost per barrel of North Sea oil in the year 2000.

Forecast appraisal

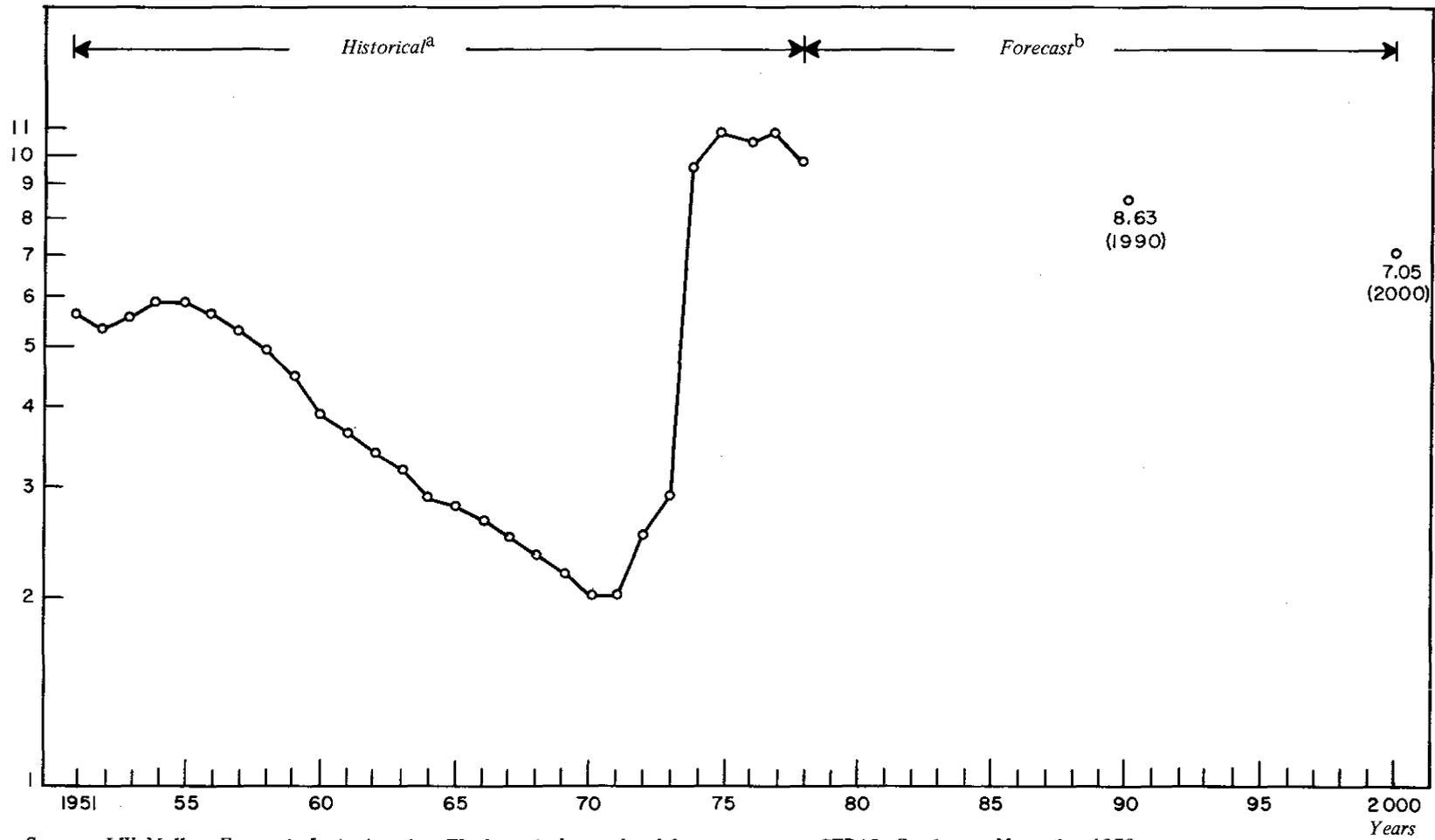
The strengths and weaknesses of the forecast are then appraised as follows: "The critical minded reader will understand that... these forecasts must be taken with a good deal of reservation. It is possible, although improbable, that competition between sellers and buyers in the world crude oil market could break the price structure for world oil tomorrow. Nothing in economic theory opposes this outcome. All that is required is that the strong forces working to break the price structure (i.e., increased supply and its mirror image, market competition) are not offset by strong forces working to dam up the intense downward pressure on price (i.e., OPEC's control over supply and the pattern of country-company crude oil marketing arrangements). On the other hand, OPEC member countries may be successful in maintaining the present price structure for world oil over the next

two decades. Again, nothing in economic theory rules out this possible, but improbable, outcome in a technically logical sense. One very important impediment is the future emphasis of United States energy policy on bringing down oil prices. There is no such emphasis in either actual or proposed policy at the present time and, effectively, this consideration has been treated as a parameter in this price forecast exercise. If the United States continues its essentially passive attitude towards world crude oil prices, a major potential force for bringing the whole structure of these prices down will remain dormant. On the other hand, if the United States moves determinedly to break world oil prices (believing itself forced, for example, through balance-of-payments pressure), then a powerfully depressant force on world crude oil prices will have been activated. The present forecasts are predicted on the assumption that this change in United States policy will not occur.

"While plummeting, sharply increasing, or steady price trajectories through the year 2000 are perfectly possible, it is hoped that the reader will understand, on the basis of the preceding arguments, why each of these possibilities is believed to be improbable over the rest of this century. However, belief is not certainty, and all that can be hoped, in the present instance, is that the reader understand the logical development supporting the final forecast prices, price ranges and probabilities tabled in this study. The selection of the specific rates of decline in the real price of world crude oil was clearly a subjective operation, but no apologies are called for on this account. The use of a more complicated mathematical forecasting technique might be more fashionable, but it would in no way be more convincing *per se*, an analysis of the process of world crude oil price formation, historically and prospectively, leads to the conclusion that the use of these methods would be misguided.

"It is often said that forecasting the price of world oil is 'anyone's guess'. This is true in so far as it points to the very large element of uncertainty involved. This study simply tables a set of guesses systematically and gives the reasons for making them. In this context, it is hoped that the background material underlying the forecasts is sufficiently clear to enable readers who disagree with the specific rates of change in price that were chosen to substitute their own and to draw the appropriate conclusions."

Diagram 1
PRICES OF SAUDI ARABIAN LIGHT CRUDE OIL
(In 1975 dollars per barrel, FOB Persian Gulf)



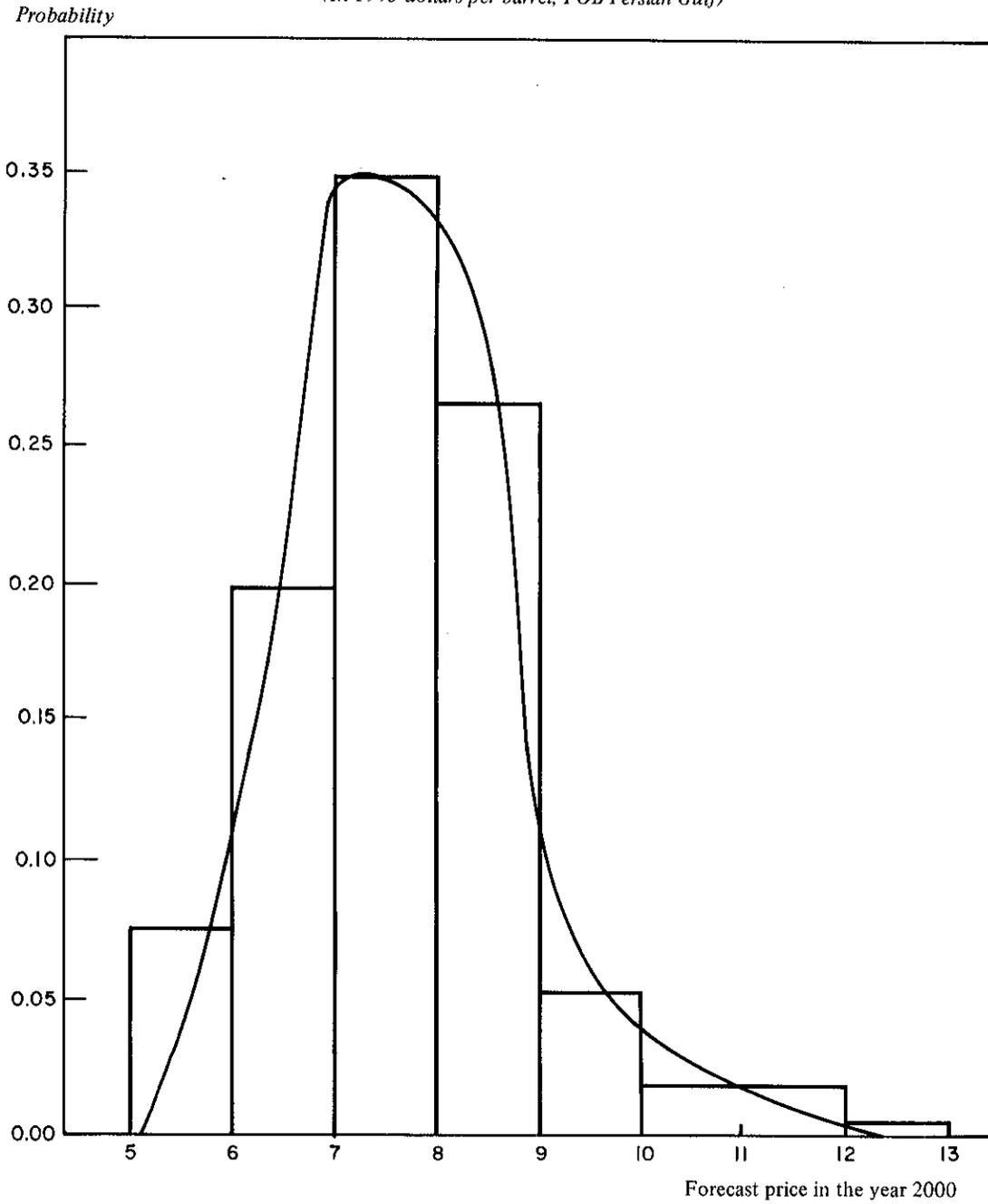
Sources: J.W. Mullen, *Energy in Latin America: The historical record and future prospects*, CEPAL, Cuadernos, November 1978.

^aPrices ex Ras Tanure 1951-1958.

^bProjection prices, 1990 and 2000

Diagram 2
**HISTOGRAM OF PROBABILITY DISTRIBUTION OF THE FORECAST PRICE IN THE YEAR
 2000 OF SAUDI ARABIAN LIGHT CRUDE OIL AND FREEHAND DRAWN PROBABILITY
 CURVE THROUGH THAT DISTRIBUTION**

(In 1975 dollars per barrel, FOB Persian Gulf)



Source: J.W. Mullen, The Price of World Oil: Prospects and Implications for Energy Policy-Makers in Latin America's Oil-Deficit Countries, 1978.

Participation in the context of the world economy

Norberto González

1. Developing countries: a limited participation

The participation of the countries of the third world, in particular the Latin American countries, in the basic decisions of the world economy is very limited. This is clearly seen if consideration is given to the way in which some of the recent major changes in the international economic system have been negotiated and put into practice. The following are a few examples.

The international exchange system created at Bretton Woods was modified *de facto* in accordance with decisions adopted by the developed countries, with little or no participation of the developing countries. As is known, the changes began in August 1971 with the decision of the United States Government officially to suspend the convertibility of the dollar into gold. At the end of that same year the financial authorities of 11 industrialized countries, meeting at the Smithsonian Institution, modified the exchange rates for their currencies, devaluing some in relative terms and revaluing others. It proved impossible to maintain that agreement and the result was a variety of exchange systems created by decisions of the major industrialized countries. The developing countries had no alternative but to link their currencies with that of some industrial country with which they had important economic relations, often with adverse effects on the stability of their balances of payments. This *de facto* situation was legalized with the amendments to the Articles of Agreement of the International Monetary Fund approved at the Jamaica Meeting.

The developing countries' voting powers in the International Monetary Fund are very limited.¹ The decisions of the Jamaica Meeting and other measures adopted by the International Monetary Fund in recent years created additional resources totalling nearly 64 billion dollars, only 10% of which are earmarked for the

non-oil-exporting developing countries, despite the fact that they account for 22% of the total contributions to the Fund and generate at least 15% of the total national product of its members.²

In trade, an illustrative example is the result of the developed countries' decisions concerning the protection of sectors of industry which are gradually losing their competitiveness in the north and for which the south shows a distinct export aptitude and vocation: footwear, leather manufactures, textiles, electronic equipment, steel, canned fish, sugar, soya, zinc, copper and natural flowers. In some cases there was an increase in tariff and non-tariff barriers, which were already higher, on average, for these sectors than for others which constitute the primary items of trade among the industrialized countries. In other cases the developing countries were faced with the option of accepting the reductions in the growth rate of their exports suggested by the industrialized countries or seeing the barriers to these goods increase. The frequency and extent of these cases are in practice creating a system whereby the rules governing international trade in sectors of interest to the south are being defined on a bilateral instead of a multilateral basis in response to initiatives of industrialized countries.

In the multilateral trade negotiations of GATT which take place in Geneva, the agreements in particular on the five proposed codes of conduct adopted in mid-July by the developed countries, without the participation of the developing countries, will probably determine the rules of the game for the developed countries and constitute the basis for the decisions to be adopted at the end of the negotiations. If this should happen, the industrial world's decisions would to a great extent be sanctioned, while the interests and needs of the third world would not be given proper consideration.

These examples contrast with the small progress made in negotiations in which the decision-making powers were more evenly divided between the north and the south. The meagre results of the Paris Conference and the UNCTAD and IMF-IBRD Development Committee sessions are eloquent examples.

¹ At the Jamaica Meeting the Interim Committee increased the voting powers of the oil-exporting countries in the International Monetary Fund from 5 to 10% of the total, but did not change the limited voting powers of the rest of the developing countries.

² Carlos Massad, "The revolt of the bankers in the international economy: a world without a monetary system", *CEPAL Review*, Santiago, Chile, second half of 1976.

II. *Factors helping to explain this situation*

The different participation of the north and the south in international economic decisions reflects the gap in economic and social power existing between the two, which in its turn is related to the considerable —and in some cases increasing— difference in their stages of development.

The relations between the two groups of countries are of a notably asymmetrical nature.

(a) In the cultural field the modernization of many developing countries is usually associated with the imitation by their high-income strata of the consumption patterns in industrialized countries, even though these strata are integrated in economies which are still at a primitive or intermediate stage of development.

(b) As regards technology, creativeness is virtually confined to the north, with the sole exception of incipient efforts at adaptation made in countries of the south which do nothing to change the essence of the situation.

(c) In the trade area there is marked asymmetry in the comparative structure of the south's exports and imports. Raw materials and a small proportion of goods produced by traditional industries are exported, but the actual demand for all these goods is by no means dynamic; scarcely any goods manufactured with more advanced technology are sold. On the other hand, capital and intermediate goods which involve more complex technology and for which there is more dynamic demand are imported from developed countries. This pattern of intersectoral specialization in the south contrasts with the intra-sectoral pattern of the countries in the north; through the latter the industrialized economies exchange goods of similar sectors, thus harmonizing specialization with a diversified structure of exports and imports.

The basic ideas regulating international trade and the machinery created on the basis of those ideas since the Second World War help to maintain the gap between developed and developing countries. The neoclassic conception of comparative advantages —particularly in its most static version— applied without modification to international trade is not conducive to an equitable distribution of the benefits of such trade among the countries. The requirement of reciprocity as a basic principle in trade relations hides the injustice and damage to efficiency resulting from the application of formally equal treatment to countries which are at different stages of development and therefore have different needs and means of action.

The essentially oligopolistic structure of the international markets for many goods and services, where free competition without restrictions is the exception rather than the rule, is an important cause of differences in the distribution of decision-making powers and the fruits of trade.

Mention should also be made of the tendency towards the conclusion of special economic arrangements between some developed and some developing countries as a factor of considerable future influence. A case of particular importance for Latin America involves the agreements concluded between the European Economic Community and a large group of over 70 developing or semi-industrialized countries (signatories of the Lomé Convention, mediterranean agreements, etc.). Although it is still too early to judge the potential effects of the establishment of this huge economic area with interlinked interests, the increasingly close co-ordination of decisions among these countries with very different economic and political power is easily discernible; it is not out of place, therefore, to harbour some concern regarding the effect on multilateralism and on the unity of the third world.

Moreover, this is not the only factor affecting the cohesion of the developing countries, a cohesion which was fairly effective during the first stage of their inclusion in the international dialogue, as borne out by the early years of negotiation in UNCTAD. Subsequently, however, their unity began to encounter increasing problems as the more general aspects gave place to specific questions, or to the negotiation or particular issues. This also contributed to the growing differentiation among the developing countries, as some of them progressed towards more advanced stages of economic and particularly industrial development.

The difficulties in achieving a closer cohesion of the south in specific respects contrast with two facts. First, the interest of various developing countries in areas such as basic commodities or manufactures and international public or private financing may vary in degree according to the characteristics and stage of development of the individual countries; but such differences in degree do nothing to alter the basic fact that all the developing countries are interested in each of these subjects, and that it is not too difficult to visualize packages of international co-operation measures which would give due consideration to their interests; in other words, the common denominators are undoubtedly very important within the third world. Se-

condly, although no individual cases are referred to, it seems clear that each of the countries of the south acting on its own carries too little economic and political weight *vis-à-vis* the great decision-making units of the north to be able to negotiate on an equal footing, particularly as the developed countries, despite their differences, agree among themselves on many basic issues. While not ignoring the practical difficulties of achieving agreement among over 100 developing countries, the net balance of advantages that might be obtained through more effective co-operation is a very strong reason why it is worthwhile making greater efforts than ever in that direction.

Another factor which should be taken into account is the significance of the emergence of transnational corporations as an influential new agent in the world economy. It is not only a question of the enormous size of these corporations, whose level of operations frequently exceeds the total gross product of many developing countries; of decisive importance too is their control of technology and its creation, their considerable powers of penetration in international markets for goods, their great organizing capacity and their unequalled mobility. These advantages give them strong bargaining powers *vis-à-vis* the developing countries. Another question is the effect of the changes that have actually taken place in the last few years whereby the great transnational banks have come to play a decisive role in the channelling of funds, including those of the oil-exporting countries. The policy of these banks in international financing operations is subject to little government control, even in the developed countries. There is also a notable lack of processes, machinery or rules for making the distribution of short-term public and private credit fairer and more rational.

III. *Necessity and possibility of greater participation by Latin America and the third world in international decisions*

The world economic system is undergoing drastic changes in the monetary, financial and trade fields. A set of basic rules which will govern world trade in the next few decades is being devised. Not to participate effectively and intensively in these decisions means having to accept the resulting system even if it were detrimental to the interests of Latin America and the whole developing world.

The economic structure of Latin America is also changing (it is becoming a manufac-

exporting region, with several countries attaining the level of semi-industrialized economies and ceasing to be under-developed countries in the traditional sense). Latin America needs to participate in international decisions so that it may devise its new role in the world economy, its new division of labour with the developed countries, and the new forms and modes of operation with enterprises and countries of the north. The present limited participation greatly impedes its assumption of this new role.

Not unrelated to the problem of participation by the countries of the third world is their need to maintain and consolidate their national identity and their own cultural values, which tend to be displaced by the undeniable cultural, political and economic influence they receive from the north.

But the need is not enough; an adequate basis is an indispensable requisite. Without exaggeration, some factors may be singled out as conferring on the region a considerable potential bargaining capacity and amply justifying its fuller participation in decisions. Some of these factors are examined below.

1. Large internal market. There is now a very large market for many manufactured goods in the south; the present actual demand of the middle income strata for durable and non-durable consumer goods and capital goods is considerable. The potential market of the developing world is much greater still if account is taken of the sectors currently excluded from the market, but in which they will gradually be included in the next few decades. The market of the north tends to become saturated in the case of many goods. Thus, for large-scale industries the market in the south is becoming increasingly important compared with that of the north. This is significant not only for the exports of industrialized countries to developing countries, but also for transnational corporations of the former which are more and more interested in producing in the latter for their domestic markets. This is reflected, *inter alia*, in the growing competition among transnational corporations of the United States, Europe and Japan to gain a foothold in the developing countries' markets; actuated by this competition, such corporations are more and more willing to accept conditions more favourable to the interests of the south than those traditionally in force. Some significant signs of this are the recent cases in which transnational corporations have agreed to split up the private investment package (transferring technology without necessarily being owners of the investment); to export manufactured

products (including metal manufactures and machinery) from a developing country, instead of producing only for the country's domestic market as they traditionally did; to enter into an association with national public or private capital and even hold a minority share of the capital of joint enterprises. Whenever the developing countries have exercised their bargaining powers firmly, prudently and intelligently, the corporations' reactions have generally been flexible.

2. Availability of natural and particularly non-renewable resources. For some years, especially since the increase in oil prices, there has been growing concern in the north regarding the need to ensure a regular supply of raw materials. This partly explains why, in those situations where developing countries have used the bargaining powers afforded them by the availability of mining resources, governments and enterprises in the north have tended to accept new modes of action: further processing of these products in the countries of origin, sale of technology independently of ownership of the mine. These are only incipient trends but they indicate the path to follow in order to achieve progress.

3. Latin America, as a developing region, is attaining a degree of industrial maturity which enables it to undertake more advanced activities than in the past. The countries of the region are in a position to produce manufactures, even some with fairly advanced technology, on a competitive base, as so eloquently borne out by the defensive attitude of the countries of the north which is reflected in greater protectionism. Far from being an impracticable aim, the region's hopes of playing a new role *vis-à-vis* the industrialized nations have a sound economic foundation.

4. Economic co-operation and integration among third world countries, at present in a very incipient stage, can be an important instrument in promoting their development, strengthening their national enterprises and also helping to achieve fuller participation in the decisions of the world economy. Such co-operation and integration are progressing in real terms, if measured by the increase in the share of inter-Latin American trade in the total, a significant increase recorded in spite of the institutional difficulties affecting integration.

IV. *External participation as a factor contributing towards fuller internal participation*

External and internal participation are not mutually excluding alternatives; indeed, they are both necessary and support each other. The developing countries' lack of external participation in world economic decisions is no excuse for there not being greater internal participation; the lack of sufficient internal participation by various social groups in the developing countries is no excuse for the north to preclude the south from the possibility of having more say in international decisions.

At the internal level, serious problems of marginality, unemployment and critical poverty persist. Unless these problems are solved, the marginal sectors cannot have any real influence; participation in the production system goes hand in hand with political participation and the social situation. The solution of these problems of unemployment and poverty is hampered by the style of development prevailing in many Latin American countries, linked with the developed countries' barriers to the developing countries' imports.

This style, based on the consumption of a small high-income population group which imitates the consumption of developed countries, leads to substantial imports, favours the use of technology offering little employment to the labour force, and frequently results in the production of goods with very insufficient dynamic effects on the rest of the economy.

In addition to the development style and other political and social determinants, the achievement of greater internal participation also depends on the attainment of a sufficiently rapid economic growth rate to permit the productive absorption of manpower and higher income and consumption levels for the present marginal strata. In its turn, a faster economic growth rate requires the fuller and more active participation of these countries in the world economy and in the fundamental decisions on monetary, financing and trade matters.

For the south to achieve a fuller effective participation in decisions concerning the world economy requires, *inter alia*, greater economic co-operation and cohesion among these countries in international negotiations; fuller exercise by the south of the bargaining power afforded by its market and natural resources, a bargaining power which would be even stronger

if it were exercised jointly, not separately by each country. Participation at the international level should be reflected in the possibility that

the developing world may really have some influence in the design of a New International Economic Order that will consider its interests.

Four views of the new international economic order*

Luciano Tomassini

1. In 1974 the United Nations General Assembly, at its sixth special session, adopted a Declaration and Programme of Action on the Establishment of a New International Economic Order. For some, this event marks a radical change in the evolution of centre-periphery relations. For others, it is merely the latest version of certain ideas that had been fermenting over the past 20 years and first found systematic expression at a world level at the first session of UNCTAD in 1964, but had long been taking shape in CEPAL, which integrated them in the report presented at the meeting of the Inter-American Economic and Social Council held at Quitandinha in 1954 and distributed at the time to its member governments. Whatever the correct interpretation in this respect, there can be little doubt that as far as north-south relations are concerned the period beginning with the rise in oil prices determined by OPEC in 1973 and ending with the conclusion of the Conference on International Economic Co-operation which took place in Paris up to 1977 was as rich in progress as it was in frustration. Among the most significant achievements during that five-year period is the increased bargaining power of the developing countries as a whole; the industrialized countries' acceptance, particularly at the seventh special session of the General Assembly, of the need to

introduce drastic changes in their economic relations with the periphery nations; and the more far-reaching and interrelated measures included in the Programme on the New International Economic Order compared with the approaches made in the past by the Group of 77. There is little doubt, however, regarding the modest results obtained at the close of the fourth UNCTAD session and the Paris Dialogue. The time seems to have come, therefore, to make a retrospective appraisal of events during the last five years within the context of north-south relations in order to discover the causes of the stagnation of the respective negotiations and identify the best procedures for reopening those negotiations on a solid basis. It is not surprising, therefore, that CEPAL has been actively concerned with these subjects during the first half of 1978.

2. One of the factors which may best help to explain the fact that the north-south dialogue has yielded such poor results lies in the conceptual confusion which seems to prevail in the discussions. The more conferences, forums and proposals there are to promote the cause of the New International Economic Order, the clearer it is becoming that the greatest confusion reigns in this matter. Specific proposals put forward from every angle may, according to the case in point, be regarded as supplementary, optional, conflicting or simply unrelated. On the other hand, the alternative large-scale models of a world economic order on which those measures should be based have not been made sufficiently explicit. As distinct from what occurred at least during the past 200 years in the political, economic and social evolution of the national States — which can be explained only in the light of the struggle between alternative social philosophies embodied in political parties or in great currents of opinion — the broad concepts underlying the approaches which are formu-

*These comments are based on the internal discussion in CEPAL of the main problems connected with the New International Economic Order during the first half of 1978, and particularly on some specific events or studies such as the cycle of round-table meetings organized with the participation of Professors Carlos Diaz-Alejandro, Albert Fishlow, Abraham Lowenthal and Dudley Seers, on the occasion of the Seminar on International Economy and Developing Countries organized by the Economic Research Corporation for Latin America (CIEPLAN), the Seminar on Basic Needs and a New International Economic Order held jointly by the World Bank and CEPAL, and some follow-up activities related to the work of the Brandt Commission. The choice and treatment of the topics is the exclusive responsibility of the author.

lated today from various ideological currents or power centres with the aim of restructuring the international system have never really been defined. This lack of definition has prevented the discussion on international relations from achieving the level of maturity reached by the political struggles within the national societies. Accordingly, before analysing whether or not the political will exists to progress towards the establishment of a new international economic order, it seems necessary to ask what type of world economic order is desired. Since it appears that underlying the proliferation of proposals formulated thus far are various alternative models of a world economic order, this problem in its turn involves an effort to define, typify and identify the respective options.

3. In advancing towards the preparation of a typology of this kind it will become easier to assess the compatibility or coherence among the various specific solutions hitherto proposed in the face of each of the major problems arising in the context of north-south relations. More important still, it will also be possible in this way to evaluate each of the models under discussion in terms either of its desirability in the light of the objectiveness or values upheld by each group of countries or current of opinion, or of its feasibility in the light of the real situation and objective conditions of international relations today. Taking into account the magnitude of the problems that have accumulated in this area during the last few years, and the "mediocre" prospects offered by the world economy as a whole, the conclusion is that the developing countries have little room for manoeuvre, and that the second of the above evaluation criteria would be the most advisable. In other words, a clearer statement of the alternative models of a world economic order thus far proposed would enable the developing countries to explore the "limits of possible action" with more clarity and precision than in the past.

4. The controversy concerning possible models of a world economic order seems to have centred basically on the question of what degree of integration—or disintegration—of developing countries in the world economy is desirable? Following to some extent the line of thought taken by Dudley Seers in his latest study on the convergence of marxism and other neoclassic doctrines, it is argued later in this article that the degree of modernization and integration of the developing countries in the international system is not so important as the nature or form

of their participation in the system from the standpoint of the pursuit of their specific values, objectives and interests, both individual and collective. In any case, at least three answers to this question have been attempted so far: (a) the first would be represented by "conventional wisdom", which advocates the *laissez-faire* approach at both the internal and the international level. At the international level, the optimum distribution of the benefits deriving from international economic relations, are achieved through the co-operation of the "invisible hand" of market forces. This model suggests that the developing countries should open up their economies to imports and capital from the industrialized countries and specialize in those economic activities for which they possess comparative advantages, becoming as closely integrated as possible in the international capitalist system; (b) for the radical critics of these approaches, the benefits which a strategy of external openness may offer in theory are counteracted in practice by the imperfections of the international markets and by the existence of a dominant transnational group which acts as intermediary between the central and peripheral economies. According to this interpretation, history shows that such openness has meant a considerable drain on the resources of the developing countries' economies, and a factor of their backwardness. The prescription is delinking, i.e., the developing countries' segregation from the international capitalist system, a prescription which is sometimes accompanied internally by an exhortation to adopt strategies aimed at promoting "a different type of development"; (c) the official programme on the establishment of a new international economic order lies mid-way between these two extremes. The development of the peripheral countries depends on whether they can improve their participation in the international system and not, as maintained by the segregationists, on their withdrawal from the system. North-south relations are, however, evolving in accordance with the rules laid down by the central countries, which discriminate against the developing countries, permitting an unfair distribution of the benefits deriving from those relations. The fault therefore lies in the actual structure of the system, and to remedy it requires the extension of preferential treatment to the peripheral countries, which can only be achieved through considerable regulation of the international markets. Hence the need to adopt an integrated commodity programme, a generalized system of preferences for exports of manufactures

from periphery countries, machinery to ensure a more automatic transfer of financial resources, and codes designed to regulate the behaviour of transnational corporations and the flow of technology originating in the more advanced countries. It would thus be a kind of "global social democracy", which has already been alleged by Patrick Moynihan, former United States representative to the United Nations, to have its roots in Fabianism.

5. What role does the market play in each of these models? The first model advocates the peripheral economies' full integration in the international capitalist system through market mechanisms. The third considers the periphery countries' increasing participation in the world economy necessary, but through a considerable degree of intervention in international markets or their replacement by more centralized mechanisms. Finally, the second of these models not only rejects market mechanisms as the most appropriate instrument for achieving the integration of those countries in the international economic system, but also rejects such integration as a desirable or suitable goal for them.

6. The best strategies for promoting the implementation of each of these models approximately correspond with the options once classified by Albert Hirschman under the concepts of "exit", "voice" and "loyalty", in order to determine the operation of social systems from a broader point of view. In accordance with each of those options, in their relations with the international economic system the developing countries should choose between withdrawal, confrontation or acceptance of its rules.

7. This classification, emerging in the heat of a controversy, could serve to evaluate the viability of each of the alternative models at stake in the north-south discussion, in the light of the objective conditions presented by the world economy today, and of the expectations and trends that may be noted in both the centres and the periphery. The first of the models suggested assumes the existence of markets operating under conditions of perfect competition. Owing to the distortions deriving from the existence of powerful national or transnational oligopolies and of the protectionist policies adopted by the industrialized countries, however, the "invisible hand" which should ensure an equitable distribution of the benefits obtained from the operation of the market is not discernible anywhere —and even the markets them-

selves where presumably the invisible hand should act are equally invisible. Furthermore, the proposals aimed at promoting the developing countries' segregation from the international economic system seem contrary to recent historical experience. During the past 30 years, the developing countries' growth has been closely associated with their increasing share of world trade, to the extent that a close correlation is noted between the expansion of their exports, their increased capacity to import and the dynamism of their respective development processes. Since the past decade, in particular, world economic expansion has specially benefited those developing countries whose economic structure was most diversified and outward directed. Moreover, this strategy is in dispute in view of the growing interdependence of all the countries of the world, a situation which, in the words of the President of the World Bank, will shape our future in a manner which we are only now beginning to understand. Lastly, the strategy proposing to establish a type of "global social democracy", which has hitherto meant a kind of middle position such as that embodied in the Programme of the New International Economic Order, has scarcely been tried out in practice, and has encountered severe opposition or limitations whenever it has.

8. The opposition encountered by the Programme of the New International Economic Order is due, *inter alia*, to the fact that the proposed measures (a) were formulated by the countries of the south on the basis of the analysis of their own problems and grievances, with little consideration for the interests and trends prevailing in the centres, so that there is a certain similarity between the Programme and the *cahiers de doléances* which preceded the French Revolution; the approaches may take on considerable importance in a revolutionary situation but are scarcely operative within a perspective which foresees no short-term or medium-term revolutionary changes within the context of the international system; (b) mostly involve a unilateral transfer of resources from the countries of the north to the countries of the south, resulting in a kind of zero sum game which offers little incentive from the former's point of view; and (c) generally tend to interfere with the normal functioning of the markets or to replace them by other more centralized mechanisms, defying the economic philosophy which the industrialized countries officially claim to profess.

9. These biases tend to create barriers which are even expressed in the language used during the negotiations. In view of the active role assumed by the industrialized countries in the north-south dialogue and the fact that, in the last analysis, it is they that must adopt the decisions upon which the future of the world economy rests, it is advisable to present the discussion in terms comprehensible to their public opinion and to the main pressure groups that have to be persuaded of the desirability of agreeing to the measures advocated by the developing countries. Furthermore, the fact that a growing number of experts and academic personnel of high intellectual calibre from the industrialized countries is participating in this dialogue has permitted the formulation of proposals advanced by the developing countries in accordance with the analytical categories with which they are accustomed to operate. On the basis of this experience it might be conjectured that it is even possible to refer substantially to the same events as those which attempts had been made to interpret in the light of categories such as "exploitation" or "dependence", using concepts such as "market imperfections" or "power disequilibria" among the various agents operating in the market. After all, determination of the point where market imperfections cease to be a mere deviation from the norm and become a structural flaw may only be a question of degree.

10. A good example of the dialogue of the deaf which may occur as a result of the conceptual and terminological disintelligence mentioned above is the proposal put forward by the United States in Nairobi for the establishment of an International Resources Bank, in response to the efforts made by the developing countries to put into practice an Integrated Commodity Programme and to set up a Common Fund to finance it. The development, security of supply and price stability of natural resources found in the periphery constitute objectives of the greatest interest to both the north and the south. The United States proposal, however, centred unilaterally on increased supply and security from the standpoint of the supply of natural resources necessary to ensure the reactivation of their economies; the Group of 77, for its part, was basically seeking the stability and improvement of commodity prices by means of mechanisms involving greater control over supply and the possibility of limiting production of these resources. It is interesting to note that, as this example shows, in all such dialogues of the

deaf the periphery countries are almost certain to be the losers. Actually, in the last few years the behaviour of the world economy in the basic commodity field has been characterized not by the implementation of proposals aimed at controlling or restricting supply, but rather by an accelerated process of development of available natural resources on the part of the periphery countries, under conditions not much more favourable to them than in the past, an attitude that has been encouraged by the industrialized nations, generally through transnational corporations.

11. In the face of a strategy aimed at regulating or replacing the international markets such as that implicit in the "global social democracy" model, the developing countries may find a fourth option in the form of a strategy for "selective participation in the system", based on more disaggregated approaches than those currently characterizing the New International Economic Order platform. This option would be founded on recognition that the markets have an important role to play in the operation of the world economy as a whole, and that certain risks may be involved in replacing them by more centralized mechanisms. But it is also based on the understanding that, as already stated by Carlos Díaz-Alejandro, such markets are creatures of the social and political system in force and not mechanisms that come into being spontaneously and inevitably as a kind of economic necessity. In this respect, which market is permitted to operate and how, and which markets are stimulated or contained, constitute national or international policy decisions. What is important for achieving an equitable reordering of north-south relations is that the developing countries should have some part to play in the adoption of those decisions.

12. A strategy of "selective participation" in the international system such as that proposed above should involve the proper combination of three types of action: (a) measures to correct the present imperfections of the international markets which discriminate against the developing countries; (b) the conclusion of agreements between the countries of the north and of the south, to complement the mere market forces, with the aim of ensuring the distribution of certain productive activities and the promotion of trade that would enable the best possible use to be made of the comparative advantages which, within a dynamic concept, each group of countries possesses in its successive stages of develop-

ment; and (c) such measures as involve an element of concession or preference which may be necessary to palliate the disadvantages affecting the countries of the south, particularly during the early stages of their development process.

13. The identification of areas of common interest with a view to the mutually advantageous distribution of world economic activities should not be confined to conjunctural or short-term considerations, nor should the only aim be to facilitate the reactivation of the economies of the north; rather, it would have to be based on a long-term view, and the need to introduce drastic changes in the pattern of international economic relations prevailing hitherto would have to be accepted if the problems that have affected north-south relations are to be prevented from reappearing within a short time, perhaps more explosively than before. In that respect, the countries of the north should be ready to implement the adjustment policies necessary to facilitate the restructuring of the world economy and pave the way for a new more rational and equitable international division of labour. It is most important that they should consider these efforts not as a sacrifice made in favour of the developing countries but as a normal part of the process of industrial modernization which they are obliged to promote on a continuing basis if they do not wish to condemn their own productive systems to obsolescence and cease to compete on the world markets.

14. This approach assumes recognition of the fact that the expansion of transnational relations—and the growing interdependence among all countries of the world—represent an essential feature and an irreversible trend on the present-day world scenario. It also assumes recognition that, if left to the free play of its own forces, this trend towards the integration of the peripheral societies in the new transnational system, through their most modern sectors, is accompanied by an undesirable but progressive process towards a loss of independence, accentuation of internal disparities and national disintegration of those societies. Acceptance of this process without safeguards of any kind

would stimulate the vertical structure of international relations and destroy the solidarity among the countries of the south, accelerate the process of denationalization which in fact they are already experiencing, and intensify the internal heterogeneity of their respective societies. Rejection of this trend and the adoption of selfcentred development strategies oriented towards the renationalization of the peripheral economies, apart from involving a deliberate decision to pay the price of a marked and possibly irreparable technological, economic and cultural obsolescence, represents a path which at present holds out extremely limited objective conditions of viability. A strategy of "selective participation" in the international system would be more feasible. At all events, it would require that the industrialized countries should accept the new rules of the game, reduce the power of the transnational oligopolies and eliminate the barriers currently preventing the developing countries from occupying their proper place in the international division of labour. It would also require that the developing countries should adopt the essential measures to prevent the progressive denationalization of their economies and gradually and selectively assume a more and more active role in the international markets, encouraging the development of increasingly competitive activities and learning to negotiate, also under increasingly advantageous conditions, the appropriate international agreements to ensure that they can obtain the productive factors they need to promote their development.

15. To sum up, in the present circumstances, indiscriminate integration in the international economic system does not seem to be the best way of promoting development in the countries of the south. Nor, however, does it seem feasible for the majority of those countries to withdraw from the system—particularly in the case of the economically relatively more important countries—since, as stated by Fishlow, the question is to reform the existing order, not to reject it. It would therefore appear necessary to try out new forms of "selective participation" in the system.

Thirty years of CEPAL

On 7 June 1978 the Economic Commission for Latin America celebrated the thirtieth anniversary of its first session which took place in Santiago, Chile, in 1948.

The ceremony began with a prayer by Cardinal Raúl Silva Henríquez. Addresses were then delivered by the Under-Secretary-General of the United Nations for Economic and Social Affairs, Mr.

Jean Ripert, who also read a special message from the Secretary-General of the United Nations, the Minister of Foreign Affairs of Chile, Mr. Hernán Cubillos Sallato, the former Executive Secretary of CEPAL, Mr. Raúl Prebisch, and the present Executive Secretary of the Commission, Mr. Enrique V. Iglesias.

The CEPAL Review has pleasure in printing these statements in full.

Message from the Secretary-General of the United Nations

I have particular pleasure in conveying my greetings to all those who are today sharing in this historical occasion—the celebration of the thirtieth anniversary of the United Nations Economic Commission for Latin America—. During this period, CEPAL has built up an imposing record of service to a wide and progressive region. Its work has covered a wide range of activities directed at helping the governments of the region to improve the living conditions of a population of nearly 350 million people. CEPAL has constantly supported the expansion and strengthening of Latin America's economic relations, both by giving impetus to the regional and subregional economic integration systems, and through the opening up of or the search for means of co-operation with other regions of the world.

CEPAL has acted as a catalyzing agent not only through the *idées-force* which it has proposed in the region, but also in bringing together the interests of other developing countries in the world, as was the case in 1963 when it promoted the basic ideas which led to the creation of the Group of 77 at the first session of UNCTAD.

Since its inception, CEPAL has undertaken a periodic analysis of the trends in the region's economic growth. In its studies it has examined in minute detail different sectors of the Latin American economy, while at the same time its advisory services have been made available to all the countries of Latin America. Since 1962, many of the professionals and planners who today direct the

economies of their respective countries have passed through its training programmes. Furthermore, in keeping with an integral concept of development, it has given special attention to the social factors affecting the latter.

The regional commissions of the United Nations carry out a basic and important function in the work of studying, analysing and promoting economic and technical co-operation among developing countries, and between developing and developed countries. The commissions have fulfilled their mandates systematically and efficiently and have promoted subregional and regional co-operation for development.

At its last session, the General Assembly stressed the vital role of the regional commissions in the economic and social activities of the United Nations system. In its resolution on the restructuring of the economic and social sectors of the United Nations system, the General Assembly reaffirmed the role of the regional commissions "as the main general economic and social development centres within the United Nations system for their respective regions".

I am sure that CEPAL will continue to attend efficiently to the needs of the region. As Secretary-General of the United Nations, I have particular satisfaction in expressing my pleasure at CEPAL's thirty years of achievements, and in wishing it continued and well-deserved success in the future.

Statement by Cardinal Silva Henríquez

"Dear friends:

Thirty years ago the Economic Commission for Latin America came into being.

Today we are gathered here to celebrate this event which has had such great repercussions and has accomplished so much for the good of our peoples

I leave it to others to speak of the successes achieved, the difficulties encountered and the tremendous tasks still to be carried out.

Today I would like to offer a prayer to the Lord of History and Father of all Peoples in the name of us all, and especially in the name of the millions of men and women of this continent, in thanks for the birth of such a noble initiative.

We thank Thee, O Lord, because Thou hast caused to be born in the hearts of men of goodwill the wish to help the weaker nations so that they may achieve their desires for peace in the quest for full development.

We give Thee thanks for the achievements of the charitable institutions and of the different development agencies which have arisen out of this initiative.

We ask that we, as Christians, may understand that the hope of a new world and a new earth must not diminish, but on the contrary heighten the concern to perfect this earth where the human family is growing and developing. We ask Thee that we may understand that if we are not capable of creating a better world, we offend the poor, the meek and all men of goodwill of this our world.

Grant us, O Lord, victory over the hatred which today divides and separates so many men in

our world and in our own land, and may Thy peace, based on justice, liberty and love, come to replace violence, oppression, hatred and falsehood.

Grant us, O Lord, victory over the mistrust which weighs oppressively on international law, making all true collaboration and understanding impossible. Grant us, that we may be faithful in obid by our agreements, without which it is impossible for nations to live together in peace.

Grant us, O Lord, victory over the evil principle that gain and profit are the basis and the rule of law, and that might is right, principles which vitiated all international relations to the great detriment of the States which do not desire or cannot have any other might than law and justice. May a sincere and deep rooted morality come again to reign among the nations.

Grant us, O Lord, victory over the seeds of conflict, consisting in the too-blatant differences in wealth and in the economy, which prevent the healthy coexistence of nations and individuals, and create violent antagonisms and interminable struggles.

Grant us, O Lord, victory over cold selfishness, which, in the pride of its strength, only too easily comes to violate not only the honour and sovereignty of States but also the rightful, healthy and self-disciplined liberty of their citizens.

We in Thy church, O Lord, implore Thee, who calledst Thy children those who strive to establish Peace, to grant us Thy light and Thy grace so that we may work perpetually for peace based on justice, love and freedom.

We ask this through Jesus Christ our Lord".

Statement by the Under-Secretary-General for Economic and Social Affairs, Mr. Jean Ripert

I am particularly pleased to be here on the occasion of the thirtieth anniversary of the United Nations Economic Commission for Latin America, and it is a very great honour for me to address you after reading the message of the Secretary-General.

First of all, I should like to tell you how very much Mr. Kenneth Dadzie, recently appointed

Director General for International Economic Development and Co-operation, regrets that prior official engagements have prevented him from being with you on this important occasion. I have pleasure in conveying to you his best wishes for CEPAL's continued success in its activities.

Thirty years ago, the world began to recover

from the horrors and chaos of the Second World War. The creation of the United Nations at this crucial moment bore witness to the hopes of mankind of achieving a world in which international peace and security would prevail and in which the aspirations of peoples for a better life could be fulfilled. The majority of the skilled statesmen — both men and women — who devoted themselves to the work of reconstruction, chose to concentrate on the problems of the countries and nations directly affected by the war. However, there were also some who recognized the need for concerted action to ensure the development of *all* the regions of the world. Hernan Santa Cruz was, of course, amongst them. He played a decisive role in the submission to the Economic and Social Council in 1947 of the proposal to create a regional economic commission which would serve the nations of Latin America.

During its thirty years of existence, the Economic Commission for Latin America has contributed very considerably to promoting development policies and strategies. It has prepared and adapted a theoretical framework for analysing development and has provided practical assistance to the countries of the region in their search for innovative approaches to tackle the problems of development.

In the years following its creation, CEPAL made a diagnosis of the situation of Latin America in the post-war period, placing emphasis on the deterioration of the terms of trade between the centre and the periphery. This deterioration was considered to be one of the factors which most contributed to widening the gap between the developed and the developing countries. CEPAL also showed that the capacity for capital formation in the periphery countries was seriously handicapped by the tendency of the price of basic commodities to decline in proportion to the price of manufactures. The difficulties of accumulating capital through the production of basic commodities restricted the possibilities of the developing countries for creating the social and economic infrastructure needed to improve the living conditions of their peoples.

In planning a policy for national economic growth, CEPAL has actively promoted the regional economic integration of Latin America. The Commission has fomented a regional protection policy within the context of a common market, and not the protection of the countries on an individual basis, in order to safeguard import capacity and also protect income and employment. It has sown the seeds for the creation of a series of regional institutions and agreements, such as the Central American Common Market and the Andean Pact. CEPAL also made a valuable contribution to the

creation of the Inter-American Development Bank, and many of its ideas and concepts materialized when UNCTAD was set up. In 1962 the Latin American Institute for Economic and Social Planning was set up to support CEPAL's work to further planning by means of programmes at the national level. The Institute, in close collaboration with CEPAL, has continued to provide assistance to the governments in creating machinery for planning and designing national development plans and strategies. The planners and other experts trained by ILPES occupy key posts throughout Latin America.

CEPAL's achievements would not have been possible without the notable contributions of its leaders and staff members. I should like to take this opportunity of paying a tribute to the contribution of someone whose name was synonymous with CEPAL for so many years — Dr. Raúl Prebisch. As an academic personality, as an author, as an economic thinker of world fame and as a leader in the international community, Dr. Prebisch has influenced many of the events which have come to fruition internationally. The evolution of the CEPAL/Prebisch doctrine has had an overwhelming influence on the economic policies of Latin America and on the ideas behind the mechanisms for world trade and assistance.

I should also like today to pay a tribute to Mr. Enrique V. Iglesias, the present Executive Secretary of CEPAL, for his active role in carrying on the traditions of CEPAL, and in the search for new ways of fulfilling the difficult task which has faced the periphery countries in general over the last decade and particularly those of Latin America. CEPAL research has investigated both the opportunities and the risks which the changing world economic situation involves for the countries of Latin America. The fact that CEPAL has concentrated on the internal aspects of development has also led to consideration being given in Latin America and other parts of the world to the nature and social effects of the different styles of development.

Although the record of the work achieved is impressive, this is not the moment to pause and view it with bland complacency, since new challenges await CEPAL and the United Nations as a whole.

We can say today that the world has reached another crucial point in the relations between nations; we are witnessing an important shift from an East-West to a North-South dialogue.

The evolution of the complex economic, social and political problems of our day has given a new impulse to the negotiations between the developed countries of the North and the developing countries of the South. At the same time, important initiatives have been adopted to intensify mutual co-

operation among developing countries. Within a few months, a large-scale world conference will be held in the region on technical co-operation among developing countries. Although the main responsibility for development falls to the developing countries themselves, just as the economic recovery of the industrialized countries is essentially a task that they themselves must shoulder, internal efforts must be supplemented by far more intensive co-operation. In the increasingly interdependent world of today, the difficulties facing the world economy can hardly be solved through the isolated efforts of countries, however powerful they are. They can only be solved as a result of concerted international action involving shared responsibilities. The gradual establishment of a New International Economic Order is not only a much-needed response to the claims for more equality of opportunity put forward by the developing countries, but is essential for the wellbeing of the world economy as a whole.

We cannot underestimate the magnitude of the task, nor its difficulties. The North-South dialogue is making very slow progress, and as far as matters of major importance are concerned, results are disappointing. Progress unquestionably depends on the will and capacity of the interested governments to adopt the necessary measures.

However, the institutions of the United Nations system must adopt, and in some cases renew, their *modus operandi*, and especially the procedures for consultation and decision-making which they make available to Member States.

At its last session, the General Assembly adopted the first measures for the restructuring of the economic and social sector of the United Nations. The object of these measures is to permit the central units of the system to constitute the central forum required for the concerted action of all the Member States. They also represent definite progress towards the strengthening of the regional economic commissions in their respective regions.

The regional economic commissions have a decisive role to play in the reflection which must precede global negotiations or discussions; they can assist Member States in strengthening their mutual co-operation, bearing in mind their particular problems or advantages, and they can play an active part in improving international co-operation.

Over thirty years, CEPAL has created a tradition of original ideas and practical contributions to the development of Latin America. I congratulate all those who have contributed to the success of the Commission and offer my best wishes for its future success.

Statement by the Chilean Minister of Foreign Affairs, Mr. Hernán Cubillos Sallato

The Economic Commission for Latin America, whose thirtieth anniversary we are celebrating today, was established as a part of the United Nations system in pursuance of the principles of the San Francisco Charter.

That Charter—founded on the dreadful experiences of the economic crisis of the 1930s and the Second World War—viewed the achievement of peace as the result of the simultaneous development of the political security of States and the economic prosperity of their peoples.

Subject to the characteristics of the post-war economic situation and the limitations it imposed, a conceptual framework for the subsequent decades was drawn up. The principal objectives were the establishment of monetary discipline to contain inflation; the mobilization of resources to speed up reconstruction in the countries devastated by

the conflict, and the promotion of a return to economic normality through the expansion of international trade on a non-discriminatory basis.

Even at that stage the Latin American representatives in the Bretton Woods and Havana conferences pointed out that there was still no clear notion of the scope of the problem of economic development and its specific aspects. They also said that the monetary, economic and commercial system referred to above was not capable of dealing successfully with the problems arising from the real, different situation. Still less could it have been foreseen then that within a quarter of a century more than 70 new countries would join the international community.

In this changing world the United Nations Economic Commission has co-operated with Latin American Governments in studies of the

economic situation in the region and possible alternative policies. At the outset there were no up-to-date useful technical data; nor was it possible to assess the impact of scientific and technological progress on the progressive development of modern economic thought. It is therefore natural that, in such a complex field, there should be differences of opinion, whether concerning the general diagnosis or about some of the suggested approaches. Nevertheless, CEPAL's work in the past three decades has basically consisted of co-operation with the governments of Latin America in their efforts to strengthen the distinct individuality of the region, most specifically as regards the principles and standards which should govern international economic relations.

One area in which CEPAL has made a substantial contribution has been the area of international trade. This field, a constant point of emphasis in its studies and research, has taken on considerable relevance today.

The past decade has seen the sudden breakdown of the monetary, economic and commercial structure built up after the war. Inflation has undermined the economies of some of the principal industrial countries; the impact of higher energy costs has adversely affected economic activities as a whole in such countries, causing increasing unemployment; and in the monetary field the system of fixed parities has been replaced by one of floating convertible currencies.

In the face of these problems the governments of the industrial nations have concerted their efforts in order to bring into effect a programme of emergency measures which would enable them to escape from economic recession and monetary chaos. One of the most important of these measures was the promotion of greater liberalization in international trade, for which purpose a series of multilateral trade negotiations, known as the Tokyo Round, were held.

Some of these countries, running counter to the trend, have applied an overtly protectionist policy designed to impede access to their markets for products from third countries which have achieved a high degree of competitiveness. The exports most affected include those originating from Latin America.

Foreign trade is one of the pillars of Chile's economic policy. Not only have customs tariffs been reduced, with further reductions planned, but administrative controls and other non-tariff barriers to trade have also been eliminated.

It is paradoxical to witness the current adoption of protectionist measures and pressures falling on those sectors in which the developing

countries, such as Chile, have achieved efficiency and competitiveness by international standards.

The multilateral trade negotiations which are due to end very shortly in Geneva must produce results which do not only put a brake on protectionism but also incorporate reforms which are essential in order to align the GATT juridical norms with the new conditions in international trade.

Over time, this organization has come to possess a personality and reputation which have made it well known throughout the world as a spokesman for the efforts and viewpoints in the socio-economic field of our continent of Latin America, which is such a representative part of the third world.

Perhaps the most characteristic feature of the post-war world is the bewildering changes in the various countries and in the factors affecting international economic relations.

In that context the quest for a new international economic order, in which CEPAL itself has served as a forum for focusing the concerns of the Latin American community, assumes great importance as a contribution to the establishment of fairer international economic relations and hence improving the fortunes of our peoples.

Although one should not underrate the problem of assistance—an area in which the developed countries have already recognized their responsibility to make an effective contribution to the less advanced countries—the perspectives of the new international economic order are much broader.

It is of particular interest to note those measures which, if implemented, will produce greater benefits for both rich and poor nations, and which, because of their potential for mutual advantage, can and should be put into effect as soon as possible.

Specific emphasis should be placed on the problem of protectionism in the developed world, and the desirability of greater liberalization of international trade.

The natural pressure against protectionism on the part of the developed countries, stemming from the difference between the prices their inhabitants must pay for many products within their borders and the prices of products from other sources, will be strengthened to the extent that our countries are capable of making proper use of the natural advantages they possess; and this force will ultimately break down the increasingly feeble obstacles which the advanced nations place in the way of possible mutual advantages.

In an international context which is harsher than might be wished, where aid from the rich nations is meagre and where penetration of their markets must be demonstrated with concrete facts,

our own socio-economic conceptions must be reviewed in a critical light.

This review demands maximum effort on our part and economic policies and actions which are as rational as possible.

It is necessary to promote the expansion of world trade through the use of our own potentialities. If foreign capital is a necessary complement to domestic efforts, we must have solid and stable economies which invite foreign capital to participate in a common task and ensure that the mutual benefit is safeguarded by appropriate methods which do not thwart this objective.

The Latin American community, which shares a geographical area and has common traditions which are closely interwoven, must strive to expand economic, financial and technological exchanges within the region at the same time as with the rest of the world. The similarity of our problems the common aspirations to give our peoples greater

well-being and prosperity on a solid and durable basis, are of particular help in this task and make it an effective stimulus to progress.

CEPAL has demonstrated a desire for renewal and a concern to seek realistic solutions to the economic and social problems of Latin America.

We cannot but enthusiastically welcome this promising trend towards modernization of its thinking, and on its thirtieth anniversary we encourage CEPAL to continue to improve its tools of analysis and its recommendations.

It is a pleasure for me to cordially greet Mr. Enrique Iglesias, the Executive Secretary of CEPAL, and through him all the outstanding professionals and other staff members working with him on the day-to-day tasks of the institution, and to wish them every success in their future work.

In addition, a special greeting for Dr. Raúl Prebisch, whose activities internationally are one with the history of CEPAL.

Statement by Mr. Raúl Prebisch

Three fundamental considerations have guided the CEPAL secretariat in its efforts to contribute to Latin American development.

Firstly, to resist the easy allure of theories conceived in the major centres which, despite their apparent universality, were unable to describe a Latin American reality and social structure very different from theirs.

Secondly, to engage in systematic analysis of this reality in order to act upon it, using an approach which is authentic and not seen through the eyes of the centres.

Thirdly, to recognize the continuous changes in real phenomena and the need for perpetual revision of our thinking.

When we began our activities, the centres were still advocating the out-dated model of the international division of labour, within which there was no place for planned industrialization of our countries, CEPAL determined to demonstrate that industrialization was an inescapable requirement for development. And for various reasons:

First and foremost, we closely linked industrialization with technical advances in agriculture. Agricultural productivity was very low, especially in the part of the sector producing for domestic consumption. Thus a great effort was necessary to

increase it and contribute, by this and other measures, to raising the standard of living of the rural masses.

But what was to be done with the work force made redundant by technical progress in agriculture? Here we saw a vitally important dynamic role for industry and other activities which expand as a country develops: the role of absorbing this redundant work force, and at the same time offering its members higher incomes.

A further matter of concern was the problem of external bottlenecks to development. Exports of primary products were tending to increase relatively slowly, while imports from the centres expanded relatively fast. Thus it was necessary to industrialize in order to produce domestically what this disparity made it impossible to obtain abroad. In a word: simultaneous industrialization and promotion of primary exports.

There are very few now who disagree with this CEPAL view, but at that early stage it was a heretical doctrine.

The first stage of industrialization necessarily had to rest on import substitution. No doubt it would have been more sensible to combine it with the promotion of industrial exports to the major centres. But who could reasonably have thought of that during the long years of world depression, the Second World War and the post-war period?

Furthermore, import substitution is far from having been an unshakable CEPAL dogma. From our very first reports we showed that opportunities for easy substitution were running out in the Latin American countries which had progressed furthest along those lines. And one of the reasons which prompted us to advocate a policy of mutual trade through the gradual development of the Latin American common market, was clear recognition of the need to export manufactures. This had to be done first of all among ourselves, in order to overcome the constraint of small markets and reduce production costs. Afterwards we would be able to think of exporting such products to the centres.

This point needs to be emphasized, since there are some who appear to forget it. We were perhaps the first, at the beginning of the 1970s, to draw attention to the lack of symmetry in industrialization policy: substitution was subsidized through the use of protectionist customs duties—generally excessive—while exports of manufactures were abandoned.

The pendulum is now tending to swing to the other extreme, on the assumption that if only there is an intention to export, the markets of the centres will open up. How different the reality is! The struggle within UNCTAD—promoted by CEPAL itself—to persuade the central countries to pursue a policy favourable to our industrial exports has been long and difficult. But very little has been achieved and—worse—when efficiency in exporting is attained, new obstacles and restrictions are introduced.

From another standpoint, CEPAL has persistently urged the need for a policy of international co-operation concerning primary products. It has advocated stabilization agreements; and out-dated doctrines have been invoked to oppose them. It has been held that such agreements run counter to the sacrosanct laws of the market. But apparently such laws are not broken when the production of certain agricultural products in the central countries is deliberately held back in order to improve their export prices.

The major countries never infringe their economic principles; if they do not like them, they simply change them!

The idea of development planning put forward by CEPAL was also strongly resisted. Planning was confused with centralized control of the economy, although we never had such a thing in mind. The critics did not take the trouble to read our papers, in which we maintained that planning not only did not work against individual initiative, but was in fact an effective instrument to encourage its expansion. And at the same time was affirmed the desirability of encouraging the initiative of our

own entrepreneurs. Further, we acknowledged the valuable role of the market; but the market lacks a time horizon and a social horizon. Hence the complementary role of planning.

It should be noted here that this and other unfavourable attitudes to CEPAL's thinking changed markedly in the United States with the forthright support given to us by Kennedy when he became President. It is a matter of great satisfaction to report that we are now receiving such support also from President Carter, and without curtailing our intellectual independence.

CEPAL did not come into existence with a systematic body of doctrine; it progressively formulated doctrines in response to changing and increasingly complex realities. As a result, I think that we were also the first to maintain that Latin American development manifested growing inequalities in income distribution. In a report submitted to Governments as early as 1963 we calculated that about 40% of the population of Latin America had not managed to obtain a significant share of the benefits of development. Nevertheless, we resisted the illusion that simple redistributive measures would correct this fundamental shortcoming. What was essential, in our view, was a dynamic distribution policy, which involved raising this group's lagging productivity and incomes through more intensive capital accumulation (both in the form of physical capital and by means of manpower training), without prejudice to any sensible redistribution measures for immediate application. Greater accumulation was and remains indispensable for the productive use of the labour force which the operation of the system tends to exclude from development. We were saying that 15 years ago, and *a fortiori* we are repeating it today.

It is necessary to speed up the pace of development through this more intensive accumulation, to decide to whose hands accumulation would best be entrusted and at the same time to alter the composition of the total product. Naturally this acceleration will also demand a clear and far-sighted policy of trade and financial co-operation at the international level.

But we have not achieved this either, and in its place we are enthusiastically urged to meet basic needs. After some delay certain economists from the northern hemisphere have discovered what they are in the habit of calling "critical poverty". Who could deny the need to eradicate it? I myself would be the last to do so. But at all events I resist such simplifications. Poverty is an integral part of the problem of development, and cannot be dealt with in isolation. It is a problem which calls for

energetic steps to be taken domestically and through international co-operation.

By now no-one doubts that the system tends to leave the lower groups in the social structure outside the mainstream of development. I hold this view after long and thorough reflection. This is how the laws of the market work. This does not happen because of the shortcomings of the market, which, I feel, is of great economic and, above all, political significance. It is not the market itself, but what stands behind it. We have a social structure which gives rise to power relations which have a considerable influence on the unequal distribution of income, and these relations result in a substantial share of the benefits of the growing productivity of the system being concentrated in the upper strata. On them rests the privileged consumer society, the fervent imitation of the patterns of consumption in the centres, to the detriment of the capital accumulation essential for the productive absorption of the lower strata. To this is added the fact that income is suctioned off towards the centres, which are increasingly linked with the consumer society.

The consumer society, then, is incompatible with the integration of the underprivileged masses into society. But recently discussion has turned to a new conception: the social market economy. This offers clear proof of our continued intellectual dependence on the centres. There, social integration has been achieved to a large extent. But can we speak of a social market economy in our periphery, where a persistently substantial proportion of the population is vegetating in a society of under-consumption?

Belief in the regulatory virtues of the spontaneous forces of the economy, which has dominated thought for two centuries, has stifled the ethical meaning of development. This certainly cannot be laid at the door of Adam Smith, for before writing his *Inquiry into the Nature and Causes of the Wealth of Nations* the father of political economy was a professor of ethics.

The social meaning of development has been flagrantly perverted. Consequently serious transformations are required, with ethics to stimulate them and rationality to carry them out.

Statement by Mr. Enrique V. Iglesias

It is a great honour for me and for all of my colleagues in CEPAL to receive you all here today. I should like to thank the Chilean Minister for Foreign Affairs and all the distinguished Chilean personalities who are with us today, because their presence confirms once again the continuous solidarity of their country throughout the 30 years the United Nations has been in Santiago. I should also like to thank His Eminence Cardinal Raul Silva Henríquez for his beautiful prayer, which, coming from the representative of one of the most important spiritual movements of mankind, reminded us at the start of this ceremony of the profound ethical spirit which should inspire the activities of the United Nations. His words have furnished an excellent atmosphere for this ceremony. My gratitude also goes to the Secretary-General of the Organization and his representative, and in a very special way to all the Heads of State and government representatives who have moved us with their very deeply felt messages. And, of course, I should like to express my thanks for the words of the founder of this institution, who continues to be one of its major sources of inspiration: my dear friend Raul Prebisch.

Occasions like this are milestones which invite each and every one of us to remember the passing of time and offer us an opportunity to reflect and receive good wishes from good friends such as yourselves, and also to renew the undertakings arising from the tasks for which we are responsible.

I am not going to give you a history of CEPAL. Others have done so, and will do so in the future, in this very place. Your words today, inspired by generous spirit and friendship, have made us think deeply about what CEPAL means to you. I do wish to note—very briefly, as we do not want to take up too much of your time—something that in a way has motivated so many people over 30 years of work: some who are here with us today, others who are not, and yet others who, though absent, will I am sure always be remembered in CEPAL. I am referring to an energetic, sometimes impassioned vocation to give this Latin America a certain identity; the vocation to be and to do which for 30 years we have tried to project in the region, born from our conviction that the only legitimate inspiration of CEPAL's work lies in contact with reality, with the actual problems besetting the countries

and economies of the region. We have learned much from reality, and the first thing we learned was to respect it, since the work of our institution is of real validity only to the extent that it is rooted in reality. However, an especially important aspect of our vocation is the process of intellectual creation, ideas —right ones and wrong ones, since we have had some of everything. We have always believed that work without ideas is no better than navigating without bearings, just as ideas without action can become bogged down in academic preciosity or bureaucratic utopias. In our search for an all-embracing view of development we are inspired by our conviction that material progress has meaning only if it is tailored to man, designed for him and oriented towards him. As Raul Prebisch put it so well, our commitment to ideas is aimed at enabling us to understand reality; we are seeking not a false independence of thought as such, but to use our intelligence and perception to delve into the multifaced, complex wealth of Latin American economic and social realities.

In CEPAL we have from the outset identified with Latin America; we believe that above and beyond its diversity, this region has an almost intuitive common sense of history. Because of our cultural roots, the historical tradition of our quest for unity, the points of convergence always prevail over the problems which divide us. Over and above occasional quarrels or conflicts, Latin America has set an example of marvellous unity. CEPAL became part of this unity, drew from it its greatest inspiration and owes its existence to it.

The search for unity in diversity, the vocation for dialogue, are an essential part of the intellectual stock-in-trade of anyone working in the United Nations. The United Nations means dialogue. We believe that despite the disappointments of rhetoric, excessive verbalism or the many meetings which achieve little or nothing, the world is continuing to advance in the formulation of a new code which goes far beyond the international economic order. It is a code of civility which will permit the sharing of this geographical unit, this plurality of races, religions and ideologies. We know that the only chance lies in continued dialogue, for the only alternative is chaos.

This institution was established thirty years ago, and since then it has pursued the fundamental task of offering our Governments its thinking, its ideas. More than a concrete ideology, in CEPAL there are concrete ideals, fundamentally inspired by the great legacy of the United Nations Charter. Reality has taught us many lessons. Sometimes it has confirmed our ideas, sometimes it has left them behind — for that is how things should be. This dialectical play between ideas and reality is

the underpinning of creation in any science, in any human activity. We have learned a great deal, and we have become firmly persuaded that only a broad critical spirit and wide-ranging pluralism in ideas can enable us to be faithful servants of the political and ideological map of Latin America.

A few moments ago Raul Prebisch said that today the world is offering us new challenges. And so it is. The first major challenge rests in the countries themselves, the enormous complexity of Latin American society today. This continent in transition, which some have dubbed semi-industrial, is growing, with all the growing pains that involves.

Much has been done in Latin America, in some cases more than we thought, but ambivalences have also become evident. Material progress alone is not sufficient to solve the acute social problems which persist in Latin America, and which are perhaps the greatest challenge for the next 30 years. We must face this challenge with moderation, because the simplistic approaches to these problems adopted by those who like to engage in social science have incontestably proved very out-dated.

We continue to believe firmly that the real power to change the societies of Latin America resides in its Governments, its leaders. The role of intellectuals and technicians is basically to help to improve thinking processes, but it is the sobering decisions of the countries which in the final analysis build up the major projects which bring improvement to our continent.

Faced with the great challenge of the new Latin America I am profoundly optimistic, because I believe in the sense of history, the cultural values which motivate peoples and which have never failed us in the region. I believe that we must continue investigating the possibility of assisting Governments by creating new channels of communication, making our work complementary, perhaps by supplementing some ideas from the past with the ideals of the future. Today's world, which is undoubtedly much more complex than that of 30 years ago, is in a period of transition from which it will not emerge easily. Something more than new economic formulas is needed, since not only are economic structures changing, but values which were regarded as immutable are being questioned. Sometimes this questioning is violent and frightening; at other times it is attractive and frequently originates from the younger generations.

In the face of the challenge of important changes, perhaps influenced by that mystical aura which, in history, surrounded the end of the past millenium, we are witnessing a resurgence of millenarianism throughout the world. For that reason, now perhaps more than ever mankind perceives the threats of the future, insecurity,

uncertainty, while at the same time it has a vision of great utopias. There has never been such ambivalence. The world is moved at the sight of poverty and seeks to remedy it, but spends 400,000 million dollars a year on arms. It has still not been possible to reconcile the great objectives of progress with the profound ethical values which should in the final analysis underpin the economic and social order.

I believe that in building the future, CEPAL has a role to play beside the member Governments. Latin America was there at San Francisco, with a unanimous voice which helped to shape its personality in the concert of nations. Today more than ever what is needed is a Latin America which is aware that its world role is not that of a mere spectator, but that of an actor with much to offer, and demand, from the standpoint of the ideals of the Organization. While celebrating here the day when the United Nations was born 30 years ago, we must emphasize the vital necessity of overcoming the indifference and unbelief which customarily surround it these days; remember all the great achievements of the Organization in the past 30 years; and above all emphasize that the solution to the world's problems is founded in acceptance of dialogue and the right to disagree.

These are the challenges offered to us by the complex reality of our countries, by our Latin America and by the times through which mankind is living.

To conclude I should like to leave you with three brief messages. To our Governments I repeat that our work has meaning only if we are close to them, if it is based on respect, scientific objectivity and pluralism.

To our staff members, I express my gratitude for their contributions, their zeal and their great affection for CEPAL. I should like to remind them

that the countries expect from us renewal, and active and creative thinking, and that we will be able to respond only if we overcome certain temptations, such as the technocratic temptation of believing that we are capable of offering the world grand schemes of social engineering from our desks, since the complex society of the present day will not agree to be imprisoned within abstract exercises of economic engineering to solve problems which are social and political, and in which the different objectives can be reconciled only through the work of those in charge. I should also like to remind them that we must avoid utopian temptations and remember every day the limits of what is possible; and, lastly, to remind them that our guide is the great ethical vocation of the United Nations, which alone universally justifies its existence on this earth.

And to Latin America as a whole, to the Latin America with which we feel so closely identified, I should like to use not my own words but those used half a century ago by that great Latin American thinker and illustrious fellow-countryman of mine, Rodó:

"Latin America will be great, strong and glorious if, despite the cosmopolitanism which is a necessary condition for its growth, it succeeds in retaining its common history and the fundamental originality of its population, and if over and above the promises of the conventional frontiers which divide it into nations, it raises its higher unity of a sublime and supreme motherland whose spirit must one day bear fruit in the realization of the dream of the liberator who, on a memorable occasion, asked the continent: 'Who will resist an America whose unity springs from the heart, and which is subject to one law and guided by the torch of freedom?'"

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