

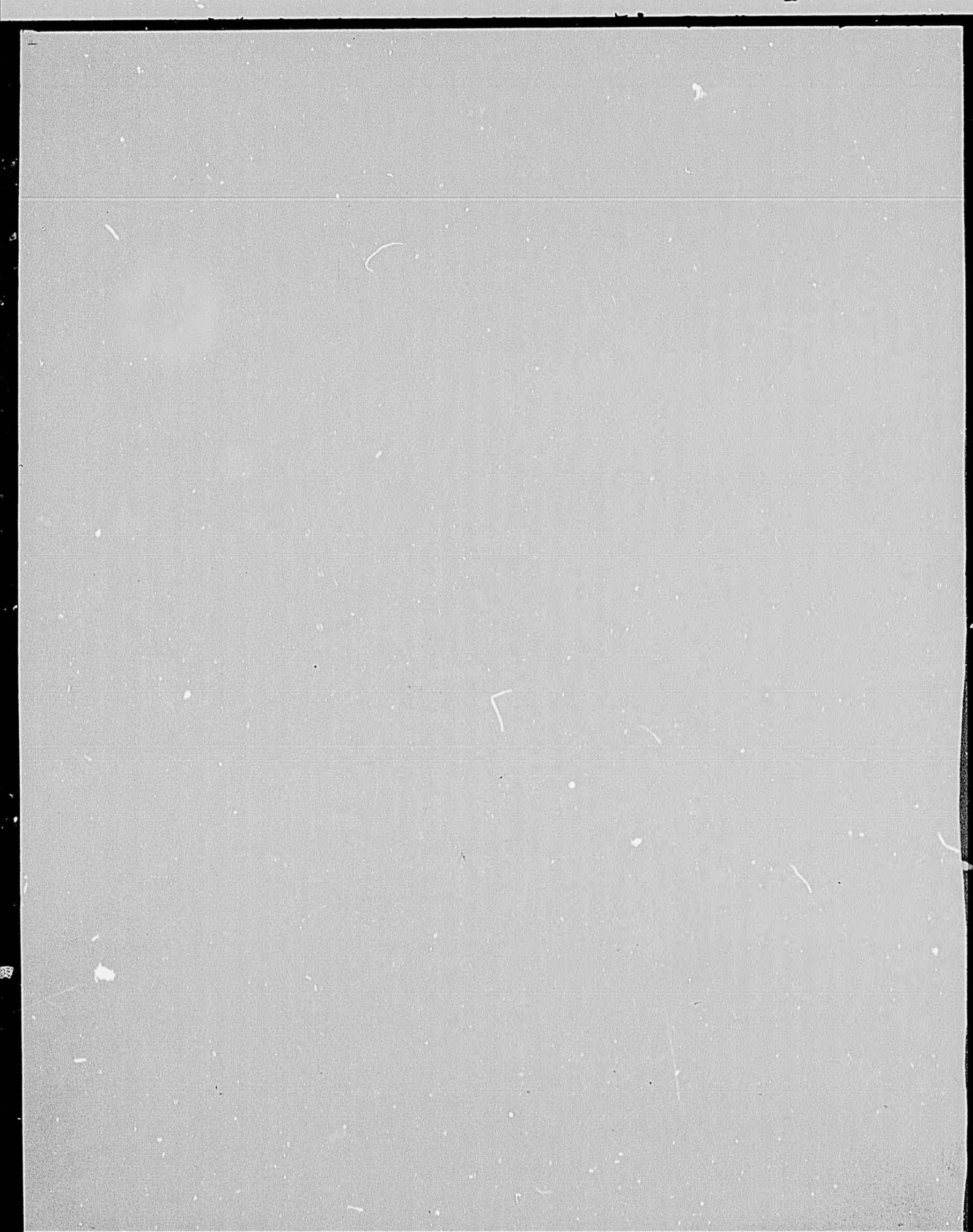
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# A Suggested Policy for Industrial Reinvigoration in Latin America

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## A Suggested Policy for Industrial Reinvigoration in Latin America

by WILLIAM C. THIESENHUSEN\*

While the seventies will see a continuing debate over the merits of alternative development strategies, histories of Latin America's industrial progress over the past two or three decades can now be filed under 'import substitution'. Bruton explains, 'In the narrowest terms, import substitution refers simply to the take-over of an existing domestic market from the foreign producer by prohibiting his imports in one way or another'.<sup>1</sup> Hirschman traces the dynamics of the process, claiming that it 'starts predominantly with the manufacture of finished consumer goods that were previously imported and then moves on . . . to the "higher stages" of manufacture, that is, to intermediate goods and machinery, through backward linkage effects'.<sup>2</sup>

For a time, policies which fostered import substituting industrialization seemed to serve Latin America rather well. But, throughout the sixties, economists were concerned with the diminishing viability of manufacturing. Felix observes that output and profit curves in newly-established industries become prematurely kinked; they rise rapidly when exports are being replaced but soon flatten out.<sup>3</sup> This disconcerting pattern seems to have appeared in various industrial lines; it now describes a general phenomenon. Even the United Nation's Economic Commission for Latin America (ECLA), which formalized the policy, concludes that 'with few exceptions import substitution has slackened considerably'.<sup>4</sup> Perhaps the situation would not be so

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<sup>1</sup> Henry J. Bruton, 'Import Substitution and Productivity Growth', *Journal of Development Studies*, 4 (April 1968), 306.

<sup>2</sup> Albert O. Hirschman, 'The Political Economy of Import-Substituting Industrialization in Latin America', *Quarterly Journal of Economics*, 82 (Feb. 1968), 6.

<sup>3</sup> David Felix, 'Monetarists, Structuralists, and Import-Substituting Industrialization: A Critical Appraisal', in *Inflation and Growth in Latin America*, Werner Baer and Isaac Kerstenetzky (eds.) (Homewood, Ill., Richard D. Irwin, 1964), p. 384.

<sup>4</sup> United Nations, Economic Commission for Latin America, *The Process of Industrial Development in Latin America* (E/CN.12/716/Rev.1), 1966, p. 34. As Prebisch has written, 'The simple . . . phase of import substitution has reached, or is reaching, its limit in the

serious today if governments had been effective enough to execute a coordinated development plan and if population growth were not swelling the ranks of the poor so rapidly that an already skewed income distribution is steadily becoming more so.

*Combating Import Substitution Exhaustion by Reinvigorating the Simple Consumer Goods Subsector*

As one possible way to confront the exhaustion of import substitution, we contend that rather than placing preponderant reliance on basic industries and the manufacture of consumer durables at this stage of development, planners and politicians ought to give more thought to a strategy which initially would reinvigorate the light consumer goods subsector. Policies designed to reshape the income distribution pattern and to make it more egalitarian would probably have this effect. This would, it is argued, put consumer goods within reach of those who have heretofore been unable to afford them. And, in turn, this advancing group would be goaded to use more inputs to raise their production further.

From historical perspective, this suggestion may appear as retrogressive as it is unorthodox.<sup>5</sup> However, the process of phasing from less- to more-complex goods over the past ten years has been a rather limited exercise in much of Latin America. Contrary to experience of economic growth in the currently developed countries, industrialization in Latin America has not been accompanied by a concerted effort to fit production technologies to differing factor endowments and prices. To date, domestic output—produced with borrowed methods—has substituted for former imports and, in what has been called the ‘easy’ stage, pre-existing markets have been filled. Income multiplier effects of this development strategy have been distressingly weak. Furthermore, because progressively higher steps in manufacturing usually require a larger scale to operate efficiently, many new lines began with a spurt but quickly ran aground. To compensate, ‘advanced’ manufactures

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countries where industrialization has made most progress’; in *Towards a New Trade Policy for Development*, Report by the Secretary-General of the United Nations Conference on Trade and Development (New York, United Nations, 1964), p. 22. Furtado claims, ‘In Latin America, experience has proved that this substitutive form of industrialization tends to lose its impulse . . . and leads eventually to stagnation’. Celso Furtado, ‘U.S. Hegemony and the Future of Latin America’, in *Latin American Radicalism*, Irving Louis Horowitz, Josué de Castro, and John Gerassi (eds.) (New York, Random House, 1969), p. 67.

<sup>5</sup> For an excellent discussion of the usual sequence of industrial development, see Hollis B. Chenery, ‘Patterns of Industrial Growth’, *American Economic Review*, 50 (Sept. 1960), 624–54. For an extension of this research, see also Hollis B. Chenery and Lance Taylor, ‘Development Patterns: Among Countries and Over Time’, *The Review of Economics and Statistics*, 50 (Nov. 1968), 391–416. In general, GNP is positively correlated with amount of value added in industry, and the higher a country’s GNP, the more likely it is to have ‘advanced manufactures’.

typically receive ever-higher protection. Furthermore, each successive rung on the industrial ladder seems to require proportionally more foreign exchange per unit of domestic output. If Latin America is ever to enlarge its market by exporting manufactures, it cannot do so in this milieu. In addition to diseconomies which such distortions as high tariffs introduce at the micro-level, a country can hardly earn foreign exchange at a satisfactory price if exports have a high import content. More or less by default, these factors seem to suggest that light consumer goods (such as textiles, food processing, clothing, etc.) would be the most promising industrial starting point for export diversification as well as for a rejuvenation of industrial goods manufacture for sale in the domestic market.

Restimulating light consumer goods industry requires raising profit margins in this subsector. A major redistribution of income would have the needed effect, since it would favor industrial products which have a fairly high income elasticity of demand at rather low income levels.

One is tempted to turn to agriculture to supply the initial demand impulse to industry since in many countries this sector is populous and so many of its numbers have, because of their low incomes, been unable to make many purchases and provide needed stimulation to the market. Indeed, farming contains about half of the population of Latin America, and between two-thirds and three-quarters of those in the sector now contribute little to effective demand.

Besides, agriculture has unused capacity. Most Latin American nations are blessed with large tracts of excellent land<sup>6</sup> which are currently used so far below potential that with strategic investment of some additional capital and know-how, *campesinos* could add substantially to their incomes. But since peasants often lack secure access to income-earning resources, a thorough land reform is necessary in many countries. An alternative program of building purchasing power in cities would involve much more expensive welfare measures that might well have a crippling inflationary impact.<sup>7</sup>

<sup>6</sup> 'The poor economic prospects for agriculture [in Latin America] are not a consequence of a lack in natural endowment. In the Argentine, much of the Pampas is excellent farm land . . . The natural endowment of Chile is first-rate . . . Nor do I exclude Brazil, Colombia, Peru and other Latin American countries in this rating of their respective natural endowments for increasing the productive capacity of agriculture.' Theodore W. Schultz, *Economic Growth and Agriculture* (New York, McGraw Hill, 1968), p. 176. In analyzing FAO data, Kuznets reports, 'resources are unquestionably ample, without approaching their full utilization to meet the estimated [food] increase required [by population growth in the near future]'. Simon Kuznets, 'Economic Capacity and Population Growth', unpublished paper presented at the Conference on World Population Problems, Graduate School of Business, Indiana University, May 1967.

<sup>7</sup> Brannon has analyzed the problems of development which attend growing welfare commitments in Uruguay, one of the most urbanized of Latin American countries. Russell H.

As *campesinos* find themselves able to buy products formerly beyond their income, chances are good that they will invest more in their farms than previously in an attempt to produce more to exchange in the market.<sup>8</sup> This would probably be complemented by another reform impact: not only will consumer goods be stimulated, but so will the domestic agricultural input industry. Furthermore, increasing use, say, of fertilizer would raise farm output<sup>9</sup> and lessen food and fiber prices to city consumers relative to other goods. As profit shares increase in industry, capital formation would be enhanced.

One could plausibly argue that even in the short run marketable food surplus would not drop in a modern-day reform. Rapidly improving communications of late have strengthened the demonstration effect across a very broad spectrum of society. Conceivably, *campesinos* will quickly realize upon reform that a new range of consumer goods are finally within reach. Thus a pressure to invest and work harder than previously to produce for sale, so that more manufactures can be purchased, might more than offset any initial negative consequences of inadequate production information or of managerial inexperience.<sup>10</sup>

But this felicitous chain of events—which assumes considerable foresight on the part of those who are not accustomed to making decisions ‘at the

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Brannon, *The Agricultural Development of Uruguay: Problems of Government Policy* (New York, Praeger, 1968).

<sup>8</sup> Raup describes this on-farm investment as resulting in ‘accretionary capital’: ‘In . . . early stages [of agricultural development], slow gains in capital stocks predominate. Investment decisions are typically made in small segments, spread over many seasons or gestation periods. Impressive amounts of capital are formed, but by many small, plodding steps . . . Capital formation in farming is rarely concentrated either in space or in time. It accumulates by an incremental process that is best described as accretionary.’ Philip M. Raup, ‘Land Reform and Agricultural Development’, in *Agricultural Development and Economic Growth*, Herman M. Southworth and Bruce F. Johnston (eds.) (Ithaca, New York, Cornell University Press, 1967), pp. 272–3.

<sup>9</sup> Per capita agricultural production in Latin America was lower in 1968 than at the beginning of the decade. If the 1957–9 per capita agricultural production were represented by 100, the 1961 index number would be 101, the figure for 1965 would be 105, and the yearly 1966–8 average, 97. See ‘The World Agricultural Situation: Review of 1968 and Outlook for 1969’, U.S. Department of Agriculture, Economic Research Service, Foreign Agricultural Economic Report No. 50 (Washington, D.C., 1969), Table 1, p. 7.

<sup>10</sup> Smithies suggests the possibility also that ‘the demonstration effect may work on both demand and supply. People not only acquire the taste for the goods . . . but they also acquire the habit of expending the effort needed to acquire them, and of allocating that effort between immediate consumption and acquiring the equipment for increasing consumption in the future. In that event, the demonstration effect is complete and constructive and can act as a powerful stimulus to development.’ Arthur Smithies, ‘Rising Expectations and Economic Development’, *The Economic Journal*, 71 (June 1961), 259. See also W. W. Rostow, ‘How to Make a National Market’, *U.S. Department of State Bulletin*, 49 (28 Oct. 1963), 667–73.

margin'—is not inevitable. Perhaps incomes will quickly reach a ceiling because of the 'time preference problem'; that is, too little medium- and long-term investment may take place. Peasants, trying to fill a backlog of desires for goods, may exhibit an exceedingly high marginal propensity to consume and a low marginal propensity to invest in on-farm capital. This could cause some potential savings to be dissipated. If this happens, countries undergoing land reform will have missed an excellent opportunity for diverting some of the increased incomes of peasants—which governments could not reach when it accrued to landlords—to general development purposes and for laying a sound basis for such eventual necessities as progressively more complex manufactures.<sup>11</sup>

Post-reform government policy must both encourage on-farm capital investment and redirect income streams; in an ideal development path part of the increase of rising peasant incomes is syphoned off through taxes, amortization payments, dropping output prices, and/or inflation. Public savings so generated must be invested according to a well-planned strategy, most often at growth points where the disparity between private and social returns is greatest. That part of investment returned to agriculture might, depending on country priorities, take the form of social overhead capital such as experiment stations, schools, extension activities, credit programs, or even subsidies to blunt any initial risk to farmers in adopting directly productive purchased inputs. A larger fraction should be invested in leading sectors of the economy—probably in projects for which capital/output ratios are especially favorable and/or substantial externalities and interdependencies exist. This latter investment creates more jobs, or the potential for fuller employment, for farm people who migrate to towns as development progresses. Meanwhile, *campesinos* will continue to invest in their land, and since their disposable incomes rise, they are still able to improve their levels of living. As a result, the industrial sector is restimulated.<sup>12</sup>

<sup>11</sup> As Eckstein has argued, 'While administratively it may be easier to collect taxes from a small number of landlords than from a numerous peasantry, politically just the reverse may be true. Actually land reform may serve as one of the means by which it becomes politically feasible to transfer the accumulating function from the landlord to the state.' Quoted in Philip M. Raup, 'Land Reform and Agricultural Development', p. 279. Certainly a progressive sales tax could be devised so that least necessary goods carry highest levies. Smithies suggests that if more industrial products are demanded, new consumers will be willing to pay excise taxes which can be directed to development purposes. Smithies, 'Rising Expectations', p. 261. On the other hand, the post-revolutionary Bolivian peasant has consistently resisted taxation, and Mason claims that, apart from the U.S., 'the Japanese government seems to have been one of the few governments, outside the Communist world, capable of effective taxation of agricultural income'. Edward S. Mason, *Economic Planning in Underdeveloped Areas: Government and Business* (New York, Fordham University Press, 1958), p. 30.

<sup>12</sup> Common market arrangements are, of course, one method of market expansion that has been seriously attempted in Latin America. But even with the best of luck, multinational

Considering these factors, it is surprising that planners have generally been loathe to consider seriously the place of agrarian reform in development plans, especially since it is becoming increasingly obvious that manufacturing is growing very slowly. Myrdal has recently complained that 'even the discussion of land reform has been toned down and has almost disappeared from agricultural planning'.<sup>13</sup> But unless steps are taken soon, even

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marketing arrangements will certainly reach a ceiling far short of potential unless component individual markets are redirected. There are other problems too. Surrendering some control of the development process to regional authorities seems a step that Latin American governments approach with reluctance. The reasons are not difficult to discover. Speaking of the Latin American Free Trade Area and the Central American Common Market, one Latin American social scientist seems to overstate the problem by observing, 'wherever such common markets have managed to come into being, the strategic sectors are taken over or controlled by foreign interests. The small member-nations merely provide the geographic and social setting for processes lying outside their sphere of decision . . . the end result being . . . neo-colonial or satellitic dependence,' Helio Jaguaribe, *Economic and Political Development: A Theoretical Approach and a Brazilian Case Study* (Cambridge, Mass., Harvard University Press, 1968), p. 37. Another (who might also be accused of some hyperbole) proclaims that while *desarrollista* governments will promote integration, 'given Latin America's present capitalistic structure and degree of industrialization, it would be utopian to think that Latin American businessmen would become the prime movers of economic integration or even approach it enthusiastically'. Michel Teubal, 'The Failure of Latin America's Economic Integration', in *Latin America: Reform or Revolution?*, James Petras and Maurice Zeitlin (eds) (New York, Fawcett Premier, 1968), p. 139.

While small nations are most fearful of being dominated by big ones, in an economic sense they probably have most to gain from trade liberalization. See Bela Balassa, 'Country Size and Trade Patterns: Comment', *American Economic Review*, 59 (March 1969), 201-4. This may be the reason why the biggest defenders of common market arrangements in South America are those which would neither gain greatest economic dividends nor lose most in political leverage—the countries of intermediate size. The Andean countries would meet the criterion and the Andean Area Common Market was founded 26 May 1969. See the *New York Times*, 28 May 1969.

Speaking of the European Economic Community and comparing it to Latin American efforts at integration, Dell concludes that 'the channels of trade were all there, ready made; transport facilities were available . . . In Latin America, on the other hand, it is a matter of creating something that never before existed.' Sidney S. Dell, 'The Early Years of LAFTA's Experience', in *Latin American Economic Integration: Experience and Prospects*, Miguel S. Wionczek (ed.) (New York, Praeger, 1966), p. 107. What is more, Latin America's exports are mainly competitive rather than complementary, and again in contrast to EEC, the negotiating mechanism (especially for the Latin American Free Trade Area) is much more clumsy. Perhaps most important, however, 'Economic progress in the region depends on much more than lowering of the barriers to area trade. Reductions of tariffs and other obstacles to trade would be futile unless accompanied by reforms in land tenure and tax structure . . . Latin America cannot establish a meaningful common market in the midst of economic and social stagnation.' *Ibid.*, p. 122.

For a cogent discussion of the difficulties of Latin American integration see William P. Glade, *The Latin American Economies: A Study of Their Institutional Evolution* (New York, Van Nostrand, 1969), pp. 471-82.

<sup>13</sup> Gunnar Myrdal, speech to the Third International Congress of Food Science and Technology; see *New York Times*, 11 Aug. 1970.

a modest rise in per capita income of 2.5 per cent per year (on which the Alliance for Progress was predicated) will continue to be illusory: it averaged only 1.7 per cent per annum over the 1960-8 period. Manufacturing grew at an annual rate of 6.4 per cent from 1955 to 1960 and 5.8 per cent from 1960 to 1967. In 1960 manufacturing (including factory work and artisan categories) represented 22.3 per cent of gross domestic product of Latin America; in 1967 the comparable figure was 24.1—only a shade improved.<sup>14</sup>

### *The Importance of Income Redistribution*

At the heart of our argument is the hypothesis that a highly inequitable income distribution has an important impact on economic development and that with a more equal income distribution the added public savings could more than substitute for whatever private savings might be lost. Besides, latent human resources could be drawn into economic participation. On the other hand, pessimists feel that if land reform occurs, a precipitous fall in the private savings rate will ensue and investment will be constrained. Agrarian reform adversely affects the analogues of upper classes in the United States, and studies have shown that nearly all individual savings in the United States come from the top decile of income receivers.<sup>15</sup>

Yet in Latin America there is apparently little cause for alarm on this score. ECLA has recently provided evidence that in Latin America there is no close statistical correlation between high income concentration and degree of development.<sup>16</sup> But even if such a relationship were established, Kuznets has suggested that in less-developed countries (LDCs) policy makers must weigh the savings contribution of the top income groups 'against the potential increase in the contribution of groups below the top that might result from narrower inequality in the income distribution'.<sup>17</sup>

One reason for the difficulty in relating income distribution to development with precision is that the current size distribution of income in Latin America has not been documented in a refined manner. It has, however,

<sup>14</sup> Naciones Unidas, Comisión Económica para América Latina, *Estudio Económico de América Latina: 1967* (E/CN.12/808/Rev.1), 1968, pp. 4 and 229; and United Nations, Economic Commission for Latin America, *Economic Survey of Latin America, 1968* (E/CN.12/825), April 1969, part 1, p. 34, and part II, p. 1.

<sup>15</sup> Simon Kuznets, *Economic Growth and Structure: Selected Essays* (New York, W. W. Norton & Co., 1965), pp. 263-4. There is a distinction to be made, however: while the bulk of U.S. private savings comes from corporate sources, this is not the case in most less-developed countries.

<sup>16</sup> United Nations, Economic Commission for Latin America, 'Income Distribution in Latin America', *Economic Bulletin for Latin America*, 12, no. 2 (1968), 50.

<sup>17</sup> Simon Kuznets, *Modern Economic Growth: Rate, Structure, and Spread* (New Haven, Yale University Press, 1966), p. 426.

been shown that income there is concentrated in fewer hands than it is in currently developed countries. When (in a 1964 publication) ECLA compared the top 5 per cent of earners with the bottom 50 per cent, it concluded that 'in Latin America the high average is twenty times the low average, whereas in the economically developed countries of Europe this difference is only half as great, and in the United States it is even less'.<sup>18</sup> For 1968, it reports that the top 20 per cent receives an average income twelve times that of the bottom half in Latin America; in the United States the average income of the top fifth is only five times that of the poorer half.<sup>19</sup> Speaking of Latin America, Griffin musters evidence to show that 'the distribution of income in agriculture is becoming more unequal'.<sup>20</sup>

The obvious implication of an overwhelming preponderance of low level incomes is that a country large in terms of land mass and population is in fact a much smaller one in economic terms. Picking one example, the purchasing power of Brazil roughly equals that of Belgium, and this is spread unevenly over an area the size of Europe.<sup>21</sup> With the exception of Argentina, Uruguay and Mexico the middle income strata are small. Of course, this limits the size of the domestic market for certain industrial products. '[In Brazil] food alone absorbs from 53 to 69 per cent of total expenditures in the lower income groups. Moreover, surveys carried out in various towns show that the item headed [manufactured] "household articles" . . . accounts for less than 11 percent of total expenditures in the two lowest income categories in the capital cities (41 per cent of urban households) and little more than 6 per cent in hinterland towns in the State of São Paulo.'<sup>22</sup> Generalizing for Latin America, ECLA estimates that the bottom 95 per cent of the population of Latin America expends only about \$50 per capita per year on manufactured items other than food, while the upper 5 per cent expends \$820 per capita.<sup>23</sup> That these relative levels indicate a market of far less than potential size scarcely needs emphasis.

<sup>18</sup> United Nations, Economic Commission for Latin America, *The Economic Development of Latin America in the Post-War Period* (E/CN.12/659/Rev.1), 1964, p. 54.

<sup>19</sup> United Nations, Economic Commission for Latin America, *Economic Survey, 1968*, part 1, p. 25. Kuznets elaborates the general argument from which he concludes, 'the size distribution of income among family units, adjusted for the number of persons per unit and for other effects, is distinctly more unequal in underdeveloped than in developed countries'. Simon Kuznets, 'Quantitative Aspects of the Economic Growth of Nations: Distribution of Income by Size', *Economic Development and Cultural Change*, 11 (Jan. 1963, part II), 36.

<sup>20</sup> Keith B. Griffin, 'Latin American Development: Further Thoughts', *Oxford Economic Papers*, 20 (March 1968), 127

<sup>21</sup> J. P. Cole, *Latin America: An Economic and Social Geography* (London, Butterworth & Co., 1965), p. 203.

<sup>22</sup> United Nations, Economic Commission for Latin America, 'Income Distribution', p. 59.

<sup>23</sup> United Nations, Economic Commission for Latin America, *The Process of Industrial Development in Latin America* (E/CN.12/716/Rev.1), 1966, p. 242.

*Has Import Substitution Substantially Widened the Market?*

It may be plausibly argued that import substitution has already widened the market through various multiplier effects and that, as it proceeds, more expansion will follow. Planners who argue in this manner plead for giving policy emphasis to 'more of the same'. But even during periods of industrial boom, fewer people seem to have been added to the market than is required for substantial economic development, given the difficulties of exporting industrial products which the region manufactures.

Five ways in which early industrialization might have widened the domestic market seem not to have been successful in Latin America:

(1) *The rate of overall development could have been so rapid that large numbers would be needed in the industrial work force.* We have shown that the rate of growth in production in the manufacturing subsector through the sixties has been slower than in the late fifties.

(2) *Even though the sector did not grow much, more labor-intensive techniques could have been used.* On the contrary, higher forms of industry are requiring fewer laborers per unit of capital, and factories are replacing labor-intensive artisan shops. Thus employment opportunities, and hence income earning possibilities, are now opening more slowly than ever. From 1925 to 1960, Latin American manufacturing was able to employ only a little over five million of the twenty-three million that were added to the urban work force,<sup>24</sup> and while numbers engaged in that sector increased at an annual rate of 2.4 per cent from 1950 to 1965 there was a slowdown to 2.1 per cent in the last five years of the period.<sup>25</sup> Concurrently rural-to-urban migration accelerated, and city population now grows at about 6 per cent per year. These factors have converged to make unemployment one of the most salient features of the Latin American economy. Although all-inclusive data do not exist, one recent study estimates the number of unemployed and underemployed (expressed in terms of equivalent unemployment) at 25 per cent of the economically active population in the region.<sup>26</sup>

<sup>24</sup> *Ibid.*, p. 36.

<sup>25</sup> From 1960 to 1965 the 2.1% average annual growth in employment was associated with a 5.6% average increase in manufacturing output. United Nations, Economic Commission for Latin America, *Economic Survey of Latin America, 1966* (E/CN.12/767), May 1967, Tables I-11 and I-13, pp. 50 and 63. On this issue: see also Werner Baer and Michel E. A. Herve, 'Employment and Industrialization in Developing Countries', *Quarterly Journal of Economics*, 80 (Feb. 1966), 88-107, and Fernando H. Cardoso and José Luis Reyna, 'Industrialization, Occupational Structure, and Social Stratification in Latin America', in *Constructive Change in Latin America*, Cole Blasler (ed.) (Pittsburgh, University of Pittsburgh Press, 1968), pp. 19-55.

<sup>26</sup> ECLA, *Economic Survey, 1968*, part 1, pp. 63-4.

(3) *The share of labor in the national income could conceivably have risen : this would tend to widen the market since wage income is presumably more widely distributed than asset income.* A distribution of national income series data among factor shares in currently developed countries usually shows that employees begin to receive an increasing percentage at some time during the process of rapid growth. The rise is usually from a labor share of approximately 50 per cent to about 70 per cent.<sup>27</sup> In the United States and Western Europe this change was probably caused by a shift to less self-employment and increased industrial hirings early in the growth process, and to heightened skill level requirements and growing unionization and public welfare measures later.<sup>28</sup> But in Latin America the share of national income accruing to hired labor in most countries has not grown through the sixties; on the average it remains at about half of the national income.<sup>29</sup>

(4) *'Price effects' could be influential.* Schumpeter suspected that relative shares of real income would expand for lower income groups in the process of capitalistic development. Extrapolating from United States history, he observed that an 'avalanche' of consumer goods lowers their price and that this 'permanently deepens and widens the stream of real income'. This expansion occurs partially at the expense of upper groups who find luxury products progressively more expensive because they cannot be mass produced or because they fall into the 'personal services' sector in which wages and salaries tend to rise. He claimed that 'the capitalist process, not by coincidence but by virtue of its mechanism, progressively raises the standard of life of the masses'.<sup>30</sup> There is little evidence that this has happened to any significant extent in Latin America. In 1963, after it examined a number of comparable items in several United States cities and in nineteen Latin American capitals, ECLA concluded that prices for Latin America's domestic manufactures were significantly higher than for goods purchased in the United States.<sup>31</sup>

<sup>27</sup> Simon Kuznets, *Modern Economic Growth*, Table 4.2, pp. 168-9.

<sup>28</sup> See Kuznets, *ibid.*, pp. 181-95, and Irving B. Kravis, *The Structure of Income: Some Quantitative Essays* (Philadelphia, University of Pennsylvania Press, 1962), pp. 122-55. A trend of this nature belies the general Marxist contention that as growth proceeds, 'real wages might rise, but not the relative share of labor. Even if real wages rose, misery would grow . . . since workers would be worse off relative to capitalists.' Sumner Slichter, quoted in Herman P. Miller, *Rich Man, Poor Man* (New York, Thomas Y. Crowell Co., 1964), p. 38.

<sup>29</sup> *América en Cifras 1967, Situación Económica*, part 4 (Washington, D.C., Unión Panamericana, 1968), pp. 69-75.

<sup>30</sup> Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (3rd ed., New York, Harper and Brothers, 1950), pp. 67-8.

<sup>31</sup> United Nations, Economic Commission for Latin America, *A Measurement of Price Levels and the Purchasing Power of Currencies in Latin America, 1960-1962* (E/CN.12/653), 1963.

(5) *Since an egalitarian philosophy has come on the heels of industrialization in many countries, extra-market devices, such as progressive taxes, could have given the masses more buying power.* A recent study of income distribution in Latin America reports that in most of the region 'no definite tendency towards an improvement in distribution patterns can be discerned . . . even where the rate of development is relatively fast and where economic policy has a distinct formative influence'.<sup>32</sup> As one Latin American social scientist candidly admitted, 'the economic development process in the form in which it is taking place is not in itself calculated to promote a reduction of the disparities in income distribution'.<sup>33</sup>

*Historical Precedents for Market Expansion: Three Models*

One important economic justification of land reform, then, is that it raises the purchasing power of lower income groups. In turn, this higher purchasing power stimulates both the mass-consumption and some of the agricultural input industries.

This formula implies involving the peasant in national life in an entirely different manner than at present in most Latin American countries. While land reform ties the peasant directly to the economy, in the prevailing latifundia system this linkage is indirect—through a landlord who does not, as a rule, perform efficiently as a saver or an investor.<sup>34</sup> A political scientist has recently condemned the latifundia system because it leads to what he calls 'coercive marginalization' of the masses. While some justify the latifundia system because it supposedly provides for economic austerity, in fact it perpetuates, 'with continued underdevelopment, the very causes of the social crisis'. Furthermore, it creates 'an uncertain equilibrium, maintained by force and doomed . . . to be upset'.<sup>35</sup>

I. PARTICIPATION AND HIGH CAPITAL FORMATION

We will return to 'coercive marginalization', but must note here that it is qualitatively different from the agrarian situation that prevailed, say, in the 'participation and high-capital formation' growth process in the United States of the nineteenth and early twentieth centuries. One must be wary of

<sup>32</sup> United Nations, Economic Commission for Latin America, 'Income Distribution', pp. 50-1.

<sup>33</sup> Jorge Ahumada, 'Economic Development and Problems of Social Change in Latin America', in *Social Aspects of Economic Development in Latin America*, vol. 1, Egbert de Vries and José Medina Echavarría (eds.) (Paris, UNESCO, 1963), p. 136.

<sup>34</sup> This is one of the major conclusions of the series of country reports on the agricultural sector prepared by the Inter-American Committee for Agricultural Development. See its *Land Tenure Conditions and Socio-Economic Development of the Agricultural Sector for Argentina, Brazil, Chile, Colombia, Guatemala, Ecuador, and Peru* (Washington, D.C., 1965-6).

<sup>35</sup> Helio Jaguaribe, *Economic and Political Development*, p. 43.

drawing too many implications for LDCs, since the United States advanced from an initially more flexible institutional framework (except in the South) and a propitious combination of resources. During the United States industrial revolution, of course, non-agricultural income did become quite concentrated and farmers helped importantly to finance development. But they also participated to some extent in the fruits of production growth. This was possible because the economy grew rapidly. At the same time—as a result of active entrepreneurship, adequate public savings and substantial capital imports—a high level of investment took place at strategic growth points of the economy.

Mexico under Cárdenas and even into the forties and fifties might also fit, but more clumsily, into this framework. Speaking of the post-revolutionary industrial recovery (which dates roughly from the inception of the Cárdenas land distribution and the definitive incorporation of workers' unions into the fabric of national life) of the mid-thirties, Vernon contends 'it . . . seems likely that something more than devaluation and public works spurred the process of growth . . . Mexico began to reorganize its human and capital resources in an environment which used both more effectively . . . a very considerable proportion of the Mexican public seemed to increase its living standards by a substantial margin during the twenty-year period [1940–60]. Shoes appeared on the feet of the urban poor and in the countryside. Bicycles became a commonplace in rural areas where they had been a rarity.'<sup>36</sup> The index number measuring the value of manufacturing output rose from 100 in 1929 to 202.5 by 1940 and 610.2 by 1947.<sup>37</sup> But, counterbalancing the reforms, inflation throughout the forties and fifties was at work, reconcentrating income in the hands of entrepreneurs. So the steady economic progress of peasants did not continue unabated. Indeed, on balance, as Flores reports, 'For capital formation purposes, agriculture was subjected to a steady drain . . . Peasants tolerated the ensuing forced austerity because it came from the same government that was giving them free land.'<sup>38</sup>

Of the contemporary period, Vernon observes: 'The nature of Mexico's

<sup>36</sup> Raymond Vernon, *The Dilemma of Mexico's Development: The Roles of the Private and Public Sectors* (Cambridge, Mass., Harvard University Press, 1963), pp. 85 and 93.

<sup>37</sup> Sanford A. Mosk, *Industrial Revolution in Mexico* (Berkeley, Calif.: University of California Press, 1954), p. 120. Pérez López notes, 'Three factors provided the impetus for the growth in natural product from 1934 to 1945: the recuperation of the industrial countries which augmented demand for our exports, the internal policy of land redistribution and construction of public works, and the demand impulse of the Second World War'. Enrique Pérez López, 'El producto nacional', in *México: Cincuenta Años de Revolución*, vol. 1: Economía, Enrique Beltrán *et al.* (eds.) (Mexico, D.F., Fondo de Cultura Económica, 1960), p. 576.

<sup>38</sup> Edmundo Flores, 'The Economics of Land Reform', *International Labour Review*, 92 (July 1965), 34.

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income distribution is such that, instead of thinking of thirty-five or forty million people as being the object of their sales campaigns, many businessmen are obliged to think of some small fraction as the target'. Currently between two-thirds and three quarters of the population are 'outside the market for many modern-day products'.<sup>39</sup> Johnston claims that 'the Mexican economy is now sharply divided between a relatively affluent sector engaged either in modern industry or the commercial subsector of agriculture and a large backwater still eking out an existence in semi-subsistence agriculture'.<sup>40</sup>

At this point, unavailability of adequate supplies of arable land means that substantial new land reform in Mexico would be difficult. In order to redistribute income after it concentrates during intensive industrialization, a country must rely on techniques suitable to modern states. However imperfectly, the United States began to face up to similar challenges early in this century with such devices as the progressive income tax.<sup>41</sup>

2. MINIMAL-PARTICIPATION AND HIGH CAPITAL FORMATION

More social and economic mobility (and a larger proportion of the population at 'middle levels' of buying power) and more peasant participation in the market, distinguishes present-day Mexico from the 'minimal-participation high-capital formation' agrarian growth pattern which prevailed in Russia of the late nineteenth century, Meiji Japan, and Mexico of the Porfiriato. In these growth epochs, peasants were squeezed, but the government and/or private enterprise—perhaps unintentionally—laid some groundwork in productive investment for later market expansion.

In Russia of the 1890s government budgetary policy was substituted for a deficient internal market. According to Gerschenkron, 'To reduce peasant

<sup>39</sup> Vernon, *The Dilemma of Mexico's Development*, pp. 183-4. Even so, Furtado reports, 'Of the Latin American countries that have made substantial advances in the "substitution" type of industrialization, Mexico is the only case which has not yet shown a clear tendency toward stagnation. It must, however, be taken into account that this is the only country in the group which has promoted far-reaching agrarian reform.' Furtado, 'U.S. Hegemony', p. 67, footnote 7.

<sup>40</sup> Bruce F. Johnston, 'Agriculture and Economic Development: The Relevance of the Japanese Experience', *Food Research Institute Studies*, 6, no. 3 (1966), 287.

<sup>41</sup> Because of government action—and for other reasons which Kuznets spells out—relative distribution of income in the U.S. moved toward equality 'with these trends particularly noticeable since the 1920s but beginning perhaps in the period before World War I'. Simon Kuznets, *Economic Growth and Structure*, p. 260. This egalitarian shift seems to have ended after the Second World War, however; there appears to have been no change in the size distribution of income in the U.S. for several decades. See Miller, *Rich Man, Poor Man*. Recurrent concentration of income is a built-in problem of all capitalistic societies and must be persistently countered with government action.

consumption meant increasing the share of national output available for investment. It meant increased exports, stability of the currency, chances for larger and cheaper loans from abroad, and the availability of foreign exchange needed to service foreign loans.<sup>43</sup>

Similarly in Japan from 1881–1920 (particularly early in the era), ‘the failure of farm levels of living to rise very much probably facilitated general economic growth because it maximized the surplus that could be siphoned off for non-agricultural investment’.<sup>43</sup> Mexico’s development before the revolution was quite different from the Cárdenas period which followed the war and reconstruction. In the earlier era, Porfirio Díaz, who relied heavily on foreign investment, ‘capitalized upon the growth in the world’s demand for Mexico’s materials and created some of the indispensable elements for its later growth . . . while [taking] brutal measures which despoiled and suppressed the people on the land’.<sup>44</sup>

Japanese peasants have lately participated in national growth to a much greater degree than Mexico’s peasants have. Some commentators seem to believe that had market expansion occurred earlier in Japan her growth rate might have been even faster, and the country might have been less beset by political problems. Indeed, ‘there seems to be some reason to suppose . . . that by the 1920s the economic base had expanded sufficiently so that the low level of consumer purchasing power was a more important factor in limiting investment than lack of investable funds’.<sup>45</sup> Together with other factors, the postwar land reform so definitively widened the market that certainly by the mid-sixties Japan was a ‘participation and high capital formation’ country. *Campeños* in Mexico (due importantly to their rapid growth in numbers) found their participation somewhat curtailed. Groups that experience a surge in their living standards at some time of the growth process do not necessarily continue in their relatively improved positions. Hence Johnston could observe that ‘the contrast between the Japanese and Mexican approaches to agricultural development lies in the fact that the increase in farm output and productivity in Japan resulted from the widespread adoption of improved techniques by the great majority of the nation’s farmers, whereas in Mexico a major part of the impressive increases in agricultural output in the postwar period have been the result of extremely

<sup>43</sup> Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge, Mass., Harvard University Press, Belknap Press, 1962), p. 125.

<sup>44</sup> Bruce F. Johnston, ‘Agricultural Development and Economic Transformation: A Comparative Study of the Japanese Experience’, *Food Research Institute Studies*, 3 (Nov. 1962), 247.

<sup>45</sup> Vernon, *The Dilemma of Mexico’s Development*, pp. 56–7.

<sup>46</sup> Johnston, ‘Agricultural Development and Economic Transformation’, p. 247.

large increases in production by a very small number of large-scale, highly commercial farm operators'.<sup>46</sup>

3. COERCIVE MARGINALIZATION OR MINIMAL-PARTICIPATION  
AND LOW-CAPITAL FORMATION

'Coercive marginalization', in contrast to both of these models, can be defined in the shorthand used here as the 'minimal-participation low-capital formation' pattern which prevails in most of Latin American agriculture today. Peasants do not take part in the market to a significant extent, nor are investment transfers to urban industry or within farming laying a solid framework for later participation. Gross investment as a percentage of GNP remained disappointingly stable over the 1960s in Latin America. Between 1951 and 1964 total savings in the region rose from 16.3 to 16.9 per cent of GNP, while income increased over 50 per cent. The marginal rate of savings remained unchanged at 15 per cent (some estimates are as low as 10 per cent), and this rate is currently significantly lower than it is even in India and Pakistan.<sup>47</sup>

Meanwhile, exports and private investments are expanding sluggishly, and public budgets contain large items for expanded bureaucracies and welfare programs for the burgeoning urban population or for politically inspired projects of doubtful worth in a development context. At the same time, private capital flees or seems to escape the crucial growth projects; investors often prefer luxury lines and real estate. For their part, peasants face austerity—apparently to allow the elite to consume sumptuously or invest non-productively.

Retention of the current anachronistic land tenure pattern in Latin America seems to make little economic sense. It would seem as though planners cannot afford the luxury of an almost exclusive concern with achievement of the highest possible rate of economic growth over some short run period. One method of getting growth started again might be to

<sup>46</sup> Johnston, 'Agriculture and Economic Development', p. 286. This comparative conclusion should not denigrate progress made by the Mexican *campesino*. See Folke Doving, 'Land Reform and Productivity in Mexico', *Land Economics*, 46 (Aug. 1970), 264-74.

<sup>47</sup> The capital formation problem is analyzed in Organization of American States, *The Alliance for Progress and Latin American Development Prospects: A Five-Year Review, 1961-1965* (Baltimore, The Johns Hopkins Press, 1967), pp. 90-159. Gross investment, savings, and marginal savings rate figures are taken from Paul N. Rosenstein-Rodan, 'The Alliance for Progress and Peaceful Revolution', in *Latin American Radicalism*, Horowitz, de Castro, and Gerassi, *loc. cit.*, pp. 54-6. The marginal savings rate is estimated at 10% for 17 of the Alliance for Progress Countries in Hollis B. Chenery and Peter Eckstein, 'Development Alternatives for Latin America' (Memorandum), Project for Quantitative Research in Economic Development, Harvard University, Dec. 1966.

provide some degree of market participation to those at lower income levels. This might help economies to throw off their current stagnation and governments to avoid the ignominious collapse of the entire system.

*What Could Agrarian Reform Contribute?*

It seems appropriate to detail, in summary form, the consequences for industry that could flow from agrarian reform and meet some of the contemporary challenges of Latin American development. It should be obvious that different policies entirely will be necessary in Argentina and Uruguay (which have very small agricultural sectors) and in Mexico and Bolivia (which have had an agrarian reform) and that we have not considered Cuba at all.

1. If peasant farmers were brought into the market at some expense to those with upper level incomes, the structure of demand will be altered considerably in the short run to favor simple consumer goods or even such consumer durables as radios or bicycles. Overall, a lower import requirement per unit output could be expected for these items than for current growth industries in most Latin American countries. Hence the export constraint on economic growth would be somewhat relieved.<sup>48</sup>

2. The current tendency for import substitution to move into wasteful luxury lines, in order to satisfy the whimsical demands of the well-to-do, would be temporarily stifled. These manufactures have a high import content, demand exorbitant protection, and squander scarce resources.

3. Other capital items which have substantial economies of scale and require high protection would be by-passed for the time being as resources are redirected to simple consumer goods. This does not preclude government investment in those manufactures which seem uneconomic by current cost accounting but prove promising when shadow pricing criteria are applied, and in those intermediate products which seem to be rich in linkage effects. As the market expands, privately sponsored production of more complex goods could resume; as light consumer goods develop, backward linkages to the sectors that supply inputs to them will be strengthened.

4. At least one intermediate industry which requires substantial economies of scale—fertilizer manufacture—should be stimulated almost immediately, given proper government policy, since income elasticity of demand for this

<sup>48</sup> The export constraint has been detailed in much recent literature. One example is the paper given by Ricardo Arriazu (IMF) at the annual meeting of the American Agricultural Economics Association, 11 Aug. 1970, Columbia, Missouri, published in the *American Journal of Agricultural Economics*, Dec. 1970.

product can be high at low income levels in the farm sector.<sup>49</sup> This was one major effect of the Japanese reform, according to Kazushi Ohkawa, who 'believes that these changes have not only strengthened the incentive to increase output, but in addition have created a mentality more receptive to innovations and have left farmers with sufficient cash income to substantially increase their use of purchased inputs'.<sup>50</sup> Fertilizer price should drop also, thus increasing the profitability of fertilizer use at the farm level. As food supplies expand and as the price of food declines, there are income effects which shift the demand curve for food somewhat to the right.

5. The serious employment problem that exists in Latin America would be somewhat alleviated. Not only would land reform itself provide more jobs in agriculture,<sup>51</sup> but manufacture of simple consumer goods is typically more labor intensive than that of intermediate products and consumer durables.

A recent study found that small-scale industrial establishments in Latin America (those employing from five to forty-nine persons) hired 31 per cent of all factory workers and produced 21 per cent of the regional factory product. For this reason it concluded that 'every industrialization policy should take into account the important social function of small-scale industry, namely, the drawing of large labor contingents into the production process. It has a particularly effective contribution to make in such activities as food processing, the production of certain types of textiles and wearing apparel and the manufacture of furniture, in which it can achieve a satisfactory level of efficiency with little capital.'<sup>52</sup>

<sup>49</sup> It is of course possible that this development might merely lead to increased imports of inputs. It should be emphasized that 'rural demand will obviously give a greater stimulus to industrialization if a country pursues an agricultural development path relying to a substantial extent on increased use of farm inputs that are within the capacity of a developing country's industrial sector at successive stages of technical maturity'. Bruce F. Johnston and Soren T. Nielsen, 'Agricultural and Structural Transformation in a Developing Economy', *Economic Development and Cultural Change*, 14 (April 1966), 284.

<sup>50</sup> Quoted in Johnston, 'Agricultural Development and Economic Transformation', p. 251.

<sup>51</sup> See Arthur Domike, 'Industrial and Agricultural Employment Prospects in Latin America' and Solon Barraclough, 'Rural Development and Employment Prospects in Latin America'. Both papers were prepared for the Second Conference on Urbanization and Work in Modernizing Areas, St Thomas, Virgin Islands, 2-4 Nov. 1967. Also, see William C. Thiesenhusen, 'Population Growth and Agricultural Employment in Latin America with Some U.S. Comparisons', *American Journal of Agricultural Economics*, 51 (Nov. 1969), 735-52.

<sup>52</sup> United Nations, Economic Commission for Latin America, 'Small Scale Industry in the Development of Latin America', *Economic Bulletin for Latin America*, 12, no. 1 (May 1967), 63 and 66-8. The textual quote continues, 'For instance, in the textile industry in Latin America small mills of low technological levels exist side by side and in competition with large scale modern establishments'.

6. More locational decentralization would become possible since simple consumer goods manufacture usually requires fewer external economies (that are found in cities) than do more complex products. Then, too, the technical ability necessary to manage a small factory is less than that required to supervise production in a large one. And generally it makes more economic sense to transport usually bulky agricultural products as short a distance as possible for processing. Short-hauls of inputs and outputs (they could be used nearer fabrication points) would lower the market price of the finished good. These combined effects could alleviate some population pressure on the primate city and favor a more balanced regional growth pattern.<sup>53</sup>

7. Land taxes can be collected more easily from small than from large owners because *campesinos* would lack the political power of the current group of landowners. Excise taxes on light consumer goods would also be a more important source of revenue than previously.

8. Rural infrastructure—such as schools and roads—would be likely to improve as *campesinos* begin to take a serious interest in their own communities and have control over the way community revenues are spent. Of course, any tax policy must provide local communities with a share of revenue.

9. The health and levels of living of farm people would be improved, thus mobilizing their latent energies for economic development. The average daily caloric intake of over seventy million people in the low income rural group throughout Latin America has currently been estimated at an average of 1,600 calories as compared with the U.N. minimum daily requirement of 2,500.<sup>54</sup> With low incomes, farm people are unable to work as efficiently as they might because their diets and styles of life are not conducive to optimal economic performance.<sup>55</sup>

<sup>53</sup> Philip M. Hauser feels that the present rapid rate of growth of urban areas—and especially primate cities—compounds the difficulties of development. See his 'The Social, Economic, and Technological Problems of Rapid Urbanization', in *Industrialization and Society*, Bert F. Hoselitz and Wilbert E. Moore (eds.) (UNESCO-Mouton, 1963), pp. 199-217. For an opposing view, see William Alonso, 'Urban and Regional Imbalances in Economic Development', *Economic Development and Cultural Change*, 17 (Oct. 1968), 1-14.

<sup>54</sup> *Statistical Abstract of Latin America: 1966* (Los Angeles, University of California, Latin American Center, 1967), p. 26.

<sup>55</sup> One can also see pitfalls in this development approach if an agrarian reform policy was not correctly executed and accompanied by other policy measures. 1. A continuing high rate of population growth can thwart the process. In the case of Mexico, for instance, land reform allowed a marked rise in the levels of living over latifundio days, but population growth seems to have played a leading role in checking a continued improvement as the government assumed the role of first claimant to subsequent income growth. 2. If burgeoning peasant unions insist on a high cost per settler land reform program, in which amenities take precedence over productive investment, or if the government aims to reimburse land-

*The Political Imperative*

Agrarian reform, however, remains essentially a political problem internal to each country. While it seems inevitable if industrial stagnation and urban chaos are to be averted, one question is whether it can occur peacefully. Peaceful reforms seem unlikely unless the current balances of power shift somewhat. The optimist will, however, be able to see the seeds of a realignment of power implied in the former arguments. While industrialists have traditionally found common cause with the landed in opposing land reform, it is conceivable that the manufacturers of simple consumer goods may add their weight to the already existing loose coalition of disenchanted intellectuals, students, landless peasants, the liberal church and (in a few countries) left-of-center military factions. The motivation of an expanded market would conceivably link some industrialists with those who desire reform on the basis of land hunger or social justice. As John H. Kautsky has remarked, 'where industry produces consumer goods for the domestic market, rather than raw materials for export, it is in the interest of the capitalists to raise the standard of living and the buying power of the peasantry, possibly even to advocate land reform'.<sup>56</sup>

Possibly simple goods and farm input manufacturers may even be joined by a broader cross section of the urban middle class who see rapid migration to cities and its concomitants—increasing unemployment, political malaise, overcrowding, and higher city budgets—as a collective threat.

This array of forces might be adequate to swing the balance of power away from the landlords allied with the parliament and other conservative elements, among whom are the protected 'advanced' industrialists. However, the power of this latter group should not be underestimated. Its

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lords quickly and somewhere near market value, such actions could fuel inflation. 3. If the government is not powerful enough to extract some of the surplus for reinvestment or if the government forces savings which it proceeds to dissipate, reform will result in little development. One should not underestimate the difficulties of taxation of agriculture. 4. If expropriation proceedings are spread over a long period of time, a great deal of insecurity may be introduced into the private sector, thus neutralizing the stability usually engendered by reform. 5. If excess capacity does not exist in some strategic simple consumer lines, overstimulation of peasant demand might lead to increased inflation. Similarly, if entrepreneurs do not respond readily to new market incentives the economy will soon overheat. 6. If the government does not move toward dismantling the complex system of protection that exists—especially among more complex manufactures of a luxury nature—it is possible that little will happen. Tariffs may be so intractable and resources so immobile that factors are incapable of being reallocated in accordance with an altered market demand (this should not be construed as an argument for the arbitrary removal of tariff barriers in strategic intermediate industry which the government is consciously encouraging, although it must be fully recognized that tariffs are usually 'second best' to direct subsidies).

<sup>56</sup> John H. Kautsky (ed.), *Political Change in Underdeveloped Countries: Nationalism and Communism* (New York, John Wiley & Sons, 1962), p. 23.

interests are interlocked with landlords in a variety of ways. In some cases, the advanced industrialists depend on landlords for foreign exchange. This group may be bound to agriculture by family ties. This sector tends also to harbor large and powerful foreign elements.

Because of the current privileged and protected position of advanced manufacturers, and because of the slump they would doubtless feel unless their industries were already vertically integrated to simple consumer goods, there will be a lag between admission of the peasant to the consumer goods market and the appearance of the more complex demands that would—in time—result from rising incomes. In fact, because of the needs of the economy for long-term investment and because of the extremely rapid population growth over the past several decades, landholder peasant incomes may have to remain at a level where they can buy only simple goods for a fairly long time.