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ECONOMIC GROWTH, STRUCTURAL CHANGE, AND THE
RELATIONSHIPS AMONG NATIONS

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ECONOMIC GROWTH, STRUCTURAL CHANGE, AND THE
RELATIONSHIPS AMONG NATIONS

I. INTRODUCTION

The argument put forward in this paper can be summarized in three brief propositions: (1) that the unplanned economic growth of capitalist countries produces severe regional and sectoral distributional problems, (2) that the nature of their social and political institutions makes it extremely difficult to deal with these issues internally, and (3) that such societies therefore have a natural tendency to resolve their difficulties by allowing them to spill over into the world economy, thereby "solving" the problem at the expense of others.

The mechanism leading to the imperialism of advanced capitalist countries in the following exposition, differs somewhat in emphasis from the classical Marxist-Leninist discussion in that it is concerned with the effects of growth on resource allocation rather than with the role of accumulation per se. As the subsequent sections will show, the structural transformations that induced -- and were induced by -- the increases in per capita income of the developed countries were substantial. Moreover, they occurred with sufficient rapidity to force individual members of the population to make radical changes in their employment patterns and life styles or alternatively, to accept significantly lower returns to the productive assets over which they exercised control.

Unfortunately, as we shall also see below, the capitalist economy has great difficulty in responding with, much less initiating, compensatory mechanisms to cope with the externalities of deep-seated structural changes.

Basically, the technical instruments and institutions required to cushion the impact of structural change on income distribution, employment, migration, and social services are incompatible with other more dominant capitalist institutions and with the capitalist ideology. To use an analogy from medicine: the problem of responding to the needs of those affected by changes lies not in the difficulty of the operation but the fact that the tissues tend to be rejected by the body's own chemistry.

The ultimate result of the inability to control and guide economic growth in a planned way, is that countries tried -- and continue to try -- to export their employment and income distribution problems abroad.^{1/} This is a familiar phenomenon, well documented in the literature on international trade. Typically, however, the analysis of protectionism, where it contains no reference to import substitution or "infant industries," refers to "vested interests" as the basis for a market economy's efforts to avoid "free trade." What is not explained by such an analysis, however, is how such vested interests arise and why it is so difficult to cope with them through mechanisms that have been shown, from an efficiency point of view, to be superior to the distortions implied by protectionist policies.

It has been long recognized, of course, that two can play at protectionism, and a number of institutions have been developed whose duty it is to provide some "rules of the game" with respect to exporting domestic

^{1/} I would be the first to concede that planning for structural change is only a necessary and not a sufficient condition for reducing the tendency of internal economic tensions to dictate international relations. Indeed, in this respect, the imperialism practiced by some centrally planned socialist economies must be viewed in a rather cynical light.

problems. For example, GATT, in principle, forbids nations to use export subsidies to move their commodities into world markets. The International Market Agreements (wheat, coffee, cocoa) constitute another example. Unfortunately, such bulwarks against the international effects of domestic structural disequilibria are not impervious and where pressures become sufficiently great, they rupture, producing periods of general international acrimony and recrimination.

It is my contention that we are currently in such a period and that over at least the next decade or so we can expect more rather than less tension arising from the inability of countries, especially those with unreformed capitalist institutions, to cope with the distributive effects or structural change internally. The general argument will involve an elaboration of the following points:

- (1) It has been shown in a number of cross-sectional and time series studies that almost all indices of economic structure -- rates of saving, the composition of demand and production, the pattern of trade, the allocation of capital and labor -- show dramatic changes as per capita income rises. Without raising the issue of the direction of causality at any one point, it is clear that the observed changes imply a rather radical reallocation of society's resources.
- (2) The time period over which the structural changes described above occur, does not correspond to either the life cycle of people nor to the obsolescence cycle of material capital. Thus, the productive

value ("shadow price") of certain assets (human and material) fixed to the productive system, are likely to be altered significantly in the transformation process. Those types of economic enterprise having the largest share of factors fixed to their activity stand to gain (lose) most by the structural changes taking place.

(3) The change in wealth produced by the process described above has important political repercussions. Affected individuals seek to use the powers of the state to direct the process of growth in such a way as to enhance (avoid) changes in the returns to the factors they possess. While the aspects of the structural change described in (1) and (2) occur in all countries, the outcome of (3) depends upon the institutions of that particular society and the political power held by various groups and classes.

(4) In capitalist societies, direct or planned intervention in certain aspects of the process of structural change, e.g., those that involve development of technology and thereby the allocation of capital and labor, is a contradiction to the basic ideology of private property and free enterprise. In most such societies, however, indirect means of affecting distribution, such as price and fiscal policy, do not share the same onus. Hence these are the major means by which the state responds to political pressures; when the institutions of a "free market" and "private property" produce a contradiction, e.g., a profit squeeze, it is the "free market" that gives way. (There are many exceptions to this rule,

but the basic virtue of using indirect means such as price supports, tariffs, quotas, etc., to deal with political pressures is that it is much less of a confrontation with other institutions in the system. Moreover, it makes much simpler the subsidization of material assets for which it is difficult to provide a social justification.)

- (5) The use of such indirect mechanisms to deal with the distribution problems of structural change, however, destroys the signals for the resource allocation that the growth process requires. As a result, chronic imbalances develop between the supply and demand for the affected goods and services. To minimize the cost of maintaining the incomes of people who produce such commodities, they must either be (1) exported, or (2) protected. Under any circumstances, comparative costs are no longer a basis for international trade.

II. ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE

Everett Hagen has compiled a lengthy list of processes that could be identified with the notion of "structural change." These are reproduced at some length below since an intuitive understanding of the nature of the transformation problem is important for the arguments that follow. As Hagen indicates, the order in which they are listed does not indicate a time sequence; they occur concomitantly, interwoven.

1. Methods of production change in various ways, among which the following are conspicuous:
 - a. The capital-labor ratio tends to increase steadily; in the process capital goods become more and more complex.
 - b. The size and complexity of production units, on the average, increases, measured by the quantity of capital and labor employed, and by the level of output.
 - c. The division of labor within and among the production units increases.
2. Markets available to producers become larger in several ways:
 - a. Domestic markets increase as per capita income increases; also as a reflection of improved communications and transportation facilities.
 - b. The country's exports and imports increase; the mix of exports and imports can also be expected to change.

3. The structure of production, that is, the relative amounts of different types of goods produced, changes. The changes are not random, they follow a universal law. Inevitably, secondary industry (manufacturing, mining, construction) increases in size relative to primary industry (agriculture, forestry, fishing); then, as per capita income increases further, tertiary industry (services) increases in size relative to both.
4. The average value of output per worker becomes greater in secondary industry and then in tertiary industry than in primary industry. These differences persist. Only in an exceptional case of a country with a great comparative advantage in agriculture will the value of output per worker in agriculture be as high as in industry. Because of these differences in the value of output per worker, trends in the distribution of the labor force correspond to, but do not equal, the trends in the distribution of production.
5. The percentage of gross national income saved rises, at least in the early stages of development.
6. The country undergoes a "demographic reevaluation." Death rates fall and the rate of population growth rises. Later, birth rates follow death rates down, and eventually the rate of population growth is again low.

As was previously noted, the process described involves two simultaneous changes: (1) accumulation, and (2) transformation. The

first has to do with increases in the supply of inputs (principally capital and skills) without which no growth would be possible. The second, and for our purpose more important process, involves changes in the ratios of the variables that describe the economy's production structure. (Items 3 and 4 above.) These changes imply that a country must reallocate its resources, at least relatively, according to the new patterns of demand and comparative advantage that are associated with growth. If it cannot keep some measure of balance between the supply and demand of output for each sector, then its forward momentum will be stopped by its own inefficiency.

The process outlined by Hagen is presented in a qualitative fashion. For a more quantitative assessment of certain types of structural changes that are usually coincidental with growth, we turn to the work of Hollis Chenery and his associates. Table 1, taken from a recent paper by Chenery, describes the changes in some selected basic parameters and their relationship to per capita income.

As the Table indicates, the changes involved in the transformation of agrarian society with over 40 percent of its GNP contributed by primary production (largely agriculture) to an urbanized, industrialized society in which less than 10 percent is obtained from primary sources, are quite drastic. For example, such a shift in the source of output entails an even greater relative shift in the labor force. According to the Table, the gross domestic product of a country having a per capita income of \$300 would show a primary product contribution of about 30 percent with approximately 50 percent of the labor force engaged in

Table 1

Normal Variations in Economic Structure With Level of Development:
Level of GNP per capita (\$1964)

	<u>50</u>	<u>100</u>	<u>200</u>	<u>300</u>	<u>400</u>	<u>600</u>	<u>800</u>	<u>1000</u>	<u>2000</u>
<u>I - ACCUMULATION</u>									
1. Gross National Savings, as % of GNP	9.4	12.0	14.8	16.4	17.6	19.3	20.5	21.5	24.6
2. Gross Domestic Investment, as % of GDP	11.7	15.1	18.2	19.7	20.8	22.7	23.0	23.7	25.4
3. Tax Revenue, as % of National Income	9.8	12.7	16.7	19.5	21.8	25.3	28.0	30.3	28.0
4. School Enrollment Ratio	17.5	36.2	52.6	61.2	66.9	74.2	76.9	82.3	91.4
5. Adult Literacy Rate	15.3	36.5	55.2	65.0	71.5	80.0	85.4	89.4	93.0
<u>II - OUTPUT COMPOSITION</u>									
6. Primary Share of GDP	58.1	46.4	36.0	30.4	26.7	21.8	18.6	16.3	9.8
7. Industry Share of GDP	7.3	13.5	19.6	23.1	24.5	29.0	31.4	33.2	38.9
8. Services Share of GDP	29.9	34.6	37.9	39.2	39.9	40.4	40.5	40.4	39.3
9. Utilities Share of GDP	4.6	5.7	7.0	7.7	8.3	9.1	9.7	10.2	11.7
<u>III - LABOR FORCE</u>									
10. Primary Labor, as % of Total Labor Force	75.3	68.1	58.7	49.9	43.6	34.9	28.6	23.7	8.3
11. Industrial Labor, as % of Total Labor Force	4.1	9.6	16.6	20.5	23.4	27.6	30.7	32.2	40.1
12. Services Labor, as % of Total Labor Force	20.6	22.3	26.7	29.3	31.1	35.8	37.7	42.2	51.6
13. Urban Population, as % of Total Population	4.1	20.0	33.8	40.9	47.5	51.5	55.3	58.0	65.1

Table 1 continued

IV - TRADE

14. Exports of Goods & Services as % of GDP	9.9	13.2	16.3	18.0	19.1	20.7	21.6	22.5	24.8
15. Imports of Goods & Services as % of GDP	16.6	18.7	20.6	21.6	22.3	23.2	23.8	24.3	25.5

*Levels for 50, 100, and 1000 have been adjusted proportionately to total 100%.

All values are computed from multiple regressions for a sample of about 100 countries over the period 1950-65. The values shown apply to a country of 10 million population in the year 1960. Underlying data are taken from the IBRD, World Tables, December 1968. Further details are given in Chenery, Elkington, and Sims, "A Uniform Analysis of Development Patterns," January 1970.

primary production. At the \$2,000 per capita level, however, the contribution to GDP has been reduced to 9.8 percent; at the same time the labor force in this category has been reduced to 8.3 percent!

As indicated above, the causal forces behind this radical change in the sectoral allocation of labor are several. Insofar as the primary/non-primary split is concerned, however, chief among these is the biological phenomenon that homo sapiens do not -- cannot -- increase their consumption of food indefinitely at the same rate. Thus, over time, economic growth and a decline in the relative importance of the agricultural sector are virtually synonymous. Indeed, this can be seen directly by comparing the income elasticities of demand for food in areas with widely differing levels of per capita income. (The pressure on incomes in the agricultural sector that the above process implies is, of course, exacerbated by rapid increases in supplies due to improved yields and, in particular, by technology embodying high capital-labor ratios, a point that will be elaborated more fully in Section IV.)

Structural transformation in a growing economy is not -- as Hagen also points out -- merely a matter of altering the importance of different sectors in the economy. Actually, a variety of changes in non-economic institutions and in various non-economic characteristics of the society parallel the economic changes described above. Some of these, particularly those involving the societies' class and political structure, are critical to the latter argument concerning the spillover of structural change into the international arena. Before

Table 2

Income Elasticity of Demand for Food

Measured at the Farm Level

(1962 data)

Asia and the Far East (excluding Japan)	0.9
Near East and Africa (excluding S. Africa)	0.7
Latin America (excluding Argentina & Uruguay)	0.6
Japan	0.6
Mediterranean Europe	0.55
European Economic Community	0.5
Other Western Europe	0.2
North America	0.16

developing this theme; however, it is important to understand the mechanism by which the transformation process generates pressures for the intervention of the capitalist state into the economics of resource allocation.

III. STRUCTURAL CHANGE AND THE VALUE OF ASSETS: THE DISTRIBUTIVE IMPACT OF TRANSFORMATION

The kind of transformation described above implies a substantial revaluing of the resources in the economy. The change in the demand structure alone is sufficient to require a different combination of inputs. Add to this new production activities that have different factor proportions embodied in their technology and one finds a situation in which the change in the "real" value of assets ("shadow prices") can be altered radically within the span of the lifetime of an individual asset owner. (Assets here refer to skills as well as material capital.)

The extent to which the incomes of asset owners are affected by shifts in the demand for such assets depends, of course, on the nature of both the derived demand curve for the input and its supply curve. Figures 1a and 1b indicate two extreme possibilities. In Figure 1a the supply of the input is totally inelastic. There is no adjustment mechanism by which a change in its value to the production process could cause either more or less of it to be made available. If, for example, a change in tastes shifted the demand for an input downward, complete inelasticity would imply that, despite the decline in prices,

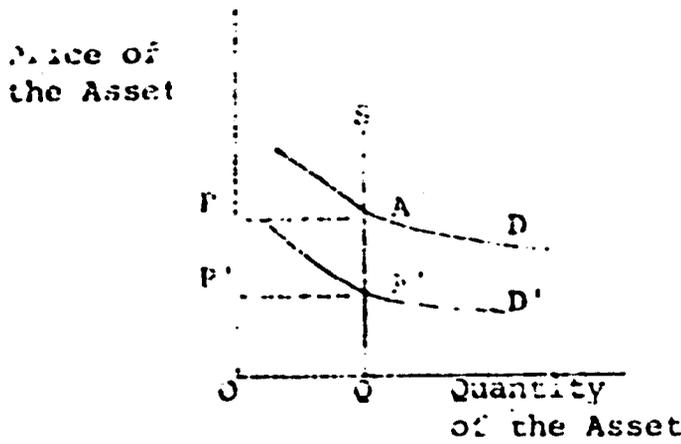


Figure 1a

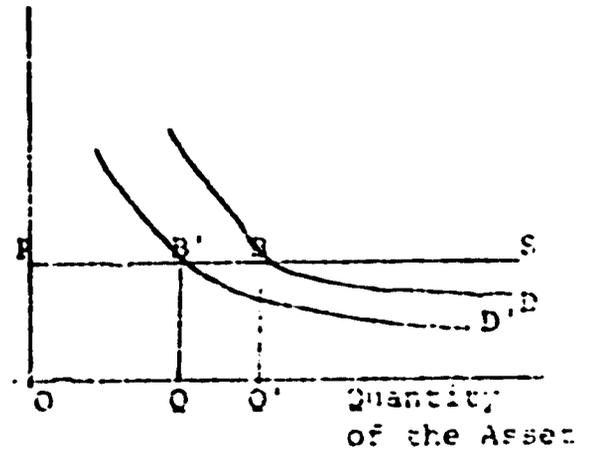


Figure 1b

those who owned that particular resource would find absolutely no alternative for its use. The full brunt of the decline in price would therefore be translated into a decline in income. (In Figure 1a, the loss is represented by the rectangle $PP'AA'$).

The other extreme shown in Figure 1b is that of a resource that has a perfectly elastic supply. Theoretically, the slightest change in price would produce a supply response of either zero or an infinity. Concretely, it means that the resources that are relatively elastic in supply have alternative uses whose opportunity cost is almost identical to the value of the resource in its current employment. Thus, if the demand for the services of this particular asset were to decline, there would be a substantial shift away from its current use to an alternative use. Since the value in its alternative use was only marginally different, there would be little effect on the incomes of the owners of the quantity QQ' . Those who continued to supply the resource to the enterprise in Figure 1b would not be affected at all.

The simple illustration given above could easily be elaborated more fully; it flows directly from the neo-classical model of production and distribution. For our purposes, however, it is sufficient to note that where a large portion of the resources or assets used in a production process are fixed, structural change can be expected to have a significant impact on the incomes of the affected industry or sector.

Agriculture represents the case par excellence of an industry seriously affected by the changes in the demand structure arising from growth in per capita incomes, while at the same time having an exceedingly high ratio of fixed to variable inputs in the production process. Land is the most obvious example. Though some alternative uses to farming exist, these are relatively small and confined to the proximity of large, rapidly-growing, urban centers. Of equal importance, however, is the fact that the human capital embodied in agricultural skills is also relatively fixed. The rural population is traditionally the least literate, the least likely to possess the skill to acquire other skills, of any segment of the society. Consequently, though these skills tend to receive significantly lower returns as the agricultural sector modernizes, there is little that the owner of these resources can do to avoid the impact of change on his or her income.

In addition to the pressures that originate from the declining relative demand for output, the value of other agricultural assets is affected differentially by the type of technology embodied in durable capital. The tendency has been for this technology to have very high capital-labor ratios, thereby increasing the unskilled agricultural labor force.

The result of this high level of resources that have few alternative uses is an almost complete lack of adjustment to declining terms of trade between the agricultural and the non-agricultural sectors. Most econometric studies show, for example, that the supply response of aggregate agricultural output is .1 or less. This means that if the ratio of the relative prices received and paid by farmers were to decline by 10 percent, one could only expect a less than 1 percent cutback in agricultural output.

If, at the same time that the general level of fixed resources is high, (1) demand is declining relatively, and (2) improved technology available for cutting per unit costs becomes available, there is a strong incentive for each individual farmer to try to improve his position vis-a-vis his neighbors. This leads to the familiar phenomenon in which what each individual does for himself appears to improve his own position, but in reality, since a large number of individuals see the situation in a similar fashion, then their actions together lead to further consequences, i.e., an increase in agricultural supplies, the result of which makes everyone worse off.

If people's skills, land, and material capital in agriculture were putty, the signals that the economy gives with regard to the need to reallocate resources in the transformation process could be painlessly heeded. Everyone and everything would be remolded to produce whatever the economy required. But they are not -- and therein lies the problem. Therein also lies the force of the statement that, neutral as the observations in Table 1 appear to be, structural change does not occur

in a vacuum but within a specific social and political framework. Indeed, the historical experience is that the struggle over the distributive aspects of structural change in the political arena are frequently sufficient to alter the course of the economy itself.

While the foregoing example involving the agricultural sector provides perhaps the most extreme case of the impact of structural change on the value of assets -- and ultimately on incomes -- the mechanism is a general one. Anyone who doubts this would do well to read the reasoning of the some 70 industries appearing before the Congressional hearings on tariffs and import controls.

IV. THE POLITICAL ECONOMY OF STRUCTURAL CHANGE

The problems of resource reallocation mentioned above must be faced by all countries experiencing economic growth. How they face these issues, however, depends heavily on the values and institutions on which the society is based, characteristics which also delineate the program and policy instruments which it has at its disposal. Before turning to the latter aspects of the problem, i.e., the difficulties of implementing otherwise reasonable technical solutions that might be used to deal with the social costs of structural change, the following section comments briefly on the way in which the transformation process becomes a political issue. Agriculture again forms the basis for the illustration.

Assume the process we have established thus far: i.e., structural change has created an imbalance between the supply and demand of

agricultural commodities. By virtue of a downward sloping demand curve -- one which shows a proportionately greater decrease in price when a percentage increment of the commodity is offered -- increased output for the industry is self-defeating. Reducing per unit costs via technical change is only a short respite since in a competitive industry everyone else on the "treadmill" will also follow suit.

In a climate as inherently uncertain as this, with pressure on incomes a chronic phenomenon, there will inevitably be a call for stabilization efforts of some sort. Mandel summarizes the general situation in a slightly different context:

"Compulsory cartellisation, the direct intervention of the public authorities in favor of threatened sections of the capitalist class, may seem a revolutionary heresy if one judges the historical attitude of the capitalists toward state intervention solely by the criteria of Adam Smith's theories or the creed of the free trade school. However, the doctrine of laissez-faire is only a stage in the development of bourgeois ideology; it has meaning only for a particular phase of capitalism and for a quite limited geographical area.

"At the risk of over-simplification, we can say that, when the bourgeoisie is weak it always seeks salvation in the protection of the state, that is, in the hope that, through the agency of the public authorities it may succeed in benefitting from a redistribution of the national income which will reduce its risks and increase its profits. Only when the bourgeoisie is strong and full of confidence in its strength and its power to overcome obstacles by its economic superiority alone does it freely denounce all state-interventionism and seek to cut down to the bone the state's financial resources."

Two comments concerning the above quote are in order. First, while Mandel is referring to a general tendency in his exposition, its actual operation is usually observed on a much more disaggregated basis

e.g., at the "2-3 digit" industry level. This might appear, at first sight, to dilute the political influence of the group to the point that their ability to invoke the powers of state in their interests would be of little consequence. There are other factors than numbers of people, however, which define the potential responsiveness of public authorities:

- (1) the concentration of the distress; e.g., Appalachia rates a poverty program while "rural poverty" does not; cutbacks in defense spending are of such concern to Seattle, Washington and Huntsville, Alabama that they cannot be politically ignored.
- (2) in recent years, the solvency of major corporations, particularly in the defense industry, has become grounds for specific intervention by the public authorities in support of the capitalistic sector.

The second comment regarding the Mandel quote is a point stressed earlier. The "economic weakness" of which he speaks can have a number of origins, but one of the most frequent stems from the transformations intrinsic in the growth process itself. These can, in some sense, be said to be organic to the development of a capitalist society and to have a logic as clear as that of the process of accumulation. From this it follows that one could expect intervention by the state as a matter of course.

It should not be inferred from the comments made above that it is objectionable to use the state as an instrument of redistribution; indeed, insofar as the problems arise from the distributive impact of economy's attempt to improve its efficiency, there is a strong argument that the human costs of structural change must be borne by the society at large. What is at issue is who shall bear the costs and how the recipient groups or individuals shall be aided. At this point the choice of the mechanism for state intervention becomes important and it is to this aspect of the problem that the following section is devoted.

V. MECHANISMS FOR DEALING WITH THE DISTRIBUTIVE IMPACT OF STRUCTURAL CHANGE

Programs and policies designed to redistribute an economy's goods and services toward individuals adversely affected by significant changes in demand patterns and production techniques can be broadly classified into two categories: direct and indirect. The latter usually operate through some kind of interference in the market place that tends to produce higher prices for the commodity being sold by the transfer recipient than would otherwise have been the case. Programs in this area tend to rely on some mixture of supply control (import quotas; resource retirement) or by government purchases and sales in the market place itself (agricultural commodity program; stockpiling of "strategic" minerals).

Direct attempts at alleviating the impact of economic change involve, as the category suggests, direct payments to the transfer recipients. Under this heading would come such things as unemployment compensation,

subsidized job training, subsidized business credit, direct subsidy payments in the case of agriculture, the shipping industry, etc.

Conventional economic theory, of course, suggests that the most efficient mechanism of dealing with distribution problems is to let the market take its course and then to use direct payments to effect the transfer. In this way, the price system is still effective in its role of equilibrating supply and demand in the various markets -- a condition which is necessary for maximizing society's material welfare given any assumed size distribution of income.

Even the most cursory examination of capitalist societies, however, shows that direct payments from the state in response to some minimal distributive objective comprise but a small fraction of its real distributive role. (In agriculture, for example, it has been estimated that direct payments account for only about 20 percent of the total subsidy to agriculture while the increase in prices resulting from government supply control activities makes up the remaining 80 percent. Even this does not conform strictly to our definition of direct and indirect, however, since the "direct" payments are for land retirement which also has an indirect price effect.

In the face of such an obvious conflict in ideology, it is interesting to ask why interest groups choose to interfere with the functioning of markets as the means of transfer? The answers to this point are several. Most important perhaps is that by affecting the prices of commodities sold rather than making a direct contribution to incomes, the size distribution of income within the affected group can be maintained. Income is a function of an individual's labor

(enhanced by whatever skills he possesses) plus the right to the rewards from the ownership (or control) over land and material capital. If the relative welfare of those whose income from capital is large in comparison with labor is important, then some form of payment must be made to capital. The simplest way to do this is to reward individuals for the joint product of the factors they control, i.e., by basing the transfer on output.

In addition to maintaining the size distribution of incomes, the use of indirect mechanisms also makes good political sense. Programs and policies that utilize distortions of the market to transfer incomes can be easily hidden from the public view. This is another way of saying that the conflict between the free enterprise ideology and actual practice can be minimized if the tax is spread over the consuming public in the form of price increases and the benefits are received by the same mechanism. An interesting illustration of this principle is available in the current debate over payments limitations in agriculture. Once it was discovered that the lump-sum payments to a number of large farmers sometimes totaled more than a million dollars per enterprise, the anti-farm block in the Congress had a political weapon in its hands. Until such information became available, however, it was difficult to get legislators excited about the indirect "tax" on consumers implied by the government's supply control programs.

Why is it so difficult in a capitalist society to implement the kinds of programs that would speak directly to the human costs of structural change? Reference was made earlier to the similarity of this

of this difficulty to that of a surgeon performing an organ transplant; i.e., it was not the technical detail of the operation that underlies most failures, but the rejection of the grafted organ by the body's own chemistry.

Such is the case also with the numerous programs that have been devised at one point or another in the history of attempts by the United States Government to intervene directly on behalf of citizens affected by the transformation process. These have been either (1) enacted through legislation with enough provisions to make them peripheral to the problem, or (2) if, enacted with real teeth in the bill, gradually denied appropriations until the program withered and died for lack of resources. The result is that the U.S. economy has had no instruments with a sufficiently long-run perspective to make anything but a marginal dent on structural problems.

It is important to recognize that the failure to develop instruments and policies for ameliorating the costs of change are intrinsic in the working of the U.S. economy. Effective implementation of such programs is visibly inconsistent, in the short run, with capitalism's dominant institutions: free enterprise, the labor market, private property, etc.

Some of the most persuasive evidence of the ideological factor in the determination of direct versus indirect mechanisms for dealing with distributional questions comes from the fate of programs conceived and developed during the great crisis of the system in the 1930's. In perhaps the most famous of these social experiments, the Farm Security Administration tried, among other things, to establish farming cooperatives

that would permit the joint ownership of property by small farmers, provide business credit for enlarging the holdings of marginal cultivators, develop programs for job training to aid those who wished to migrate, etc. These programs were formulated only with the greatest difficulty and never went much beyond the pilot stage. However, what is of interest is the nature of the attacks on them that came from the well-to-do farmers. The projects were "unAmerican, Socialistic, destroyers of incentives, government handouts"; the people who ran them were "communists and left-winger. " This by the same group that was receiving, through the price mechanism, transfer payments that were many times a multiple of the modest sums being spent on direct programs. The latter, however, struck at some of the most fundamental institutions of the system itself and therefore ultimately had little hope of survival. Current examples of the same phenomenon are the OEO and EDA, both of which, after brave beginnings, are already under eclipse.

VI. THE INTERNATIONAL IMPLICATIONS OF DOMESTIC DISTRIBUTION PROBLEMS

Unfortunately, use of the price mechanism by the state to solve distribution problems frequently leads to serious, long-run economic imbalances. This is particularly important when, in addition to scarcity creation, direct subsidies on the commodities sold are involved. In the absence of international agreements, countries wealthy enough to support some kind of redistribution programs domestically will always try to find a price, however low, at which they can get rid of their surpluses.

The above behavior, usually referred to in the international trade literature as "dumping," is distinctly different from export policies designed to take advantage of economies of scale and to foster "infant industries." Its rationale is not to improve the long-run efficiency of the world economy but to shift the burden of as much of the offending country's distribution policy onto the international community as possible. Not all countries are losers by this process, of course. Those that have chronic deficits of the commodities being dumped will benefit from the reduced cost of imports. On the other side of the ledger, however, for every country that gains because a country dumps its surpluses, another country loses because it finds its export markets pre-empted by some form of concessionary sales.^{1/}

^{1/} Again, it should be emphasized that international dumping is not by any means confined to capitalist economies. Centrally planned economies have a long record of selling below cost either (1) because of mistakes in planning, or (2) for market penetration (also political penetration). The important difference, however, is that because of the uncontrolled nature of the capitalist growth process the problem is inevitable in capitalist societies.

The development of international institutions such as the GATT attest to the fact that some substantial number of countries see the danger to world efficiency in permitting countries to use export subsidies. Unfortunately, in commodities that are critical to the export earnings of poor countries, advanced nations have tended to ignore the provisions of the treaty. The U.S., for example, goes, year after year, to the Secretariat of GATT and declares that we are making the best efforts we can to bring our policies into line, but that thus far we have been unable to do so and we will have to continue with subsidies on a number of agricultural goods. The behavior of the EEC is even more cynical -- it doesn't even bother to explain its violations to the trade organization.

As might be expected, the international agreements on prices and quantities can stand only so much buffeting. They contain no basic sanctions and the individual country who violates the "rules of the game" is sure to reap at least short-run advantages.

The initial violations are usually cloaked in secrecy; ultimately, however, clandestine activities become public -- accompanied by the usual charges of betrayal and irresponsibility. The most recent example of this phenomenon has occurred in world wheat markets. As a result of the agricultural policies of the U.S., the EEC, Australia and Canada, the past few years have been characterized by a major glut in wheat with a resultant buyer's market. The French began to undermine the International Wheat Agreement by cutting prices below the agreed levels -- to be followed almost immediately by Canada and Australia, as they perceived a decline in their own market shares due to French price cutting. The result has been a virtual collapse of the Wheat Agreement with very little hope of reviving it in the near future.^{1/}

^{1/} While the Agreement did tend to promote market stability, it also had pernicious effects on those desiring to enter the market who had no historical share in the wheat trade. Consequently, the demise of the Agreement is not an unmixed blessing.

It is possible to take a rather detached view of the conflicts among developed countries as they struggle to export their problems. After all, does it really matter that the U.S. and the EEC are at loggerheads over the EEC's agricultural policy? To be sure, such disputes create a climate of suspicion and tension. As the case of the EEC shows, problems raised by precisely the mechanism being described have been the source of repeated disappointments to those who visualize a politically integrated European community. Similarly, the recent stand-off between the U.S. and Japan over textile quotas will undoubtedly strengthen the hands of the militant Japanese nationalists and thereby enhance the position of those within Japan who argue for re-arming the country. But on the whole, one can be fairly cynical about the trade conflicts between developed countries in terms of impact on their respective welfares.^{1/} In some sense, they deserve one another.

As indicated previously, the real danger of the inability of most western countries to control the consequences of domestic change lies in its impact on the poor countries of the world. This is nowhere underscored more clearly than in Gourex' analysis of the trade prospects of the Third World over the next decade and a half. In a recent study based on FAO projections, he writes:

^{1/} One may be much less cavalier about economic conflicts between developed countries, however, if one's goal is the reduction of international tension. I discuss this aspect more fully in the following section.

"On the whole, the FAO projections for 1975 give an unfavorable picture. Excluding wheat, dairy products and forestry products, for which less developed countries are, and will remain, major net importers, the net import demand in developed countries for agricultural products (coarse grains, feeding stuff, and meat included) of underdeveloped countries is not projected to rise by more than 2 percent a year even under the high income assumption. This represents a significant slowdown in relation to past trends.

The price of tropical non-competing food and beverages could be maintained and in some cases improved by appropriate international action, but such action would in all likelihood be more than offset by the decline in the price of agricultural raw materials. the margin for maneuver appears rather limited.

The above comments, made largely on the basis of analysis conducted in 1962, have been borne out by the events of the late 60's. Several specific examples will suffice to indicate the extent of the trade distortions that underlie the FAO projections.

West Germany's 1969 import duty on imported wheat was on the order of 75 percent. Its duties on feedgrains reached nearly 85 percent. As a result, European cereal prices are nearly double world market levels; European livestock producers also pay nearly twice as much for their feedgrains as they would if imports were made at world market prices.

The use of import restrictions to raise the price of cereals has,

of course, resulted in surpluses. France exported nearly four and a half million tons outside the Common Market at an enormous subsidy. In 1969, it exported soft wheats with an export subsidy nearly equal to the world market price.

The U.S., in 1969, exported 25 percent of its total wheat exports under various concessionary arrangements. The average export subsidy was on the order of 75 percent.

Perhaps the most serious violator of the laws of comparative advantage is Japan. In 1969, its internal rice support price was nearly triple the world market level. As a result it has a surplus of some 5 million tons of rice in stock. At the same time a number of less developed countries in Southeast Asia are finding themselves with increasing exportable surpluses: The Philippines, Thailand, West Pakistan, etc. With growing rural unemployment and increasing urban congestion, these countries are in dire need of export markets for their agricultural output. If their attempts to export ultimately become a battle of export subsidies, there is little doubt whose treasury will stand the greatest financial strain.

CONCLUSIONS

The extent to which the domestic economic policies of capitalist societies dictate their international relations has, in my view, sometimes been overdone. However, the foregoing paragraphs have demonstrated how one such internal pressure for imperialism abroad is generated. Moreover, because the distributive effects of structural change are embedded in the growth process itself, this response by the state must not be received as an aberration, but should be seen as virtually inevitable.

In the text, it was suggested that planning for structural change was a necessary, if not sufficient condition, for alleviating the pressures for certain kinds of protectionism and "dumping". Unfortunately, and this is the heart of the matter, any planning instrument that would be effective poses, to the same degree, a contradiction to the fundamental organizational principals of a capitalist society. Without control -- direct or indirect -- of the productive process there is no way in which economy-wide changes in the market's allocation of resources can be brought about.

On the other hand, I do not wish to imply that if some kind of central planning authority were installed in advanced capitalist societies, all problems would be solved. Indeed, the evidence from a number of "socialist" countries, in which most of the economy is under state control, is that, on technical grounds alone, centralization creates difficulties that have an internal logic almost as inevitable as the contradictions of capitalism. Granting that, it is nevertheless certain that no national growth policy that alleviates the difficulties discussed

in this paper can be implemented without the aid of a good deal of centralized authority.

The political strategy for most advanced countries in this case would be to try to create the tool in some form and then to mobilize the broad-based political constituency needed for its support.* My own judgement is that there are a number of issues, primarily relating to the environment, that have an increasing potential for focusing this kind of political activity. These are admittedly reformist prescriptions and perhaps "economism" of the worst sort. However, my predilection is to use some imagination in thinking about the kinds of political constituencies that can be put together in today's rapidly changing world, rather than about the nature of a potential world order. As everyone seems to agree, we are concerned with an on-going process, not a state; there are, in my view, no gimmicks along the way.

* I resist the temptation to talk about PPBS