greater productivity makes the increased concern for costs and quality, which we noted as being to the advantage of each individual firm, to the advantage of the industrial sector as a whole. The laborers’ need for a larger share of their product will require a change in the psychology of the industrial entrepreneur, who has tended in the import-substitution phase of development to stick rather too closely to the habit of the traditional merchant of turning out relatively small amounts of product at a large markup per unit. The psychology of mass production will contribute considerably to the possibility of mass consumption.

The need for bringing into the market those elements which heretofore have been largely out of it will require fundamental changes in agriculture. An agrarian reform now becomes of great importance, both as a means of bringing new consumers into the market—the large numbers of rural workers, sharecroppers, tenant farmers who have not been in the market—and of laying a basis for an increase in domestic agricultural output, thus making it possible for agriculture to produce more adequately the raw materials and foodstuffs required by the urban sector.

In addition, it becomes important at this point to have heavy investment in agriculture, in terms both of providing equipment and machinery, and of developing more adequate marketing and storage facilities and providing fertilizers, credit, extension services, experimental stations, and the like. Large investments will also be required to develop adequate transportation facilities, not only in terms of major highways and perhaps occasional railroads but also neighborhood roads permitting the agriculturalists to get their products to the main transportation arteries...

So far, few of the underdeveloped countries have reached the third phase in the import-substitution strategy of economic development. Virtually all of the developing countries in Asia and Africa, as well as most of those in Latin America, would seem to be still at a stage in which their industrialization is proceeding on the basis of building industries which can produce import substitutes. However, there are a few Latin American countries—notably Brazil, Chile, Mexico, and Argentina, as well perhaps as Venezuela, Colombia, and Peru—which have completely or nearly exhausted import-substitution possibilities, at least as a major impetus to further development.

6. Economic Development and Its Principal Problems • Raúl Prebisch

In his widely influential analysis of Latin American developmental problems in 1950, Argentine economist Raúl Prebisch argued that the presumed benefits of comparative advantage and specialization of labor to commodity producers such as Latin America simply had not materialized, as the neoclassical economists, beginning with Adam Smith, had so firmly believed. Rather, incomes and standards of living in the industrializing countries had moved up faster than those of the commodity-exporting regions. The only way for Latin Americans to remedy the adverse terms of trade experienced by the latter was to industrialize their economies systematically. This virtual manifesto for industrialization, coming from the prestigious Economic Commission for Latin America of the United Nations, propelled governments in the region to embark on concerted programs of import-substitution industrialization during the 1950s and 1960s.

In Latin America, reality is undermining the out-dated schema of the international division of labor, which, after acquiring great importance in the 19th century, continued to exert considerable academic influence until very recently.

Within this framework, the specific task which fell to Latin America, as part of the periphery of the world economic system, was that of producing food and raw materials for the great industrial centers.

There was no place in this schema for the industrialization of the new countries. It was nevertheless forced upon them by events. Two world wars in one generation and a great economic crisis between them have shown the Latin American countries their possibilities, pointing the way to industrial activity.

The academic discussion, notwithstanding, is far from ended. In economics, ideologies usually lag behind events or else outlive them. It is true that the economic advantages of the international division of labor cannot be denied logically, but the fact is usually overlooked that this schema is based upon an assumption which has been conclusively proved false by facts. According to this assumption, the benefits of technical progress are passed on to the community either by lowering prices or raising incomes. The primary producing countries obtain their share of these benefits through

deficits of the government in turn were traditionally financed with currency issues, a source of new inflationary pressures. It ended in a vicious circle... 

Starting in 1962, several circumstances tended to increase the government expenses, independent of the comparative increase in the fiscal revenues, with a consequent progressive evolution of deficits in the case of the National Treasury and an increase of the rate of inflation. There were also serious signs of a worsening of the balance-of-payments situation and the reduction of import capacity. The deficiency of the economic infrastructure became more acute, creating a climate of uncertainty and uneasiness. As a consequence, the level of investments and the growth rate of the economy declined, and the weaknesses of the national economy became more evident.

As a result of all this, increases in the general level of prices, which had reached an average of 15 percent per year between 1941 and 1946 [and] rose to 20 percent in the period from 1951 to 1958, suffered a rapid acceleration starting in 1959. The rate of increase in the cost of living rose in that year to 52 percent in Guanabara, and, after going down in 1960, started rising progressively until reaching 55 percent in 1962 and 81 percent in 1963. In the first quarter of 1964, it reached 25 percent and, given its rate of acceleration, it could have very well reached 150 percent by the end of the year. . . . The social and political atmosphere of the previous administration could not have been more unfavorable; the following factors should be underlined: the constant political tension created by the disharmony between the federal executive on the one hand and the National Congress and the state governments on the other, distrustful of the anticonstitutionalist intentions and desires of the old regime [to maintain itself in power]; a penchant toward state property and control that created a continuous discouragement and threat to private investors; the communist infiltration, generating apprehensions about the overthrow of the social and economic order; the successive paralysis of production by the "strike commands." Not only did urban activities suffer, but also investment in farming and cattle raising were discouraged.... Political instability and administrative improvisation prevailed, producing a lack of national direction . . . the entrepreneurial classes suffered from a crisis of distrust; the working classes found themselves frustrated because of the impossibility of their realizing the demagogic promises; finally, certain more restless groups, such as the students, not finding an outlet for their idealistic impulses, slipped into the error of subversive solutions....

To summarize, when this government took power, the financial and economic situation was truly gloomy. To the structural deficiencies of the national economy had been added temporary troubles which underscored these [deficiencies], disrupted internal markets, pushed the increase in prices to the verge of extreme inflation, generated a crisis of confidence

[and] a slowdown in the flow of investments and in the rate of economic development. [These troubles also] increased the level of unemployment, and, finally, they damaged the country's credit abroad. The most urgent task, therefore, was to contain the extraordinary rise of the general level of prices, to recover the minimum necessary order for the functioning of the national economy, to overcome the crisis of confidence, and to return to the entrepreneurs and to the workers the tranquility necessary for productive activities.

8. The Bureaucratic-Authoritarian State ♦ Guillermo O'Donnell

Political theorist Guillermo O'Donnell outlines the main characteristics of his bureaucratic-authoritarian state. The government was controlled by the military, whose social base was the "upper bourgeoisie." Its twin aims were "the restoration of order" in society by means of the political reactivation of the popular sector [or repression], on the one hand, and the normalization [or stabilization] of the economy, on the other. "The regime, he emphasized, was both politically and economically exclusionary, by which he means that its harsh repressive and stabilizing measures adversely affected the majority. By opening the economy to the world market, the bureaucratic-authoritarian state allowed foreign "transnational" companies to penetrate and therefore "denationalize" the economy.

The bureaucratic-authoritarian [(B-A) state has the following principal characteristics:]

1. It is, first and foremost, guarantor and organizer of the domination exercised through a class structure subordinated to the upper fractions of a highly oligopolized and transnationalized bourgeoisie. In other words, the principal social base of the B-A state is this upper bourgeoisie.

2. In institutional terms, it is [composed] of organizations in which specialists in coercion have decisive weight, as well as those whose aim is to achieve "normalization" of the economy. The special role played by these two groups represents the institutional expression of the identification, by its own actors, of the two great tasks that the B-A state is committed to accomplish: the restoration of "order" in society by means of the political