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population growth can withdraw from the influence of this civilisation only at the cost of its own impoverishment.

A critical modernisation theory is more likely to provide pointers to practical development measures than dependency theory was able to do, which was often unable to progress beyond the dichotomy between "delinking" and "integration", at least in Germany. In the real world, development policy does not consist in choosing between extremes of this kind but in seeking intermediate forms that are acceptable to the economy as a whole and suited to the specific conditions of the country in question. The modernisation approach and the traditional foreign trade and

<sup>41</sup> Hermann Sautter: Socio-cultural Aspects of Supply-side Economics for Developing Countries, in: INTERECONOMICS, No. 6, 1983, pp. 278-285.

<sup>42</sup> G. Wilhelm Röpke: Jenseits von Angebot und Nachfrage, Erlenbach, Zurich, Stuttgart, 4th edition, 1966.

development theory have much more to offer in this regard than the proponents of dependency theory would like to admit.

Nevertheless, in the light of a critical modernisation theory, a development policy based on purely economic principles and the belief that the industrial countries' economic programmes and notions of social structures can be transposed unaltered to the developing countries also appears extremely questionable. For example, one glance at the social context of economic development shows that a competitive economic order can be viable only if a number of legal, political and institutional conditions are created.<sup>41</sup> The *ordo-liberal* school was always aware of this.<sup>42</sup> The question of how these conditions can be created in the cultural setting of a developing country is much more pressing than is realised by those who wish to pursue development policy with Friedmanesque concepts.

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## DEVELOPMENT THEORY

# Revival of "Inward-oriented Development"?

## The Economic Policy Stance of the Church in Latin America

by Franz Peter Lang, Bochum\*

**Criticism within the Catholic churches of Latin America of the IMF and its approach to the development problems of the sub-continent has been persistently increasing in recent years. The measures imposed by the IMF, especially those following the payments crisis of 1982 have met with growing opposition. The impression that the churches have adopted a Marxist line on this issue is, however, a superficial one which needs to be examined more closely in the context of the dependencia theory and of recent economic developments in Latin America.**

**D**uring recent years the Latin American churches have been expressing their views more frequently and with greater unity on the burning socioeconomic problems facing the subcontinent. The outward orientation of Latin American economic policies towards the world markets, the "desarrollo hacia afuera", is criticised as a failure. At least under the present conditions its prospects of success are regarded as slim. The advocates of a "desarrollo hacia adentro", an economic and development policy course primarily oriented towards domestic policy objectives and based on regional autarky, can claim growing support.

Bearing in mind the traditional role of the Catholic church as a stabilising factor in this region, this new tone

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must be paid particular attention. Two aspects are especially important when seeking an explanation for this obvious change of opinion regarding development policy. The first is the nature of economic development in Latin America during recent years. The second is the orientation of the majority of Latin American economic theoreticians and policymakers towards the "dependencia" theory, the theory of dependency. We take a closer look below at both these aspects, and also set out to ascertain the economic policy stance of Latin American churches in the conflict with prevailing western economic views (as supported by the International Monetary Fund).

The economic and financial difficulties facing most Latin American countries during recent years and the

resultant slowdown in economic growth have been accentuated by the recession in the industrialised countries. The cyclical downturn led to a reduction in demand for exports from Latin American countries and a further deterioration in their terms of trade.<sup>1</sup> At the same time, the growing protectionist trend in the industrialised countries meant that markets for Latin American exports only expanded to a limited degree.<sup>2</sup> This had a particularly adverse effect on oil-exporting countries (such as Mexico and Venezuela), since the coincidence of generally weak demand, energy-saving measures, stock depletion, the substitution of other sources of energy, and shifts in supply sources induced a sharp decline in the volume of oil exports and also pushed down prices.

The import spending of the other Latin American countries had risen sharply as a result of the increased price of oil (1979/80). Furthermore, export earnings fell even further in 1981 and 1982 as a result of the drop in the prices of non-oil raw materials. The effects of growing interest rates were also felt in the form of the increased cost of stock-keeping. The high exchange rate of the dollar substantially increased the prices quoted in this currency. What is more, the record harvests of cereals and cotton put pressure on world

market prices for these raw materials. The relative debt-servicing burden grew as a result of the increase in real interest rates and the continuous appreciation of the dollar.

The pressure resulting from these unfavourable developments in international trade was intensified by the fact that economic and fiscal policies in most Latin American countries were oriented towards domestic policy objectives. The low level of real interest rates in the mid-seventies had triggered a marked increase in investment spending.<sup>3</sup> The substantial increase in the cost of borrowing as a result of the recession-induced increase in interest rates reduced all investment returns (taking into account the higher borrowing costs) in real terms as well as the number of viable investment propositions for the private sector. This particularly applied to those investments already made which were financed by loans with variable interest rates. The fiscal policies pursued during the pre-recession years were marked by a rapid increase in the money supply and in

<sup>1</sup> Cf. IMF: Annual Report 1984, pp. 8 ff.

<sup>2</sup> Cf. F. P. Lang: Neo-Protectionism and Economic Growth, in: INTERECONOMICS, No. 3, 1984, pp. 129 ff.

<sup>3</sup> Cf. IMF: Annual Report 1984, pp. 80 ff.

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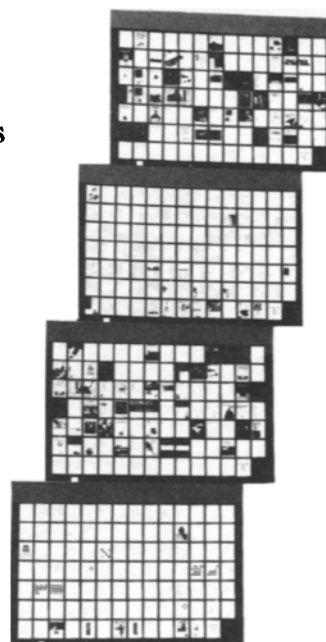
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borrowing, stimulated by enormously high budgetary deficits. Efforts to reduce these deficits were increasingly hampered by falling government revenue, which was in turn the result of the weakness of economic activity and stagnation in the field of foreign trade. For social and political reasons, the frequently intended limitation of government spending proved virtually impossible. Consequently, essential adjustment measures in Latin America were postponed for many years.

As opposed to the situation in the industrialised countries, there has been no general decline in inflation in Latin American countries during recent years. This is above all due to the afore-mentioned economic and fiscal policies. In addition, these countries often have extensive index-linking systems, which make it extremely difficult to slow down the pace of inflation. This is all the more so if there is a need to adjust the structure of external trade relations. The rate of inflation increased rapidly in the major Latin American countries, Argentina, Bolivia, Brazil and Mexico, at a weighted average of 78 % in 1982 and 123 % in 1983.<sup>4</sup>

The above developments made the commercial credit market almost completely inaccessible for these Latin American countries after August 1982. They were obliged to drastically cut back their imports. The region's imports in real terms fell by a fifth in both 1982 and 1983, whereas net capital imports in each of these two years fell by half, namely from US \$ 42 billion in 1981 to US \$ 10 billion in 1983.<sup>5</sup>

### Adjustment Measures

In an effort to improve their financial stability and subsequently their international competitive position, Latin American countries have started to introduce policy programmes which include measures in the fields of public finance, monetary policy, exchange rates, and the liberalisation of trade. Furthermore, changes are being considered in the fields of subsidisation and price regulations as well as with regard to the distribution of development spending.

All these measures were more or less taken following gentle pressure to do so by the International Monetary Fund (IMF). The IMF expects such measures to reduce inflationary pressure and improve Latin America's competitive position in the medium and long term. For most Latin American countries, however, these measures either mean a direct reduction in investment

spending or an indirect decrease in such spending as a result of the restrictive monetary and fiscal policy measures. This is accompanied by an increase in the cost and a limited availability of capital. A major consequence of this process is the appreciable reduction during recent years of the share of investments in aggregate gross domestic product. The process of adjustment set in motion in the hope of creating better economic conditions has thus had an adverse effect on economic growth.

The discontinuation of price subsidies and public services in the wake of budgetary reform has led to a drastic increase in consumer prices and a substantial drop in real incomes. In addition, there is a reduced importing capacity, which is reflected on both the production and consumption sides in the form of supply difficulties. Thus, the attempts up to now to effect an improved integration of Latin American countries into the world economy have been accompanied by considerable social problems without any signs of a marked improvement in the position of these countries on international markets in the foreseeable future.

### Differing Causal Analyses

The analysis so far has appraised the facts behind, and reasons for, Latin America's problems from the standpoint of the IMF and hence from the conceptual vantage point of European and North American economic theories. Expressed in simplified terms, such an appraisal regards the errors made by Latin America with regard to its adjustment to the world economy, i.e. its pursuit of inappropriate economic and fiscal policy goals, as the real reason for the current crisis. The simple conclusion is then drawn that the avoidance of errors made in the past would, as it were, automatically bring about an improvement in economic conditions in the future.

A growing number of Latin American economic theoreticians, however, do not share this opinion. In their view, the colonial era produced a complementary international division of labour in which, in accordance with the will of the colonial powers, the task of supplying raw materials and buying industrial products primarily fell upon the former colonies.<sup>6</sup> They attempt to explain the fact that this state of affairs has not fundamentally changed, and has in fact come to a head in the current crisis, by means of the "dependencia theory".<sup>7</sup> Economic dependencies between countries are derived

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<sup>4</sup> Ibid., pp. 11 ff.

<sup>5</sup> Ibid., pp. 18 ff.

<sup>6</sup> Cf. R. Prebisch: *The Economic Development of Latin America and its Principal Problems*, UN/ECLA, New York 1950.

<sup>7</sup> Cf. F. P. Lang: *Dependencia-Theorie*, to be published in WiSt later in 1985.

from the sociological dependencies between social groups. Latin America's development lag, therefore, is not understood to be the result of unsuccessful policies in the past, but as the consequence of a one-sided dependency of the underdeveloped countries on the industrialised countries.

As in Europe, Latin America's upper social classes are identical with the economically dominant class. They either control the employment of the means of production by virtue of their ownership or they are entrusted with the control thereof. The latter is effected in line with their vested interest in safeguarding and improving their economic position. Their incomes, standards of living and consumption patterns clearly differ from those of the lower social classes, which at most have a limited amount of private property, are employed in dependent positions within the production process or are completely excluded from this process. The primary concerns of the lower classes are to improve their economic position, to achieve social advancement or quite simply to survive. They are therefore keen to receive the acknowledgement of the upper classes and exhibit "good conduct" towards them.

Via the uneven distribution of trading gains<sup>8</sup> resulting from the complementary international division of labour, a substantial section of the lower social strata in underdeveloped countries finds itself at a social level well below the minimum standard of living in developed countries. The upper strata in the underdeveloped countries, on the other hand, enjoy a social standard of living very much resembling that enjoyed by persons at the top of the social hierarchy in developed countries. Apart from the folkloric nuances, the interests and patterns of behaviour of these respective upper classes are internationally identical.

In the economic policy field this generally leads to a concentration on measures designed to protect the interests of the international upper classes. Since the upper classes in underdeveloped countries are conscious of an identity of interests with the upper classes in developed countries, there is a resultant inclination for the former to emulate the latter's consumption patterns and promote industries whose technologies are inappropriate for the conditions in underdeveloped countries. Despite a free market

system, national sovereignty and extensive development efforts, the economies of the underdeveloped countries thus remain economically dependent on industrialised countries because of this social dependency.

### Political Stability

As, on the one hand, the upper classes of all countries can see no contradiction in their interests and, on the other hand, the lower classes in developed countries cannot identify common interests with the lower classes in underdeveloped countries, the existing world economic system remains relatively stable in political terms. The political dominance of the upper classes ensures this stability and prevents any progress from being made towards overcoming the complementary international division of labour.

Viewed from this angle, development and underdevelopment are thus contended to be juxtaposed manifestations of the world economic system. The theory of underdevelopment reveals itself in its essence as the expression of a theory of socioeconomic dependency.<sup>9</sup> Not political errors, it is claimed, have caused the backwardness of certain countries, but the common interest of internationally collaborating upper classes in maintaining the traditional structures of world trade at the expense of the masses in these backward countries. Economic dependency is regarded as a constitutive feature of the international economic system. It is thus an automatic consequence of this system and not merely a coincidental and undesired historical development.

### Classical Bourgeois Theories and Early Marxism

The presentation of the basic hypotheses of the dependencia theory reveals that the theoretical construct underlying this Latin American conceptual tradition is a strictly classical schema. This conceptual approach states that it cannot suffice to theoretically comprehend and empirically describe a socioeconomic system and to then effect selective economic policy rectifications. Real cognition presupposes the exposition of the social laws "objectively" inherent within the system as well as their description in a universally valid form. Both the classical philosophical approaches and the dialectical and historical materialism of the Marxists are characterised by efforts to obtain a "universal explanation of the world". For this reason, this way of thinking is equally typical for many bourgeois and Marxist theoreticians in Latin America. This is hardly surprising in view of their common roots in the classical school of thought.

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<sup>8</sup> Cf. H. W. Singer: The Distribution of gains between Investing and Borrowing Countries, in: *The American Economic Review*, Papers and Proceedings, Vol. 40, 1950, pp. 473 ff.

<sup>9</sup> Cf. inter alia the contributions in: H.-J. Puhle (ed.): *Lateinamerika. Historische Realität und Dependencia-Theorien*, Hamburg 1977.

The superficial confrontation of the dependencia theory with Popperian critical rationalism and its positivistic hypothetico-deductive methodology is bound to make it difficult for advocates of the two schools to find a common conceptual denominator. From the application-oriented positivistic viewpoint, the explanatory power of any given theory is reflected in its ability to interpret specific phenomena of reality and help provide policies to resolve the problems discerned. Many advocates of this approach regard this as proof that this way of thinking is "free from ideology".

The dependencia theory, however, can neither be empirically verified nor fundamentally refuted. It provides a "universal formula" which claims to depict the natural inherent laws of social and economic development. It claims that Latin America's backwardness is the result of the subcontinent's integration into the existing world economy and cannot, therefore, be overcome by means of arbitrary measures within the framework of that system.

The conceptual proximity of this approach to the deductive methodology of theology, which derives its practical measures from overriding, universally valid dogmas, is obvious. Consequently, the theoretical approach of the dependencia theory is conceptually more readily acceptable to Latin American theologians, and is more convincing to them, than the causalistically structured theses of the International Monetary Fund. Furthermore, the approach forges a link between the churches and the lay intelligentsia in their countries and establishes a common basis, a remarkable novelty in view of the widespread anticlerical traditions of the Latin American bourgeoisie (e.g. in Mexico). The severance of European ties is facilitated by the fact that in the eyes of the church the prevailing positivistic approach in European and North American economic analyses is encumbered by the development policy failures of the past. In the economic policy framework, therefore, the churches increasingly tend to support the ideas of the bourgeois advocates of the dependencia theory, who are striving for the at least temporary de-coupling of the Latin American economic area from the western economic sphere as a political development concept.

This objective is common to both the bourgeois- and Marxist-oriented "dependistas", the latter calling, however, for the overthrow of the capitalist system as the long-term solution to socioeconomic dependencies. The bourgeois dependistas, on the other hand, prefer a reformist course. This includes, *inter alia*, the idea that the state must adopt a major role in the developmental

process, implying the priority of dirigiste measures over free-market solutions. Investments in the extension of the health and education system together with agrarian reform would create the prerequisites for an improved social status for the majority of the population. The setting up of national and independent industries would guarantee the development and use of appropriate technologies. This list of measures is supplemented by demands for the establishment of regional economic communities to strengthen the common basis for development. Foreign capital would only be tolerated under strict national control.

With its dirigiste tendencies, this concept differs substantially from the ideas propounded by the International Monetary Fund. The latter would like to see an improved economic framework for the development of market forces, an approach which inevitably meets with growing opposition in Latin American countries. The ideological fronts are becoming more and more inflexible. Not, however, because of an irreconcilable clash between the advocates of a free-market and capitalist system on the one hand, and a Marxist and anti-capitalist system on the other. The behaviour of the Latin American churches supported by the dependencia theory shows that the current confrontation is mainly being caused by communicative difficulties between the various schools of thought within the bourgeois camp. A serious analysis of the historical roots and content of the dogmas of the dependencia theory – in particular, on the part of the International Monetary Fund – could help defuse the political debate over the "best" strategy for restoring Latin America's economic health.

At present, the impression could be gained that the churches in the Latin American subcontinent have now officially opted for a Marxist line of argument and policy on economic matters. Perhaps it is this misunderstanding, resulting primarily from ignorance as to the true nature of the dependencia theory, which has caused the International Monetary Fund and its major member states to adopt such a tough "reconstruction course". Direct economic coercion is being applied to push through these measures by withholding the liquid funds needed at international level to overcome balance-of-payments difficulties.

An attempt to bridge the gap between the differing views via greater mutual willingness to compromise would certainly be a better approach. The Latin Americans show signs of such willingness and their preparedness for a dialogue free of ideological constraints. "There is no capitalist or Marxist economic policy, only a right and a wrong economic policy."<sup>10</sup>

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<sup>10</sup> R. N e v è s, radio interview, November 1984.