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EMPLOYMENT AND INCOME DISTRIBUTION CONSTRAINTS IN LATIN AMERICA

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Employment and Income Distribution Constraints in Latin America

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I. Introduction

It is by now a commonplace to assert that most Latin American countries have experienced rather respectable per capita income growth rates over the past quarter century but that the performance in the employment and income distribution dimensions has remained "unsatisfactory" and is probably worsening. Certainly Latin American economies have thus far provided substantial support for the so-called "Kuznets law" that income distribution must get worse before it gets better in the course of rapid growth, on a country-specific historical rather than simply multi-country cross sectional basis. Why is this so and can anything be done about it--in the light of our present understanding of development processes and of the specific Latin American reality?

The first issue which needs to be addressed, or at least disposed of, is that equity and employment outcomes are perhaps not really "unsatisfactory" from the point of view of the elites in control of most of the countries in the region--and that it is in their interest, and in the interest of their allies outside who support them, to pay lip service to the pursuit of "new" development objectives the better to enable everyone to pursue "business (i.e. growth) as usual." There is little point in speculating about "constraints" and "obstacles" in the way of ameliorating performance on employment and distributional grounds if we are indeed dealing only with rhetorical devices on the part of international agencies, Latin American presidents and opinion makers in the advanced countries.

While few would assert with confidence that we can count on a straightforward, underlying desire to change the status of the Latin American unemployed or poor, either absolutely or relatively, in all of the "governing circles" of either the DC's and LDC's involved, we will assume that there exists a reasonable interest in redressing extreme imbalances--if it can be done at a "reasonable" cost in terms of more traditional national (and individual) objectives. The question of constraints to improved employment and equity thus comes down to the extent of trade-offs among objectives and of how they can be softened. While the assessment of what level of trade-offs is acceptable and what level is not is, of course, closely related to the above issue of "who governs" and "who speaks," we will in this paper abstract from the cynical notion, held by many on the left, that we are engaged here only in national and international charades enacted to gain time.

What does that leave us with? I would argue that it leaves us with a clear obligation to examine the nature of these trade-offs on the Latin American scene and to present policy-makers on both sides with as much theoretical structure and as much historical and cross sectional evidence on these issues as we possibly can muster. Now it may still be true, as Dr. Prebish pointed out some years ago, that more rapid growth along the same tracks on which Latin America has been travelling in the past can yield a solution to the employment, if not necessarily the equity problem. But I hope that even he would admit today that the fuel (no pun intended) for doubling growth rates and thus "pulling" the unemployed and underemployed into productive activity without a change

in structure is not likely to be forthcoming except perhaps in such special cases as Venezuela.

The World Bank, especially Selowsky,[1] on the other hand, sometimes sound as if the problem of equity, if not of unemployment, can be solved via fiscal redistribution after the fact. But even he seems recently to have become more sanguine about the limits to Latin American fiscal and administrative capacity which would surely be tested by any effort to "redistribute from growth." If neither the Latin American "growth locomotive" or its taxes and transfer payments are likely to solve the problem over time it becomes necessary to examine what can be achieved by possible changes in the way in which growth itself is now being generated. This paper, in fact, starts with the basic assumption that growth, employment and distributional outcomes theoretically can be and, for policy reasons must be, tackled simultaneously. At worst, we may discover that explicit hard choices have to be made between, say, reductions in the Gini and per capita income growth. At best, we may find ourselves in the more pleasurable circumstances of devising strategies which permit Latin America's locomotives to move out on new tracks. It is only in this way that the existence of trade-offs among desirable objectives, and of the possible alleviation of such trade-offs, can be analyzed.

In attempting to tackle this problem in the Latin American context we are, of course, painfully aware that there is no such thing as "the" Latin American economy, not even "the" Latin American semi-industrial country. Nevertheless, by concentrating on the latter subset which includes, inter alia, Mexico, Brazil, and Colombia, we perhaps commit a lesser crime from a typological point of view.

[1] M. Selowsky, "Balancing Trickle Down and Basic Needs Strategies: Income Distribution Issues in Large Middle-Income Countries with Special Reference to Latin America", World Bank Staff Working Paper No. 353, 1979.

What these economies seem to have in common is, relative to other relevant NIC's, i.e. of the East Asian variety, a strong natural resources base, inferior but a still fairly good human resources endowment, and a lesser pressure of population on the land, but with still substantial pockets of labor surplus. These systems have generally exhibited annual growth rates of 6% and above, manufacturing growth rates of 15% to 20% or more, but with unemployment and underemployment, if admittedly difficult to measure, substantial and probably rising, and with Gini coefficients (or some other measure of income distribution equity) typically hovering at the upper extreme of international experience, and worsening over the past two decades.

The task we have set ourselves in this paper is to examine the "causes" of what appears to be this unhappy historical conflict between growth, on the one hand, and unemployment and the distribution of income, on the other, in "the" Latin American case. In the course of this effort we hope to be able to distinguish elements of the causal explanation which are related to given "initial conditions" and those which are subject to flexibility, either in terms of economic or political options. We will, moreover, find it helpful not only to utilize the Latin American historical laboratory but also that of the East Asian NIC's which have apparently managed to eliminate their unemployment problem and improve their distribution of income in the course of rapid growth during the same quarter century. Our full awareness of important differences among Latin American countries is complemented by less well-known differences among the East Asian NIC's (the "Gang of Four"). Our

discussion will thus deal mainly with Colombia and Mexico as prototypes of the Latin American NIC's and with Taiwan as the prototype of the East Asian NIC's. We do this in the full realization of the existence of important differences among members of each type--and in the even fuller realization that inter-country comparisons, even when qualified carefully in terms of intra vs inter-type arguments, are often not particularly well received. The reason we persevere is three-fold; one, the East Asian NIC's happen to be the only group of LDC's which seem to have succeeded in avoiding the crucial Kuznets curve trade-off among development objectives; two,we believe that comparative analytical history which is typology-sensitive should raise fewer hackles than 50-country cross-sectional studies which usually are not; three, because in the end, given our imperfect science, all one can do in pursuit of the elusive truth is to offer causal suggestions rather than tight proofs as to which elements of the analytical web might or might not be more generally relevant, and leave it to the reader to come to his own conclusions.

In Section II we propose to sketch in the contrasting initial conditions in the Latin American and East Asian proto-typical NIC cases, at the starting gate, so to speak and to briefly describe the divergent path growth has taken since in the two cases. Section III will examine the causal relationship between the nature of the growth path and the employment and income distribution performance. Section IV will present a brief summary of our conclusions with respect to the existing constraints on improved employment and equity performance in the Latin American NIC's.

II. Initial Conditions and Growth Phases

As we pointed out above, ignoring important typological differences at the starting gate would make it extremely difficult to analyze contrasting subsequent growth and employment/equity outcomes in any meaningful fashion. The "typical" Latin American NIC, some amalgam of Colombia, Mexico and Brazil, started its transition growth effort from a very different initial base than that encountered by the typical East Asian NIC, some amalgam of Taiwan and Korea. The Latin American LDC's, first of all, began their effort at transition growth substantially earlier, i.e. in the mid-30s and largely as an unintended by-product of policies designed mainly to provide balance of payments insulation from the international impact of the Great Depression. This has had the consequence of a much longer growth experience of a particular type and a longer time for sectoral interest clashes to harden into encrusted bargains which tend to reduce a system's economic and political flexibility and its ability to exploit underlying complementarities among developmental objectives.

A second important distinguishing characteristic is the different nature of the colonial heritage as seen in, say, Colombia and, say, Taiwan. In one case, we have a Spanish colonial experience focussing heavily on extractive primary export activities within a preassigned scheme of the international division of labor; in the other, Japanese colonialism focussed instead on the agricultural food producing sector at an early stage mainly because the colonial goods happened to be rice and sugar, instead of precious metals and tobacco. The workings of a "vent for surplus" type of export orientation means a good deal less attention is

paid early to both the physical and organizational infrastructure in the rural areas.

Thirdly, the typical Latin American case, Mexico and Colombia included, is generally better endowed with both arable land and related natural resources and much less subject to the heavy labor surplus conditions initially encountered in Asia. On the other hand, while Latin America's entrepreneurial and other human resources compare favorably with those of most LDC's, it is fair to say that East Asia's overall educational heritage is generally viewed as superior to that of the typical Latin American case. Moreover, the average size of the typical Latin American NIC is somewhat larger, thus, ceteris paribus, the potential role of international trade somewhat smaller.

All LDC's, the world's NIC's in the forefront, can be said to have been engaged in more or less serious efforts at achieving transition from agrarianism to modern growth in the Kuznets tradition over the past quarter century. While they thus start this effort with substantially different historical constraints and possibilities, it is by now a fairly well accepted notion that their transition path is likely to move through a series of more or less continuous and gradually changing subphases. These represent a combination of natural progressions and changing policy packages which accommodate changes in the underlying economic conditions--or fail to quickly enough, as the case may be. A quick review of the sub-phasing encountered in the two sets of NIC's will lay important additional groundwork for our analysis of the underlying nature of the constraints on better employment and income distribution performance in the Latin American case.

The initial sub-phase of transition is the well-known primary import substitution pattern, with traditional land-based exports financing producer goods imports assigned to the gradually increased domestic production of previously imported consumer non-durables. In the Latin American NIC's this sub-phase, begun in the 1930's, generally ran out of steam around the early 1950s as domestic markets for these non-durable consumer goods gradually became exhausted and the rate of growth of industrial output began to decline. The East Asian NIC experience, starting later, presents a more or less faithful mirror image (see line 1, table 1) with two important observed differences, i.e. a milder version of infant industry protectionism and, given the colonial heritage, a rural sector much less neglected in relative terms than was true in the Latin American case.

When primary import substitution ends, however, a new expansion path clearly has to be found--and here a major divergence between the two types of NIC's may be observed. In the typical LDC dualistic economy setting there are basically two options readily available: one is to maintain the essential ingredients of the import substitution policy syndrome which by now is too well known to require further elaboration--but shift attention from non-durable consumer goods to the production, primarily for the domestic market initially and for international markets later, of capital goods, consumer durables and the processing of intermediate goods. This sub-phase may be labelled secondary import substitution/export promotion, i.e. the system continues to rely mainly on traditional land-based exports to fuel the production for domestic markets (and increasingly to subsidize industrial exports) of more capital and technology intensive goods. The other option is to

give a new lease of life to the non-durable consumer goods industries which, having benefitted from initial protection in domestic markets, may now be ready to be turned loose on international markets--with the help of some key changes in the policy setting. Its success requires not only lower levels of effective protection for industry and a greater market orientation generally but also a continuation of the prior policy of rural sector-oriented investments, and the maintenance of a fairly equal distribution of assets, via land reform. This choice may be called export substitution, i.e. the gradual substitution of traditional land-based by non-traditional unskilled labor based industrial exports.

Clearly the changing resources flow structure as well as the policy packages which accommodate it are generally too complicated to fit neatly into these idealized categories, i.e. every developing country represents a complicated mixture of many tendencies; moreover demarcations between historical subphases are always blurred by a good deal of pulling and hauling and contradictory policies at any one point in time. Nevertheless, it is approximately true that an important shift must take place at the end of primary import substitution.

With these caveats in mind, we may assert that the Latin American NIC's had a tendency to shift directly to a secondary import substitution regime in the 1950s, while the East Asian NIC's had a tendency to shift first towards a labor intensive industrial export substitution phase, before moving, in the 70's, towards secondary import substitution and export substitution (notice <u>not</u> export promotion, about which distinction

more later). We believe that the apparently larger trade-off or conflict between growth (see rows 4 and 6) and employment cum equity (see rows 11 and 12) in the Latin American, than the East Asian, case has much to do with this differential societal choice, i.e. the skipping of the unskilled labor fuelled primary export substitution phase. In what follows we hope to establish some prima facie causal relationships in support of this notion. Moreover, the focus of our attention will be on the economic and political reasons for the choices made in the Latin American case in the past and, perhaps more relevant, on the choices currently available.

III. Divergent Growth Paths, Employment and Equity.

Any fuller discussion of the effects of past policy choices and/or of the policy options facing Latin American NIC's today must, of course, be based on a causal analysis linking the growth path chosen with a system's employment cum equity performance. In an economy in which the agricultural sector continues to have a heavy weight and in which open urban unemployment is dwarfed by substantial rural underemployment, it is essential to try to differentiate between rural and urban households, both with respect to the spatial dimension of economic activity and distributional outcomes. Urban families are basically engaged in industrial and service activities generating mainly wage and property incomes. Rural families, on the other hand, are engaged in both agricultural activities generating a merged agricultural income and non-agricultural activites generating wage and property income.

We will find it useful, moreover, to utilize a specific analytical device to link output, employment and income distribution behaviorally, i.e. by decomposing the overall family distribution of income in any of our representative cases into the distribution of each of the major components of family income (i.e., agricultural, non-agricultural wages, non-agricultural property, etc.), weighted by the importance of each of these in the total income (i.e., the functional relative shares).[1] In other words, if we use the Gini coefficient G_y as a summary measure of the size distribution, it can be defined approximately as:

$$G_y = G_w\phi_w + G_\pi\phi_\pi + G_A\phi_A$$

where G_w, G_π, and G_A represent the Ginis of wage, property and agricultural income, respectively, and ϕ_w, ϕ_π and ϕ_A the relative shares of wage, property and agricultural income. Thus, a given factor component usually contributes more heavily to overall inequality, the higher its inequality and the higher its share.

Applying this notion to non-agricultural income only, any change in total income equality through time may be written as:

$$\frac{dG_y}{dt} = \underbrace{(G_w - G_\pi)d\phi_w/dt}_{\text{Functional Distribution Effect}} + \underbrace{\phi_\pi(dG_\pi/dt) + \phi_w(dG_w/dt)}_{\text{Factor Gini Effect}}$$

[1]This is an over-simplification explained more fully in "Growth and the Family Distribution of Income by Factor Components," G. Ranis, J. Fei, S. Kuo, Quarterly Journal of Economics, February 1978. For a full treatment of Gini decomposition analysis see Growth With Equity: The Taiwan Case, G. Ranis, J. Fei, S. Kuo, Oxford University Press, December 1979.

i.e. it is determined by two types of forces, which we may label the functional distribution effect and the factor Gini effect. The former focuses on a change in the functional shares, the latter on a change in the distribution of any component factor income. If the wage share gains over time at the expense of the property share, such a change will obviously favor overall equality if and only if wage income is more equally distributed than property income. This is the way the functional shares can be linked to the size distribution of income. Since, in fact, G_w is usually $<G_\pi$, an increase in labor's functional share will always help the overall size distribution of income. Secondly, since a decline in the Gini of any factor will contribute to a decline in the overall Gini--in proportion to the weight of that factor--the direction of the factor Gini effect is also clear. The trend of the factor Ginis themselves requires knowledge concerning changes in the ownership pattern of human and capital resources, via formal or informal education, and saving behavior plus asset redistribution.

Moreover, since we are dealing with dualistic economies, we should consider at least three types of income, agricultural as well as non-agricultural wage and non-agricultural property income. This adds a third effect, $(G_A - G_{NA})d\phi_A/dt$ (where NA stands for all non-agricultural income), which we may call the reallocation effect.[1] This means that if agricultural income is more (less) equally distributed than non-agricultural income, any decline in the agricultural income share will clearly contribute to greater (lesser) overall inequality. Since, in the context of successful dualistic development, we expect ϕ_A to decline as labor is reallocated

[1]The full equation becomes a bit more complicated, but nothing is fundamentally altered. See Fei, Ranis and Kuo, op cit. Note the Factor Gini Effect also has the additional argument ϕ_A (dG_A/dt).

from agricultural to non-agricultural pursuits, the relative magnitudes of G_A and G_{NA} will determine the nature of the impact of the reallocation effect on the overall Gini.

In this way changes in the overall Gini can be analyzed, both qualitatively and quantitatively, in terms of three "effects" which are tied to such growth related phenomena as labor's share (the functional distribution effect), the relative importance of agriculture in the dualistic economy (the reallocation effect), as well as to changes in the inequality of various factor incomesthemselves (the factor Gini effect). All this provides us with a framework for reasoning about the causal linkages between growth, employment and equity in the typical Latin American as well as East Asian NIC's in different sub-phases of their transition growth effort.

In what follows we shall try to establish some of the reasons for these observed differences by tracing the differential impact of the three kinds of effects we have identified--which are in turn related to differences in the underlying type of growth performance of the two types of NIC's over time. Since the data base for the two Latin American cases is not as good as that for Taiwan we will not be in a position to fully implement our decomposition formula but will have to contend ourselves with more suggestive or casual comparative empirical evidence.

Let us first examine the comparative impact of the functional distribution effect on the overall Gini. Clearly, as long as non-agricultural wage income is more equally distributed than non-agricultural property income, i.e. $G_w < G_\pi$,--which does hold, as we would expect it

to, in all cases and at all times--the higher labor's share ϕ_w, the lower the level of the overall Gini, and the more it is rising the more likely is the Gini to decline--all ceteris paribus, of course.

In the case of Colombia, labor's relative share in urban industry and services seems to lie between .35 and .41, without much movement during the 1960's. Taiwan's urban non-agricultural wage share is substantially higher and rising gradually during the decade, reaching .60 by the early 1970's. This would seem to give a substantial "advantage" to the East Asian case. Equally telling is the rise in the relative share of labor in the rural industries and services of the East Asian NIC's, i.e. from .21 in 1964 to .42 by 1972, while in the Colombian case, if of much less quantitative importance, we note a decline from .38 to .24 between 1950 and 1975.

We may thus conclude that the functional distribution effect favored a more equal distribution of income, absolutely and over time, in the East Asian case. Labor's relative share, in turn, can be traced to a more labor intensive industrial growth path, both in terms of static technology choices, the nature of the output mix and the direction of technology change. The evidence (see Table 1 Row 8) indicates that given labor surplus conditions during the 1960's real wages did not rise very much in the East Asian case but somewhat more in Latin America. However, the East Asian NIC's' dramatic movement into labor-intensive industrial export substitution (compare the 1960 and 1975 figures in rows 2 and 3) permitted a much more rapid rate of labor absorption and, via the functional distribution effect, the achievement of a much more equitable distribution of income (lower Gini) (see row 11).

We are not in a position to make a similar type of statement about the comparative contribution of the functional distribution effect in the earlier, primary import substitution sub-phase of growth. However, since nature does not "make jumps", the relatively "milder" set of import substitution policies generally pursued in East Asia probably made a contribution to the relatively greater reduction of income inequality in the 50's. At the end of the sixties, the East Asian NIC's, having expanded their labor-intensive industrial exports at a furious rate (see rows 2 and 3), had exhausted their unskilled labor surplus and begun to encounter rapidly rising real wages for the first time. This, as we would expect, represents a significant milestone along the transition growth path and is marked by the even stronger positive contribution of the functional distribution effect, i.e. it represents a milestone along the income distribution path as well. In the absence of the elimination of the unemployment/underemployment conditions in the Latin American NIC's we observe no equivalent marked improvement in income distribution equity in Colombia or Mexico in the seventies (see row 11).

The fact that the advent of "full employment" has significance for growth as well as equity, of course, represents encouraging support to our overall thesis. But much the more significant part of the story is that the societal choice of an export substitution growth phase can render rapid growth compatible with an improvement--or at least non-deterioration--of income distribution equity, long before real wages begin to rise in a sustained fashion. This is

because, counter to what both Arthur Lewis and Simon Kuznets casually assumed, low wage rates are compatible with an increased wage share as poor families have more members employed, working more hours per week.

The next quantitatively most powerful influence on the level and direction of change of the overal Gini resides in the reallocation effect, summarized in the third term presented above. It indicates that since any successfully growing developing economy is bound to be gradually shifting its center of gravity from agriculture to non-agriculture, $\frac{d\phi_A}{dt}$ is bound to be negative. Whether or not this effect helps or hurts income distribution equity depends on whether or not rural households' (merged) agricultural income is more equally distributed than their (merged) non-agricultural income, i.e. on the relationship between G_A and G_{NA}. As long as G_A is larger than G_{NA}, the anticipated gradual shift from agricultural income (the less equally distributed) to non-agricultural income (the more equally distributed) clearly helps, ceteris paribus, to reduce the overall Gini.

Turning to the empirical side, in the case of the East Asian NIC's, rural families' agricultural income was generally less equally distributed than their non-agricultural income; moreover the share of non-agricultural income in total income was both large and rapidly rising--together contributing to the overall improvement of the distribution of income. Specifically, in Taiwan the G_A for rural households ranged from .35 in the mid-60's to .30 in the early 70's, with their total income Gini ranging from .31 to .28 (i.e. their non-agricultural Ginis

were indeed lower than their agricultural Ginis); moreover, the share of non-agricultural income in the total income of rural households rose from 32% in 1964 to a truly remarkable 53% in 1971. The Latin American family survey data available to us unfortunately do not permit a differentiation between the agricultural and non-agricultural components of rural family incomes and it is therefore impossible to differentiate between the equality of the distribution of each of these flows. We may, with reasonable certainty, deduce, however, that if in Taiwan, given its small family holdings, its extensive land reform, its virtual absence of landless workers and its strong farmer association structure, rural industries and services income is more equally distributed than agricultural income, this is even more likely to be true in Colombia which has had no extensive land reform, has a much more unequal distribution of land, as well as a relatively large number of landless agricultural workers.

With respect to the importance of the total non-agricultural income share in total rural family income, however, we have evidence for Colombia, for example, indicating that it is relatively low and probably declining, i.e. (see row 9) from 14% to 9% over two decades. This contrast is extremely important for two related reasons: one, it indicates the extent to which rural non-agricultural activity (i.e. rural industry and services) played a role in the industrial export substitution sub-phase of the East Asian NIC's; and, two, that the high and rising labor intensity of these activities (absolutely and relative to their Latin counterparts) permitted a dramatic absorption of the rural unemployed and underemployed. Independent evidence, moreover,

indicates that even in the 50's it was the smaller or landless farmers who participated proportionally more actively in these non-agricultural activities, thus contributing to the overall equalization of rural household incomes. But it was the remarkable, and growing, importance of a decentralized, labor-intensive industry and services sector--which incidentally (and surprisingly) grew even faster than its urban counterpart in the Taiwan of the 60's--which was instrumental in making the reallocation effect a powerful instrument for eliminating the conflict between growth and equity in this East Asian NIC.

Finally let us turn to the impact of the factor Gini effect, the final term in our decomposition equation. Empirically speaking, we may note that the main contribution to a lower overall Gini here, in the case of the East Asian rural households, was provided via a reduction of the agricultural income Gini G_A over time, from approximately .54 in 1953 to .35 in 1964 and .30 in 1972.[1]

In other words, while agricultural income is, as we have seen, less equally distributed across families than non-agricultural income, the degree of inequality has been falling. This, in the case of the East Asian NIC's, is due to the direct and indirect effects of land reform, combined with the introduction, especially in Taiwan, of multiple cropping, with secondary food crops, such as mushrooms and asparagus, more labor-intensive than traditional sugar and rice, increasing in importance. The land distribution Gini for Taiwan is .59 in contrast to .85 in Colombia (see row 13). Moreover, Colombia's agricultural output

[1]While we do not have adequate data for the Latin American case, we would expect an increasing $\frac{dG_w}{dt}$ to be more powerful here, as a negative influence due to the greater role of union-supported labor aristocracies in the Latin American case.

mix has shifted from traditional domestically oriented food crops, i.e. beans, plantain and cassava, for which labor makes up 40% of direct costs, to commercial export crops, i.e. cotton, soya and sugar, for which labor accounts for only 18%--just the opposite direction of what was encountered in the East Asian case.

Our ability to isolate the various components of overall income distribution change and to link them to other, growth-related phenomena in these two types of NIC's has permitted us, in this fashion, to pinpoint the reasons for the existence of apparently larger conflicts or trade-offs in the Latin American case. It remains for us to briefly summarize our findings and to inquire as to their relevance to the contemporary Latin American scene.

IV. Summary and Conclusions

In summary, then, the East Asian NIC's seem to have benefitted from initial conditions and policies which gave early attention to the rural economy, entailing both less neglect than "normal" for food producing agriculture via land reform and terms of trade maintenance as well as a strategy of decentralized industrialization during the primary import substitution sub-phase. Subsequently, we noted that the liberalization measures of the early 60's permitted a shift to an export substitution strategy which yielded rapid export-oriented growth combined with massive increases in employment and the ultimate termination of the labor surplus condition, ushering in secondary importand export substitution in the 70's.

In contrast, the Latin American NIC's may be said to have had less favorable initial conditions, to have pursued a more urban industry-oriented strategy during their primary import substitution phase, and to have moved directly from primary to secondary import substitution during the 50's and 60's. In more recent years this syndrome may be said to have been complemented by a strategy of export promotion which encourages industrial exports via selective subsidization or other direct actions without major change in the overall protective structure granted domestic industry.

The really important question, of course, is to what extent Latin Americans should consider the divergent East Asian experience as at all relevant to their own contemporary problems. This, in turn breaks down into two related issues: to what extent has the Latin American performance been an inevitable consequence of her initial conditions and to what extent of perverse policies; and two, depending on the response to that, what, if anything, can be done today by those desirous to lift man-made constraints on better equity performance. We will, in conclusion, briefly attempt to address, if not answer, this question.

Societies, like individuals, "do what comes naturally;" accordingly it should be no great surprise that Colombia, Mexico and Brazil whose development has been historically biased towards such natural resource exports as gold, coffee and minerals, should have continued to rely heavily on primary exports in the course of their transition growth. This translates into both a relative neglect of food producing agriculture

and of the potential full utilization of unskilled human resources, as the society is able to keep financing a more and more costly type of import substitution industrialization at the end of her primary import substitution. Such a prolongation of import substitution or the "skipping" of a labor intensive primary export substitution phase is really made possible by the larger availability of natural resources--both by way of a relative "natural" overvaluation of exchange rates, and the assist of trade and domestically oriented intervention policies tending in the same direction. More natural resources and/or more foreign capital inflows clearly can be used to help ease the transition from one policy regime to another; just as easily they can be used to avoid unpleasant (at least for some interest groups) changes in the nature of the growth path.

In the case of the East Asian NIC's the problem was in a sense easier; just as in Japan at an earlier date, the agricultural sector could be viewed as a temporary (and important) fuelling device, but the system's long run comparative advantage had to be found elsewhere, i.e. in the human resources area, first unskilled then skilled. The "natural" rate of exchange was not likely to be overvalued by "vent for surplus" commodities and predictably diminishing primary exports and, in the long term unreliable, foreign capital inflows had to be utilized so as to ease the transition towards more competitive export-oriented growth regimes.

The extent to which the "skipping" of the primary export substitution phase in Latin America represents a politically convenient maneuver of the elite, or a resources- dictated necessity constitutes a moot point. It is made more moot by the fact that actual NIC experience, whether Latin American or East Asian, is by no means as monolithic or clear-cut as described here. Societies move in ambiguous paths lurching in one direction one day, backing in another direction the next, yielding shades of gray, rather than the more extreme demarcations we have used here, for purposes of effect and illustration. Korea's performance, especially post-1968, for example, contains as many elements of export promotion as of export substitution--witness the setting of individual firm export quotas and the relative neglect of food producing agriculture[1]. Brazil's performance, on the other hand, especially between 1963 and 1973, contained as many elements of export substitution, yielding a burst in shoe and other labor intensive exports, as of export promotion.

What may be viewed as some sort of rough convergence between Korea, the least successful (in our terms) of the East Asian NIC's, and Brazil, the most successful Latin American NIC, should also give us some notion as to the policy options open to the contemporary Latin American case. In brief, there would appear to be nothing irreversible about any "ideal" sequence of transition phasing or irretrievable about opportunities foregone. In other words, greater attention to land reform and agricultural productivity increase coupled with rural industrialization and

[1]For a fuller discussion of the divergence between Korea and Taiwan see "A Model of Growth and Employment in the Open Dualistic Economy: The Cases of Korea and Taiwan," G. Ranis and J. Fei Journal of Development Studies, January 1975. (Reprinted in Employment Income Distribution and Development, Frances Stewart, ed., Frank Cass & Co., London, 1975.)

shifts towards more labor intensive technologies and output mixes generally can be achieved at any point in time. The most recently announced policy changes in Brazil, if vigorously pursued, represent an example; they should permit the mopping up of substantial pockets of underemployed labor, including in the North-East.

This doesn't mean, of course, that the length of time typical secondary import substitution policies have been pursued is irrelevant to the ability to reverse them. Vested interests encrusted in protectionist hot-houses since the 1930's are more likely to be resistant to the kind of policy changes we have been discussing. The discovery of additional natural resources and/or a boom in raw material prices make it all the more tempting to postpone any potentially unpleasant changes in structure. The same is true of easy access to foreign capital.[1]

And there exist other arguments against policy reversal, e.g. to the effect that the East Asian NIC's were special cases, with especially favored access to DC capital and markets, and that the contemporary global trend towards protectionism will especially affect the LDC's export substitution/DC's "sunset" industries, rendering the East Asian NIC strategy obsolete. There is, moreover, little point in denying that the international trading world has become less open in recent years and that this trend is ominous for all sorts of reasons, including

[1]As Fishlow put it most recently ("Brazilian Development in Long-term Perspective", American Economic Review, May 1980) "favorable and new access to capital markets that contributed to earlier growth has subsequently facilitated inappropriate economic policies that now bind further options."

its effect on the transition growth efforts of contemporary Latin American NIC's. Yet one can also read the historical record, e.g. Taiwan's, as one of overcoming substantial disadvantages, including a much worse natural resources base, successive major political upheavals, followed by the continuous drain of high defense expenditures and partial international isolation; and, far from favored trade treatment by the DC's, one of being the subject of increasingly severe quota restrictions.

The fact that the East Asian NIC's were apparently able in recent years to weather the multiple punches of increased protectionism, oil crisis and global stagflation is testimony to the flexibility which the alternative growth sequence entails. It should, moreover, not be lost on the Latin American NIC's that, now that the original "Gang of Four " has graduated from primary export substitution into the "promised land" of secondary import cum export substitution, other countries in the region, most prominently Malaysia and possibly Indonesia--eventually even the Philippines--may be turning to fill the primary export substitution niche in world trade. This niche is, of course, not of limited size but expandable in terms of trade among LDC's as well in filling SITC "holes" in the trade with the advanced countries.

In the final analysis, the basic issue is whether various Latin American NIC interest groups can be persuaded that a change in direction may be in their own longer term interest. The ability to persuade industrialists, for example, that a switch to export substitution industries will provide larger profits on expanded volume than export

promotion efforts on smaller volumes helped by negotiated subsidies depends on the extent of workably competitive pressures the system is really willing to expose them to--as it does on the extent to which the civil service is willing to share some of its direct negotiation and control power, and organized sector labor to substitute working family income over wages as an objective. The acceptance or rejection of technical arguments on how the constraints to better employment and equity performance with more (rather than less) growth can be weakened must clearly be the first order of business; but there will still remain the domestic political economy or "reform-mongering" issues of how to get there.

Table 1

	Taiwan			Colombia			Mexico		
	1953	1960	1975	1950	1960	1975	1950	1960	1975
I. Growth Phase Indicators									
1) M_c/M Primary IS index (consumer goods imports as % total imports)	17.2	8.1	6.8	14.0	6.0	8.0	13.61	10.96	('70) 8.81
2) X_{NA}/X non-agricultural exports as % total exports	8.6	32.3	83.6	16.7	21.2	20.8	46.4	35.9	51.2
3) X/GDP total exports as % GDP	9.8	11.7	41.8	('51) 15.0	15.6	14.9	17.0	('65) 9.5	7.6
4) η_{PCY} average annual growth rate in real per capita income	(53-60) 2.7	(60-68) 6.85	(68-75) 5.34	---	(50-60) 1.7	(60-75) 2.5	---	(50-60) 2.8	(60-3 8
5) I/GNP investment rate	('51) 12.6	20.1	28.8	11.3	18.3	19.2	11.7	16.4	22.2
6) S/GNP savings rate	('51) 15.7	17.7	25.7	7.2	9.5	7.4	---	10.0	11.6
II. Employment and Distribution Indicators									
7) θ % labor in non-agricultural activities	('51) 37.2	43.9	55.6	28.0	48.5	62.1	32.0	44.9	54.8
8) W_{NA} (base year = 100) real non-agricultural wage	100.0	75.3	120.7	100.0	132.8	180.2	100.0	105.6	148.7
9) Y^r_{NA}/Y^r_T non-agricultural income as % of total farm household income	---	('66) 34.0	('71) 54.8	(50-52) 14.3	(59-61) 12.7	(68-70) 9.04	---	---	---
10) $\bar{Y}_{NA}/\bar{Y}_A$ average income gap non-agriculture/ agriculture	('54) 1.33	('59) 1.19	('70) 1.66	('54) 2.33	('66) 2.19	('70) 2.31	1.47	---	---
11) G_y Gini coefficient	.58	.47	('74) .29	('53) .46	('61) .51	('74) .51	---	.54	('70) .58
12) SB 20% share of income going to bottom 20%	2.9	('61) 4.4	('74) 8.9	('53) 9.5	('61) 4.5	('74) 2.5	6.1	3.7	('70) 4.2
13) G_n land distribution Gini	('52) .59	---	---	---	.85	('70) .85	---	---	---
14) illiteracy rate	49.0	27.1	20.5	37.7	27.1	('70) 19.1	49.0	27.1	20.5
15) ϕ_{w_r} wage share in rural non-agriculture	---	('64) 21.3	('72) 42.3	37.9	31.8	('74) 24.1	---	---	---
16) ϕ_{w_u} wage share in urban non-agriculture	51.1	53.2	58.7	34.8	39.2	('74) 40.5	---	---	---

Table 1

Notes: Taiwan

1. Taiwan Statistical Databook, 1976
2. Ibid.
3. Calculated from Taiwan Statistical Databook, 1976
4. Taiwan Statistical Databook, 1976
5. Calculated from IMF, Yearbook of International Financial Statistics.
6. National Income of the Republic of China, 1951-66, 1978.
7. Calculated from FAO Production Yearbooks.
8. Calculated from Statistical Yearbook of the Republic of China, 1978.
9. Agriculture's Place in the Strategy of Development: The Taiwan Experience, T.H. Shen, Editor, p.429.
10. Ibid. p. 299.
11. Jain, S. Size Distribution of Income, World Bank, 1975.
12. Ibid.
14. U.N. Statistical Yearbook.
15. DGBAS, National Income of the Republic of China, 1977 (p. 102), Household Surveys.
16. DGBAS, National Income of the Republic of China, 1977 and 1969, Household Surveys.

Notes: Colombia

1. Estimated from chart in G. Ranis, "Income Distribution and Growth in Colombia," CEDE Conference, to be published, (p.5a).
2. FAO, Trade Yearbook, 1976 (p. 323, 1962 (p. 6), 1953 (p. 2).
3. Calculated from UN Yearbook of National Account Statistics.
4. See Ranis & Fei, "Income Distribution in Taiwan, Korea & the Philippines," p.8.
5. Calculated from IMF Yearbook of International Financial Statistics, 1979.
6. Calculated from UN National Accounts Yearbook.
7. Calculated from FAO, Production Yearbooks.
8. Calculated from the ILO Yearbook of Labour Statistics, where figures are monthly real earnings for textile workers.
9. G. Ranis, "Income Distribution and Growth in Colombia", p. 18a.
10. Berry and Urrutia, Income Distribution in Colombia, pp. 92 & 131.
11. G. Ranis, op.cit. p. 10.
12. Ibid.
13. UN Statistical Yearbook.
14. Berry & Urrutia, op. cit. pp. 62 &.68.
15. National Accounts of Colombia
16. Ibid.

Notes: Mexico

1. Mexico Foreign Trade Yearbooks, National Accounts, Bank of Mexico.
2. Defined as SITC 0+1+2-27-28+4. Calculated from UN Yearbook of Trade Statistics.
3. Calculated from IMF Yearbook of International Financial Statistics.
4. UNCTAD, Yearbook of Trade and Development Statistics.
5. Calculated from IMF, Yearbook of International Financial Statistics, 1979.
6. Calculated from UN National Accounts Yearbook.
7. Calculated from FAO Production Yearbooks.
8. Calculated from ILO Yearbook of Labour Statistics, where figures are monthly real earnings for textile workers.

Table 1

Notes continued.

10. L. Randall, The Process of Economic Development in Mexico from 1940-1959, thesis, Columbia University, 1962.
11. Shail Jain, Size Distribution of Income, World Bank, 1975.
12. Ibid.
14. UN Statistical Yearbook.