

III. Latin America and the high productivity of the United States

The United States is now the principal cyclical centre of the world, as was formerly Great Britain. Its economic influence over other countries is obvious, and in that influence, its enormous increase in productivity has played a vital part. It has profoundly affected foreign trade and, through its variations, the rate of economic development of the rest of the world and the international distribution of gold.

The Latin-American countries, with their high coefficient of foreign trade, are extremely sensitive to such economic repercussions. An examination of the implications of the phenomenon and the problems it presents is therefore opportune.

It is a well-known fact that, in the United States, prices have not fallen in proportion to the increase in productivity as the recent research of Mr. Fabricant has clearly shown. During the period covered by that research—the forty years preceding the Second World War—manufacturing production costs declined regularly and persistently. The movement of prices did not follow this pattern at all. The increase in productivity was not reflected in prices but in income. Wages and salaries rose as real costs fell. This did not account, however, for all the benefits of productivity, as an appreciable part of it was passed on in the form of a shorter working day.

The increase in income arising out of higher productivity sooner or later extends to all phases of economic life through the well-known process, which need not be recalled here. By virtue of that same process income has also increased in activities in which technical progress has been insignificant or non-existent, as in certain types of services. In some social groups the increase was very slow; meanwhile the rest of the community enjoyed advantages which, as the necessary adjustment took place, had to be yielded to the former. This transfer, however, was usually offset by new increases in wages resulting from still higher productivity.

This fact is pointed out as a good example of the type of adjustment to which the gradual industrialization of Latin America will necessarily give rise. As productivity increases with industrialization, wages will rise, thus causing a comparative increase in the prices of primary products. In this way, as its income rises, primary production will gradually obtain that share of the benefits of technical progress which it would have enjoyed had prices declined. As in the case of the lagging social

L Am T-dogon => vulnarab.

yes
practically?
not reflected in p's
a key/dec item

link betw LAm ind A & prim p's

groups mentioned above, it is evident that such adjustment will mean a loss of real income in the industrial sectors, which will, however, be limited by the import coefficient; but in the long run, that loss can be well compensated by the benefit of subsequent technical developments.

As mentioned before, since prices do not keep pace with productivity, industrialization is the only means by which the Latin-American countries may fully obtain the advantages of technical progress.

Another solution had, nevertheless, been found by the classical theory. If the advantages of technique were not passed on through prices, they would be extended to the same degree by the raising of income. We have just seen that this is precisely what happened in the United States, as well as in the other great industrial centres. It did not, however, occur in the rest of the world. It would have required, throughout the world, the same mobility of factors of production as that which characterized the broad field of the internal economy of the United States. That mobility is one of the essential assumptions of the theory. In fact, however, a series of obstacles hampered the easy movement of productive factors. Doubtless the high wages paid in the United States, as compared with those in the rest of the world, would have attracted large masses to that country, with a very adverse effect upon wages, tending to reduce the difference between them and those in the rest of the world.

Thus the observance of one of the essential rules of the classic game would have resulted in a considerable lowering of the standard of living of the United States, as compared with the levels actually achieved.

It is easily understandable that the protection of this standard of living, attained by great effort, should have prevailed over the uncertain advantages of an academic concept. But the classic rules of the game form an indivisible whole and, if one is eliminated, the others cannot logically serve as absolute standards governing relations between the centres and the periphery.

This point is the more worthy of consideration in that one of the consequences of the technical progress of the United States, so much greater than that of the rest of the world, has been another important departure from the rules.

As previously stated, the import coefficient of the United States has become extremely low, not more than 3 per cent. In 1929 it was 5 per cent. The decline is not new, but one of long standing. During the last hundred years, national income increased about two and a half times more than imports. *import % of GNP or absolute value of M?*

This phenomenon is largely explained by technical progress. Paradoxical as it may seem, increased productivity contributed to the strengthening of the United States' protective tariff policy, after that country had reached the stage of economic maturity. The explanation is simple. Over a given period of time, technical progress does not affect all in-

industries equally. When higher wages resulting from the increased productivity of the more advanced industries are extended to the less advanced, the latter lose the advantage which had enabled them to compete with foreign industries paying lower wages. The significance of this factor will be appreciated from the fact that wages are twice or two and a half times as high in the United States as in Great Britain. Thus, tariff protection has been necessary for industries more efficient than their foreign competitors, but whose level of productivity is lower than the average for their own country. For instance, despite the great improvement of agricultural technique, some of the important branches of agriculture needed protection as a result of their relatively high incomes as compared with those of foreign competitors. *Subtle*

England, when it was the economic dynamic centre, followed a diametrically opposed policy. If, however, the clock could be put back, it is by no means certain that it would abide by the same policy and disrupt its economy. The United States is a powerful and well-integrated economic entity and has become so largely through its own deliberate effort, the great significance of which is recognized. One cannot overlook, however, the fact that this brought about, for the rest of the world, conditions incompatible with the functioning of international economy in the same way as before the First World War, when the British centre strictly observed the rules of the game in the fields of monetary policy and foreign trade.

It is under these new conditions of international economy, that the process of industrialization has begun to develop in Latin America. The fundamental problem lies in adaptation to these conditions—in so far as they cannot be altered—while seeking new rules in keeping with the new circumstances.

Until that happens, and possibly with slight intervals, a persistent tendency toward disequilibrium will prevail. It is due, fundamentally, to the following fact: while, as we have seen, the import coefficient of the United States has been declining, the dollar imports of the Latin-American countries are tending to increase, thus compelling them to take defensive measures to lessen the effects. There are several reasons for this: *dise*

① *US gets E-goods orders*
First: since technical progress has been greater in the United States than anywhere else, the demand for the capital goods necessary for industrialization is preferentially made upon that country.

②
Second: technical development continuously manifests itself in the form of new products which, by modifying existing ways of life, assume the character of new necessities, of new ways of spending the income of Latin America, generally substituting them for the previous forms of domestic expenditure.

US problem = partly due to productivity gains

Very much the crux of ECLA thought

US HD immigrants = dynamic from rules of the game

Third: in addition to those products which have undeniable technical advantages, there are others toward which demand is diverted by the considerable persuasive power of advertising. New tastes are created which must be satisfied by imports, to the prejudice of those which could be satisfied locally.

That it is not possible to reduce the import coefficient at the centre on the one hand, and to allow it to increase freely in the periphery on the other, under the influence of the above factors, was fully proved by the serious events of the nineteen thirties. We now have sufficient perspective to understand their significance and to learn the lesson that they teach. One other fact must first be mentioned.

It has already been stated that the industrialization of Latin America, if wisely carried out, will open the way to a considerable increase in national income, by giving more productive employment to vast numbers of the population at present engaged in occupations of low productivity.

It can now be seen that the rise in income so far achieved has accentuated the influence of those factors on the demand for dollar imports. The greater the rise in income in these countries, therefore, the greater their need to import. This brings us once again to the problem of dollar shortage, which demands special attention.