"The Art of the Possible":
Macroeconomic Policy and Income
Distribution in Latin America &
South Africa

by
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PREFACE

At the end of August 1986, a two-day workshop entitled Macroeconomic Policy and Poverty in South Africa: The Crucial Issues was held at the University of Cape Town. The impetus for this Workshop arose out of a perceived void in South African economic thinking. Researchers on poverty deal with microlevel issues in great detail, but often lose sight of the broader context within which ground-level issues are placed. Macroeconomists, by contrast, tend to theorise about financial and monetary matters and overlook the implications of macro-economic policy for the poorer sections of the population.

Accordingly, in December 1985, Terence Moll began working on the topic and travelled round the country. He spoke to various academics from Economics Departments in the Transvaal, Natal, Orange Free State and the Cape, trying to draw on existing research and encouraging people to think about this area. These were eventually drawn together in a Workshop designed to encourage economists to think at the macroeconomic level about poverty and welfare issues in South Africa.

The Workshop was hosted by the School of Economics and the Southern African Labour and Development Research Unit. Thirteen papers were presented and about 25 economists from a number of different South African universities attended. Arising out of the vigorous discussion and debate, it was suggested that some of the papers be published in revised form in the post-Carnegie Working Paper series. A review and critique of the Workshop papers by Terence Moll will be appearing in due course.

We are grateful not only for this support but also for the continued interest in research work of this nature.

Francis Wilson
1. INTRODUCTION

Macroeconomic policies and structures of control and ownership of resources are central to the creation and alleviation of poverty in any economy as they establish the fundamental mechanisms by which the level of income is determined and distributed between individuals and groups. Two overall schools of thought about the link between them will be analysed below. 'Monetarists' argue that the long-term interests of the poor are best served by policies which minimise the active economic role of the state, encourage free trade and capital flows, and carefully limit the money supply and inflation. Thinkers in a more 'structuralist' vein suggest that various forms of structural transformation and wealth redistribution are prerequisites for rapid, egalitarian, poverty-alleviating growth.

This essay examines these issues in the light of the history of select Latin American countries over the past 30 years. Various forms of both policy sets have been attempted there and can help understand the likely effects of similar programmes in South Africa.

The countries concentrated on - Argentina, Brazil, Chile, Peru and South Africa - have similar histories of incorporation into the world economy, particularly via trade as raw-material exporters. All attempted import-substitution industrialisation before the Second World War, moving in due course to more outward-oriented policies. Most grew steadily until the 1970s, during which Brazil spurted ahead
and the rest faltered somewhat, with Argentina and Chile growing at only one to two percent per year. The Latin American countries have suffered intermittently from high and erratic inflation rates, and all have had governments playing a strong developmental role via parastatals and a variety of forms of economic intervention.

Finally, a notable characteristic of these countries is a very high concentration of income and wealth with limited 'trickling down' of the material gains from higher output (Lecaillon et al, 1984, ch. 2). According to one estimate, the 8.7% income share of the poorest 40% of the Latin American population in 1960 fell to 7.7% in 1975 (Portes, 1985:25; also Felix, 1983). There appears to have been some reduction in relative income inequality in South Africa over this period, though the poor still have a very low income share (McGrath, 1984). In general the very poor are concentrated in rural or peri-urban areas and usually lack formal sector employment.

In short, the four countries examined have similar economic structures and processes of income distribution within them. It thus seems possible that South Africans can learn lessons from Latin American attempts to modify these.

2. 'STRUCTURALISM VERSUS MONETARISM' : LATIN AMERICAN DEBATES

The emergence of internal and external disequilibria in Latin American economies after the Second World War led to the emergence of two competing sets of analyses and policy recommendations (see Baer & Kerstenetzky, eds, 1964). Monetarists argued that lack of monetary restraint - and in

1. This term can be theoretically confusing. Latin American monetarists, while adhering to many of the individualistic flexible-economy views of the Chicago school, tended in the 1960s to focus on government spending and the structure
particular, government budget deficits (Harberger, 1964:322), often financed by foreign loans or printing new money - led directly to inflation and balance of payments (BoP) deficits which served to undermine economic development (Dorrance, 1964, esp. 68). Hence strict control over the money supply, domestic credit and government expenditure would best control inflation (Campos, 1961:69-70), while devaluation, lower real wages and fewer controls would improve the structure of relative prices and the balance of payments. Inflation should fall rapidly during a strict stabilisation, with fairly low employment and output costs (Campos, 1967:110-113), and economic recovery and rapid market-oriented growth should begin.

In general, monetarists placed far too much reliance on flexible and efficient market processes leading to steady development. Adjustment costs of monetarist programs were high in terms of output and employment foregone, and often disequilibria re-emerged after economic growth resumed. Faith in econometric models of the money-income relation was clearly misplaced, with little cogent analysis or understanding of causalities between the two (see Kirkpatrick & Nixson; 1978:184-5).

In some cases the failure of monetarist policies was blamed on their being applied over a short period only to money markets and government spending, and it was argued that the very basis for capital accumulation in Latin America - individuals freely transacting on private markets - had been severely distorted by previous structuralist policies. This created the necessity for policies not only curbing monetary growth but involving extensive reforms to liberalise commo-
dity, labour and financial markets (Felix, 1981:7). Such programs were attempted in the Southern Cone of Latin America (Chile, Argentina, Uruguay) in the 1970's.

The basic structuralist\(^2\) argument was that things were far more complex than this. Writers in this vein identified a number of factors in Latin American economies which they felt led to slow growth, inflation and BoP disequilibria via 'structural' channels which freer markets could not remedy. These included food bottlenecks due to rural institutional factors (Grunwald, 1961:110-111), low and erratic rates of growth of export earnings coupled with rising import demand creating foreign exchange bottlenecks, and a poor government finance and tax position leading to inflationary deficit financing (Kirkpatrick & Nixson, 1978:132-4). The money supply was seen to respond 'passively' to cost-push inflationary pressures (Canovese, 1982:523) as an easier alternative than strict monetary policy and open social conflict.

Structuralists argued that attempts to eliminate disequilibria via market processes based on vigorous monetary control would only succeed via brutal quantity-adjustment mechanisms (Prebisch, 1961:17-20) which would lower aggregate demand and investment, thus reducing the economy's long-run growth capacity. Instead, social constraints on development (eg. inefficient rural oligarchies) should be eliminated and the state should take the lead in helping to develop local manufacturing industry and small-scale agriculture, extend national control over the productive structure to prevent the loss of 'economic surplus', and actively intervene and plan in strategic areas (ECLA, 1961:4-6; Malan & Wells, 1984).

\(^2\) This portmanteau term includes various streams of thought, deriving largely from the work of Raul Prebisch (eg. 1961) and the UN Economic Commission for Latin America, but also influenced by Kalecki, Kaldor and Balogh (Arndt, 1985:153-155).
Income redistribution was seen as a vital part of development. It would lower the unproductive consumption and luxury imports of the rich, it would raise aggregate demand inside the country and stimulate local industry, and by so doing, lower the revenues and repatriated profits of foreign firms. It was thus advocated on economic as well as the usual moral grounds (Balogh, 1961:52-53).

In practice, structuralists vastly overestimated the efficacy of structural reforms and allowed too little role for aggregate demand factors or inflationary expectations in their work. They also underrated the extent to which 'conventional' macroeconomic policies - limiting government spending, export incentives, higher internal food prices - could overcome bottlenecks. Instead, their approaches in Latin America often led to strategies of autarchy, excessive monetary growth and inefficient controls to handle macroeconomic imbalances, while 'structural' reforms to improve the distribution failed to reach the very poor.

3. STRUCTURALISTS AND INCOME REDISTRIBUTION IN LATIN AMERICA

3.1 APPLIED STRUCTURALISM: GENERAL PATTERNS

In many cases of attempted 'structural' economic reform and income redistribution in the 1950's and 1960's, events followed a standard pattern (Diaz-Alejandro, 1981:121-2). Typically, reformist-populist governments came to power on the basis of strong nationalist feeling and lower class support; first moves included attempts to redistribute income and encourage growth via land reforms, introduction of more progressive taxes, attempts to increase the national

3. The four most important of these discussed below are briefly described in the Appendix to this paper.
ownership of the productive structure, higher real wages and social security provisions, and increased government spending and economic planning.

Initially, given spare industrial capacity and populist mobilisation, the raising of aggregate demand and income redistribution stimulated the economy and GDP and industrial output grew steadily for a year or two. The share of wages and salaries in national income rose and real government welfare expenditure increased. The most ominous sign was a decline in investment due to rising costs and political and economic uncertainty within the capitalist class.

In due course, balance of payments deficits and inflationary pressures emerged and were 'controlled' by supporting the exchange rate and drawing down reserves, administrative import-repressing mechanisms and price controls. Over time GDP growth slowed due to sluggish investment and inefficiencies, and inflation accelerated. At this stage reformist politicians changed direction, introducing anti-labour legislation, lower real wages and the IMF, thus cancelling much of the redistributive emphasis of the early days of reformist governments.

In some cases - eg. Chile 1970-1973 or Bolivia 1952-1956 - the radical reformists retained power and precipitated the economy into the stage of structuralist disaster. Inflation escalated as the money supply zoomed out of control, exports fell, imports necessary to domestic industry were cut off, urban services faltered and the urban food supply was some-

4. This has been common in Latin America. Schydłowsky has suggested a variety of causes including limited economies of scale, capital-cheapening tax and credit systems, excessively high wages, monopolies, use of advanced technologies and large plant-sizes, and rent-seeking (1979). Many of these are linked to import-substitution industrialisation programmes over many years (see Little, Scitovsky & Scott, 1970:93-99).
times halted. Some from the populist coalition would argue for centrally planned socialism (further discouraging investment and inducing capital flight) while defections to the right accelerated. In a situation of general disequilibrium, inflation and erratic relative prices, real wages fell, mass disaffection grew and the right moved in for the kill, leading to a military coup, monetarist stabilisation, and the reversal of the wealth and income redistribution originally achieved.

3.2 STRUCTURALISTS AND INCOME REDISTRIBUTION: CONSTRAINTS, TOOLS AND IMPACT

Four central aspects of the 'structural' redistribution process are discussed below. These begin with macroeconomic constraints on income redistribution, move on to the mechanics of asset redistribution and the impact of various redistributive measures on poverty, and finally, some political aspects of redistribution are mentioned.

3.2.1 Macroeconomic Limitations on 'Structural' Reforms

To structuralists, reforms in productive activity and the redistribution of wealth and income were the best way to ensure long-run development and growth, raising aggregate demand and market size and solving 'structural' bottlenecks constraining the economy (see Lustig, 1980). Such a process however is subject to severe limitations.

Firstly, radicals often plan to revitalise the economy via raising aggregate demand to utilise excess capacity. In practice, the first - or output-rising - stage seems rather brief, firstly for 'structural' reasons: bottlenecks in and interrelationships among particular industries lead to early price rather than output effects, even with spare capacity in many areas; and secondly, the model assumes a fairly
reliable investment function, but where investor confidence is lacking short-run output may rise but investment decline, undermining the long-run prospects of the model (see Griffith-Jones, 1981:130-133). Instead, capacity utilisation levels can perhaps best be raised via selective incentives to industrial exports, a more open current account of the balance of payments, and the removal of explicit or implicit subsidies on capital-use (Schydowsky, 1979:348-351; 1981). General economic expansion is too blunt a tool to yield the desired results.

Secondly, structural reforms affecting the productive structure and the distribution of income tend to undermine short-run output and efficiency in the economy, and disrupt the price system as means of resource allocation (Griffith-Jones, 1981:7). This implies a politically unpopular need for revolutionary governments to maintain strict fiscal and monetary control (Seers, 1983:118; also Ellman, 1983:108-109) as only within a very stable macroeconomic framework can long-run changes be smoothly instituted and redistributive gains be preserved.

Thirdly, the hope is often expressed that output and investment will rise via nationalisation and expropriation of the 'surplus' lost to foreigners. While this is conceivable in the very long run, the short-run costs are often high (disruption of production processes and markets, sabotage by previous managers), there are knotty questions re compensation or otherwise, and the new state managers of productive assets are often incompetent or lose the 'surplus' to worker wage demands (see Horvat, 1981:957). In both Chile and Peru in the 1970's, nationalised firms were inefficient and unprofitable, consuming resources and imports rather than

5. Even in the obvious case of land reform, output may significantly rise only after some years and may need to be encouraged via training, credit, markets etc. (Dorner, 1972:19).
providing a surplus for investment (De Vylder, 1976:154; Fitzgerald, 1979:194-5).

In macroeconomic terms, it seems many objectives that underlie nationalisation can be more efficiently achieved in other ways, e.g. shrewd use of taxation (Nattrass, 1985:28-31) or joint ventures with multinational corporations (Faber, Green & Harvey, 1983:8-9), without necessarily undermining the socialist ideals of the state. It is clear, however, that a socialist case can be made for a considerable degree of state supervision over finance and banking and perhaps large-scale mining.

Fourthly, at or approaching supply capacity there is a short-run trade-off between growth and wages. Real wages (particularly in the public sector) might need to be constrained to allow a surplus for investment and to ensure investment in the non-socialised sectors of the economy. This of course presented a difficult political problem for regimes which came to power precisely on the basis of lower class - especially organised urban worker - support.

Fifthly, structural programmes vastly underestimated the importance of the external sector and the balance of payments, the argument usually being that trade immiserised and undermined the local economy, and that self reliance was preferable. Autarchic development strategies often led to inefficient and excessive industrialisation efforts, prevented the growth of manufacturing exports, forcibly curbed import levels during balance of payments crises (jeopardising essential capital and intermediate inputs), and permitted excessive increases in government expenditure, thus encouraging rapid growth in internal demand and inflation.
Finally, the costs of right-wing and business opposition to redistributive policies were high. Disinvestment and capital flight was the common economic response to reform; for example private investment fell from 43% of total investment in Chile in 1970 to around 15% (of a falling total) in 1972. This was as reaction both to lower expected returns in activities adversely affected by government policy, and to perceived threats to the return or ownership of investments hitherto untouched. The former is to an extent unavoidable but the latter can be lessened by cunning and subtlety, eg. Peron's division of capitalist opposition and only partial destruction thereof (Ascher, 1984:113-114).

Within these constraints, the structuralist record seems to imply there is definite scope for redistribution in peripheral economies, without growth and investment suffering greatly. Once certain economic fundamentals are ignored, however, structural reforms and income redistribution tended to grind to an abrupt halt.

3.2.2 Asset Redistribution, Markets and Growth

Asset redistribution may be a prerequisite for rapid egalitarian growth in the economies under discussion (cf. Morawetz, 1980:353). The costs of such redistributive efforts, however, can be high. Two major positions on their timing can be distinguished. Some argue that

if a major redistribution of assets and income is to be successful it will almost certainly have to be done rapidly...creeping reformism is almost certainly doomed to failure (Griffin & James, 1981:1),

due largely to asset 'mining' and organised capitalist resistance (Elliott, 1984:3). On the other hand, an abrupt approach could destabilise the economy over a lengthy period
where new state managers lack the necessary skills and experience, previous users sabotage sectors of the economy, production processes are complex and delicate and links to the world economy are close. The actual path chosen would have to depend crucially on local economic and political conditions.

Some 'rules' regarding redistribution processes can however be posited. The first is that redistribution should not be permitted needlessly to damage private sector investor confidence so where possible its final limits should be very clearly defined when it begins (Morawetz, 1980:354). Secondly, there are good economic reasons why land is eminently redistributable - land reforms tend to raise agricultural output in the medium-term (eg Dorner, 1972:110f, Nguyen & Salvidar, 1979), and can lead to considerable labour absorption, especially of the rural poor.

Thirdly, the role of market relations in the redistribution process is debatable. Griffin and James argue that radical redistribution leads to major economic disequilibria and breakdown of market processes which can only be effectively overcome by resorting to controls and direct allocation of resources (1981, ch. 4), eg. price controls and rationing for the very poor. While this can be an important transitional strategy, it is far from obvious that it is viable in fairly advanced industrialising economies where is would be likely to entail very high - perhaps permanent - adjustment costs. It had a far better chance of working in post-War China, for example (ibid, 93-97). Land is far more easily redistributed than Anglo-American!

Finally, there is ample evidence that land reform and nationalisations are productively effective and form the beginning of the socialisation of production only when there is substantial involvement, organisation and initiative
'from below', eg. tenant, farm labourer and sharecropper organisations (Dorner, 1971:29-31), trade unions and active worker participation in decision-making (Espinosa & Zimbalist, 1978:158-161), and self-management in rural development schemes (Griffin & James, 1981:60-66). Where this crucial political element is weak or missing, redistributive efforts are likely to be hampered by conservative opposition and do little for productivity.

3.2.3 The Distributive Impact of Redistributive Instruments

In practice, 'structural reforms' in Latin America often failed to reach the poor and merely strengthened better-off groups. This section discusses why and posits some criteria for evaluating redistributive measures.

As a rule, reforms were effective largely within the small, relatively prosperous 'modern' sectors of the economy (Ascher, 1984:300-1), and often did not last much beyond the lifespan of the governments introducing them. A central reason for this was that 'redistribution' often involved simple increases in nominal wages or social service spending funded partly by private firms and partly by the fiscal budget. This directly boosted total nominal expenditure, leading to inflation and balance of payments crises, probably reduced employment in some cases, and was often neutralised by rising prices, since firms can better defend themselves against inflation than workers. Peron's Argentina (1946-48) is among the few cases where redistribution actually took real income from the rich and transferred it to the poor, in part because his efforts to raise wages

6. Efforts to raise savings could play a useful role here (as in China in the 1950's), soaking up inflationary pressures, providing resources for investment and easing BoP pressures (Griffin & James, 1981:46).

7. In some such cases, as in Allende's Chile, real wages ended up well below their original levels (Pedraza-Bailey, 1982:42).
took the form of gradual selective state intervention in wage negotiations rather than blanket decrees applying without considering profits earned and productivity\(^8\) (Ascher, 1984:57-8).

Further, large real wage rises in Chile 1964-72 reached mainly better-off workers in large urban firms and failed to reach the urban poor working in the informal sector, slum dwellers and the unemployed, and rural workers (Ffrench-Davis, 1976:111). These families lacked access to market-oriented income channels, and within households the allocation of income was determined in part by patriarchal power relations such that women and children often failed to benefit. Better poverty-oriented policies might have attempted to transfer income directly to women from poor households, eg. via rural employment creation.

Asset redistribution was only slightly more effective in reaching the poor. Policies of nationalising large and capital-intensive industries in Allende's Chile had the effect of privileging around 20% of the industrial labour force - improved working conditions, fringe benefits, child care, medical services etc. - while leaving the vast majority of workers untouched (De Vylder, 1976:154-5) and in fact harming them via draining the state budget and inducing inflationary deficit financing. Land reform on Chile's huge poorly utilised estates on the basis of "land to whose who work it" excluded tiny smallholders and unattached day-labourers; most Latin American land reforms directly benefited only men in households (Deere, 1985).

Another common Latin American pattern concerns the sectoral benefits of redistribution. The many laws on land reform

\(8\). A useful principle is that "to the maximum possible extent earnings should be related to production, even in the difficult early days of asset transfer" (Elliott, 1984:3).
and income redistribution in Peru after 1968 redistributed income within each sector or enterprise, but given widely differing labour productivities and earnings between sectors (to the detriment especially of agriculture), the impact on the poor was severely limited (Webb, 1975:121-3). Summarising the Velasco reforms in Peru 1968-75, Figueroa observes:

All together they apply to 45% of national income and transfer between 3% and 4% of it to approximately 18% of the country's labour force. This transfer takes place almost entirely within the wealthiest income quartile (1976:171).

Rising government expenditure - especially housing, education, health, pensions - can significantly assist the poor, as is shown by studies of Chile 1965-1970 (Foxley et al, 1977) and Peru 1963-73 (Webb, 1975:108-120). Even small changes in government expenditure can have significant welfare effects; Selowsky, for example, argues that in 'semi-industrialised Latin American countries', an additional 5% of GDP devoted to education, health, nutrition and housing could cater for the basic needs of the poor without radical social transformation and at an estimated cost of 0.5% lower GNP growth (1981:84-90).

In Latin America, however, such expenditures tend to have a strongly urban bias and may be appropriated by politically organised middle classes (Pinto & Di Filippo, 1976:103). They may also be cancelled with later stabilisation or where government revenues do not rise correspondingly. In general, of course, high progressive taxes were vital if the inflationary effects of higher government social expenditure were to be countered (cf. Lecaillon et al, 1984:176-181), but taxes were rarely seriously used as an instrument of redistribution - political commitment to this end was usually lacking (Cline, 1975:395) and structuralist regimes
found it exceedingly difficult to introduce and administer tax increases.

A variety of large-scale redistributive instruments can be implemented to reduce poverty in semi-industrialised countries. Apart from the usual efficiency criterion, two criteria can be suggested in evaluating them: i) specificity (to what extent can they be aimed at particular groups of poor people?), and ii) sustainability (can they be maintained over time?).

Large nominal wage rises fail both these criteria: they benefit wage-earners rather than the very poor, and can only be maintained at the cost of lower investment and inflation. Employment creation via public works or selective stimulation of labour intensive sectors (eg. construction) tends to be (self-) selective but its sustainability depends in part on bureaucratic efficiency and the extent to which it boosts the local economy and encourages capital-formation. By contrast, for example, successful measures to raise peasant productivity are fairly specific and - almost by definition - sustainable; likewise efforts aimed at bringing about health, educational and food consumption equality among children (Ffrench-Davis, 1976:131-2).

In general, demand-oriented instruments do poorly in terms of these criteria, supply-oriented ones do far better but are far more difficult to implement, while extra-market distribution channels are an intermediate case. Clearly, the use of a variety of reasonably specific redistributational measures is likely to have the maximal impact on poverty, while if these are chosen to reinforce each other (eg. land reform and agricultural extension work) and have a high investment component (eg. rural public works, 'human capital' improvements), their long-run viability is increased (see Griffin & James, 1981, ch. 3).
3.2.4 Redistribution and Politics

The long-run structuralist record of economic management and redistribution of income is rather disappointing. The most effective case discussed above was that of Peron, operating in uniquely favourable economic circumstances, though Frei also had some mild successes. Redistributionist regimes tended not to survive, however, and were often replaced by right-wing governments implementing inegalitarian poverty-creating programmes.

There are several reasons for this. Firstly, redistributionists often lacked real mass support, and conflicts within ruling coalitions often led to excessive expenditure on sectional support-groups, as in the case of Allende's Chile. These had harmful macroeconomic consequences and encouraged right-wing political mobilisation. Secondly, rightist forces were able to gain foreign help in their struggles. Thirdly, redistribution attempts were administered by inefficient and corrupt bureaucracies which consumed resources and often prevented the masses from benefiting; different forms of administering state sector firms to centralised state control should have been attempted. Finally, severe policy errors were made in some cases - with high economic and political costs.

In conclusion, then, income redistribution is possible but requires large-scale political mobilisation, especially if radical changes are made. Redistributional strategies with a high degree of popular control and input, which limit revenue passing through bureaucratic channels, or which have a 'once-and-for-all' state involvement (eg. land reform) may be optimal, reducing corruption and maintaining political support for the regime. Finally, where political support is lacking, well-publicised gradualist redistributional poli-
cies may help build up political legitimacy and provide for a better future than rash radicalism followed by economic collapse and/or right-wing backlash.

4. LATIN AMERICAN MONETARISM

The Latin American monetarist view is that their strategy maximises economic freedom, efficiency, output and growth and hence - via an abundance of 'trickle-down' effects - long-run economic welfare. While they accept their policies might harm the poor in the short run, these costs are implicitly regarded as necessary and temporary. This section will evaluate such claims, based on Latin American experience.

4.1 REDUCTION OF IMMEDIATE DISEQUILIBRIA

In this arena monetarist-IMF type policies have had mixed results. As a rule, devaluations and more unified exchange-rate systems, a higher ratio of traded/non-traded goods prices and export incentives have raised exports (especially non-traditional exports), reduced imports, and in some cases vastly improved the trade balance (Cline & Weintraub, 1981:12; Bird, 1984:103-106). Government deficit spending was often cut without difficulty, the major areas suffering being grandiose investment schemes and social services. In some cases, as in Chile in 1976, real government spending fell such that fiscal balance was achieved.

Inflation proved less tractable. In a few countries in the 1950s and 1960s, restrictions on credit and money reduced inflation very effectively - eg. Peron's Argentina, where reduction in the money supply by around 25% 1951-52 led to inflation falling from 38.1% 1952 to 4.3% 1953 (Skidmore, 1977:162). In all cases where restrictive monetary policies were taken seriously, inflation rates did eventually fall.
More recently, despite severe clampdowns on money, credit and government spending and higher real interest rates, inflation has usually fallen slowly over a number of years. Brazil 1964-68 demonstrates this: the inflation rate fell gently from 86.6% in 1964 to 24.1% in 1967, at the cost of virtual stagnation in per capita output growth. Likewise the Southern Cone stabilisations of the 1970s: in four to five years, inflation fell from 300 to 500 percent to around 30 to 40 percent in Uruguay and Chile, and still roared along at 150% in Argentina (Foxley, 1981:201), after massive falls in demand, real money supply and real wages (Diaz-Alejandro, 1981: 125).

The suspicion of course is that strong cost-push mechanisms were at work (Whitehead & Thorp, 1979:273), with a contraction in aggregate demand leading to expensive adjustment processes over long time-periods (Foxley, 1983:131-143). It also seems price expectations acquired an autonomy of their own and price controls may have been desirable to control price-setting behaviour and make them consistent with a restrictive monetary and fiscal policy (Ramos, 1980, esp. 487).

The output and employment costs of monetarist stabilisations were usually high over at least one to two years before inflation fell significantly and economic recovery ensued. In some cases, as in Chile in 1975 (Sutton, 1985:26, 28), output, wages and demand fell so much as to create the suspicion that inflation and BoP achievements were simply due to falls in income rather than a changed structure of relative prices and improved efficiency.

Finally, there is considerable evidence (especially in the 1970s) that monetarist-inspired opening of less developed economies economies to the world economy can lead to slumps
being transmitted locally in magnified form. Opening the capital account of the BoP to the outside world and relying on 'global monetarism' to reduce inflation to world levels and automatically correct BoP deficits has proved fatal in the Southern Cone (Diaz-Alejandro, 1985), leading to high real interest rates, capital inflows, exchange rate appreciation, persistent inflation, export crisis and large current account deficits (Bruno, 1981:867), and led to complete economic collapse in Chile (GNP falling 14.1% in 1982 alone) (Garcia & Wells, 1983:299-300).

4.2 REINFORCEMENT OF A SYSTEM OF PRODUCTION AND DISTRIBUTION

The monetarist record regarding long-run growth, capital accumulation and investment is less than spectacular. In many cases growth was impressive after stabilisation ended but failed to last and could be viewed as 'catching up' with potential output rather than new, dynamic growth (cf. Taylor et al, 1980:24). Heavy deflation and uncertainty about future policy creates a climate not conducive to investor confidence and rapid capital accumulation, and foreign investment has been sluggish, fickle and unreliable (Whitehead & Thorp, 1979:274-5). On the other hand, in some situations of complete chaos and economic disequilibria, monetarist policies led to renewed growth simply by creating a more stable economic climate (eg. Chile, 1956-58).

In the Southern Cone, programs of financial liberalisation and monetary control have run their course for a decade and the long-term record is particularly dismal. Low overall growth rates have prevailed and tended to be based on services and high levels of imports funded by capital inflows (ie. substituting present for future consumption), local private sectors have been reluctant to invest (uncertainty, lack of political credibility and very high freed interest
rates which appear to have done little for savings), while productive foreign investment has not materialised (see Bruno, 1985; Diaz-Alejandro, 1985).

The most impressive case of monetarist-inclined growth is that of post-1964 Brazil, but Foxley argues it was exceptional. Its period of orthodox monetarist policies 1964-67 was characterised by growth rates of four percent per annum; an expansionary strategy 1968-73 based on higher levels of aggregate demand, higher government expenditure and investment, and selective price controls, led to growth rates of over 10% per annum (Foxley, 1980:896-8; Skidmore, 1977:170).

4.3 WELFARE EFFECTS OF MONETARIST POLICIES

In distributional terms the monetarist record is highly inequalitarian. It is difficult to evaluate, however, as most monetarist phases began with economies in disarray and economic reorganisation, an altered distribution of income and lower real wages may have been necessary to get the economy functioning in capitalist fashion again (Fishlow, 1981:232).

Recent structuralist critics concede this, but claim simplistic monetarist 'solutions' raise the costs of stabilisation and entail high welfare costs, most obviously higher unemployment, considerable real wage reductions (of the order of 20.5% in Argentina after devaluation in 1959 (Skidmore, 1977:171) and 30 to 40 percent in the Southern Cone in the 1970s (Foxley, 1983:123)), a shift in the size distribution of income (the poor suffer, the rich gain), and lower government social expenditure. In particular, reliance on supposedly objective free market principles tends to entail lower urban wages, raise import prices (including imported food prices), penalise local industry
and remove subsidies on basic necessities such as fuel and food (Sheahan, 1980:286-290).

The most extreme stabilisation was that in Chile after the fall of Allende in 1973 - "The most important reforms undertaken in the underdeveloped world in recent history" (A. Harberger, quoted in Foxley, 1984:397). This case has been particularly well researched (cf. Ffrench-Davis, 1983; Foxley, 1984; Garcia & Wells, 1983; Parkin, 1983; Sutton, 1985), and after ten years the social record includes:

i) A definite redistribution of income and wealth towards the rich. Data comparing 1969 and 1978 show a fall in the share of income of the bottom quintile of the income distribution (7.6% to 5.2% and an increase of that of the top quintile (44.5% to 51%) (Foxley, 1983:83). There is also evidence of the concentration of wealth and economic power in the hands of a handful of huge conglomerates (Ffrench-Davis, 1983:919-920);

ii) Slow employment growth of two percent per annum 1974-80 (Foxley, 1983:81), and a fall since. National unemployment rates of 6.1% in 1970 grew to around 14% in the late 1970s and escalated towards 20% 1981-82 (Lagos & Tokman, 1984:64n7). (These figures are much higher if government-sponsored low-income Minimum Employment Programme figures are included.) After a steep drop 1974-75, real wages began rising again in the late 1970s, but collapsed again with the 1981-82 crisis; real per capita income fell over 30% 1982-83 (Cornia, 1984:384);

iii) State expenditure on public works, housing and social services fell considerably. Social spending fell 17% per capita in real terms 1970-82, while average pensions and family allowances were around 50 to 70 percent of real 1970 levels in 1982 (Ffrench-Davis, 1983:918-9). Most welfare
and poverty indicators show a considerable worsening over this period, and will probably deteriorate further when the full effects of the 1982 collapse are taken into account.

4.4 CONSOLIDATING THE SOCIO-POLITICAL BASE OF THE ECONOMIC SYSTEM

In this arena monetarist stabilisations have failed. They have almost invariably been applied by unpopular right-wing regimes and have only survived for an extended period of time by resorting to heavily repressive military rule - what O'Donnell calls 'bureaucratic authoritarianism' (1979:91f); only thus can popular resistance to lower real incomes be controlled (Sheahan, 1980:291). Even business and the middle classes tire eventually of repressive orthodoxy, leading to pressures throughout society for meaningful political change.

4.5 CONCLUSION

The Latin American monetarist record is dismal, especially where monetarist policies have been applied longest and most vigorously. If monetarist-type clampdowns are necessary to alleviate large disequilibria, it is to be suspected that a more gradualist approach could lower social and output costs and hopefully retain sufficient political support to be carried out thoroughly (Sheahan, 1982:25f). This should focus less on aggregate demand, stress longer-run targets and employ selective supply-side and welfare interventions (Cline & Weintraub, 1981:13).

The stringent stabilisation in Argentina under Ongania 1966-70 can be taken as an example of this. It lowered inflation from 31.9% in 1966 to only 7.6% in 1969, while keeping reasonable growth levels (2.5% 1967, 4.6% 1968 and 7.9% 1969) and real wages fell only seven percent 1966-69.
(Skidmore, 1977:177-9). In this case, expansionary macroeconomic policies favouring exports - via higher exchange rates and subsidies - were followed, aggregate demand growth was kept close to that of production, and careful controls were used on wages and some prices, the whole coming closer to an incomes policy with export incentives than free market monetarism (Sheahan, 1982:14-15). Ultimately, however, the fall in real wages - which Sheahan argues could have been avoided - led to labour resistance and the collapse of the programme.

5. LESSONS FOR SOUTH AFRICA

In terms of maximising the welfare of the Latin American poor in the foreseeable future, neither structuralism nor monetarism is the answer. The former is unstable, politically risky and can entail high investment costs, the latter is politically repressive, has regressive distributional implications and its long-run success as a growth strategy is questionable.

Coming back to the questions of macroeconomic policy and poverty posed in the Introduction, then, four general conclusions can be posited. Firstly, the structure of ownership, production and distribution in the economy will determine which groups will benefit from or be harmed by particular macroeconomic or redistributive policies. For example, nationalisation will not reach the unemployed and rural poor; higher wages may not help the families and children of migrant labourers; a changed exchange rate may redistribute income from and to particular groups or government (Johnson & Salop, 1980). Macroeconomic policy formulation is not a neutral process and a variety of distributional and welfare trade-offs exist which should be taken into account by politicians.
Secondly, economic growth is vitally important for less-developed countries, as only in this way can the potential be created for satisfying the material needs of the majority of the population in the long run. There seems, however, to be some 'looseness' or latitude in any economy such that a considerable degree of redistribution is possible with largely neutral effects on growth and investment (Cline, 1975:395). Thirdly, a healthy exports position is essential for any less developed country, to fund capital and intermediate goods necessary for development.

Finally, rapid economic restructuring tends not to be productively effective and is particularly disastrous in more developed economies. Radical wealth- or income redistribution by structuralist regimes often induced fiscal and monetary disequilibria and eventual right-wing resurgence; extreme monetarism had high output and growth costs and also led to political conflict. Further, where disequilibria do arise, there appears to be a strong case for attacking them with a variety of gradualist demand- and supply-side tools, while various means - eg. careful use of government investment, taxation and social welfare - can be used to ameliorate the social effects thereof (Cline & Weintraub, 1981:13).

Policy-makers in South Africa have much to learn from the Latin American economic policy-making record, from three viewpoints. Firstly, based on Latin American experience, the trend within government circles towards economic liberalisation and free markets in South Africa can be expected to fail as an economic strategy. Freer foreign exchange markets in less developed countries often lead to massive destabilising capital flows and crippling uncertainty, inflation and inflationary expectations churn on despite manipulation of the money supply and interest rate, and investment and growth suffer. South Africa has suffered an
experience of this sort over the past five years, exacerbated by political conflict and international pressures. On the distributional side, the position of the poor seems to be deteriorating while larger firms and the financial sector are flourishing (see my other paper at this workshop).

From a reformist viewpoint, it appears some forces exist within and around the state which are concerned about mass welfare - if only to avert revolution. They would oppose fundamental structural transformation and wealth redistribution but could perhaps be persuaded to support more limited redistribution via the tax system, government spending, food aid, better social security, and even higher wages in particular circumstances. One would expect them to favour public works and better-directed public expenditure, for example (Abedian, Schneier & Standish, 1985). This has been nominally accepted by the government with projects like low-cost housing, rural development projects and infrastructure being emphasised (Republic of South Africa, 1984:16-19). These would be unlikely to materially affect growth rates, investment levels and macroeconomic balance, and their costs and benefits are fairly easily estimated. Their poverty effects could be considerable if they were carried out on a large scale by an efficient and committed state apparatus, but they would have little impact on inequality and the structure of power relations in society.

Finally, some radicals envisage major structural transformation and wealth redistribution from rich to poor - land reform, nationalisation of mines and industry, economic reflation via massive increases in government expenditure on education, housing and job-creation, generalised wage increases throughout the economy, and so on. The Freedom Charter is often interpreted in this fashion (Gelb & Innes, 1985:15f also Suttner & Cronin, 1986). The similarities to Popular Unity's approach in Chile 1970-73 are disconcerting;
the likely outcome would be inflation (open or repressed), extension of government and bureaucratic power, an investment slump, BoP crises and slow economic growth, with little benefit to the poor. Such an approach would lead away from democratic socialism.

It seems preferable to view the Freedom Charter as a statement of long-run policy goals while recognising that trade-offs and compromises are inevitable in the short run. The best approach for a strongly redistributionist regime might then be to bring strategic areas of the economy under state influence (though perhaps not ownership), aim at absolute poverty alleviation via 'reformist' measures, improve priority areas in education, housing and health, carry out selective land reforms and work towards improved worker representation in firms.

At a political level, such a programme would be difficult to introduce because the real incomes of the majority of the population are likely to fall in the transitional period to a new non-apartheid economic order in South Africa due to political and military conflict and the emergence of large economic disequilibria (eg. in the export sector). This would probably lead to conflicting pressures for higher wages, high government expenditure and easy credit, which would need to be reconciled with the supply capacity of the economy. What should be avoided, above all, is the tendency for distributional conflicts to be 'resolved' by raising the nominal incomes of all politically powerful groups; this is highly inequitable and ultimately economically destructive.

Further, it would be necessary to control the activities of multinational corporations and large local firms without going for blunt nationalisation on largely principled grounds - this is expensive and inefficient, especially where factories are large and production processes complex.
It is also essential that external financial and trade links be well managed to provide the most favourable context possible for reform and income redistribution.

Finally, absolute poverty in South Africa is widespread, and those most affected are people outside the formal urban labour market - farm labourers, women and children in rural areas, the unemployed, much of the 'informal sector'. These groups also lack political influence. Special efforts will have to be made to reach them, otherwise redistribution will all-too-likely occur entirely within the upper ranges of the income distribution, to already better-off urban workers.

Clearly, however, a variety of interests conflict in these debates. Bureaucracies might hope to extend their powers via nationalisation, organised urban workers might push for higher minimum wages, the rural poor might propose extensive and rapid land reform, while the middle classes might favour higher government housing and education expenditure. Some political compromise would need to be reached between them, since these demands are not all compatible with each other - especially in the short run. It is to be hoped that the kind of economic limitations on structural change and income redistribution discussed above will delimit the parameters of debate on these issues, rather than ill-informed ideological beliefs and millenarian fantasies.

APPENDIX

The above discussion draws on four 'structuralist' experiences in Latin America since the Second World War (Moll, 1986).

Argentina 1946-55 (military populism)

After World War II, the Argentinian economy could be seen as being divided into a food-producing internationally competitive low-employment agricultural sector (cattle ranching)
which was a major source of foreign exchange, and an import-intensive high-employment protected industrial sector. General Juan Peron's grand scheme was to shift wealth from rural producers to urban industry and wages. The problem was that such efforts lowered agricultural revenues and exports, inducing BoP crises. Devaluation raised export revenues but lowered real wages (eg. via higher internal food prices) and weakened industry (higher import prices) and overall growth (Sheahan, 1982:8). Hence while Peron's policies had some success 1946-49, with real wages and social welfare expenditure rising steadily, much of this was brought to an end by periodic BoP crises 1949-53.

Chile 1964-70 (centre-reformism)

In the early 1960's, Chile had a small economy with a low population, high inflation and a highly uneven income distribution limiting industrial growth, while stagnant exports were largely in mining. President Eduardo Frei aimed at gentle economic reflation reinforced by income redistribution and higher wages, land and tax reform, and mining nationalisation. This had some significant successes - eg. the share of wages in national income rose from 45% to 52% 1964-70, and some land and social services were provided to the poor - but was ultimately brought to an end by low private sector investment, persistent inflation and low growth.

Chile 1970-73 (socialist reformism)

The Salvador Allende Popular Unity administration attempted rapid, radical structural change looking towards an eventual transition to socialism. It had a 2-prong strategy, the first aiming at economic reactivation via strongly expansionary wage, fiscal and monetary policies favouring the poor, the second beginning with wealth redistribution, especially via nationalisation and land reform. Initially the economy flourished and the poor prospered. Investment fell, however, and escalating aggregate demand led to inflation, falling real wages, a BoP crisis, inefficient state controls and eventual economic collapse.

Peru 1968-75 (radical military populism)

The Peruvian economy in the late 1960's was exceptionally 'dualistic', divided between large urban foreign-linked monopolies providing the exports on which growth was based, and small employment-intensive enterprises and farms. The regime of General Juan Velasco attempted to restructure and 'modernise' the economy, using land reform, nationalisation of export production (especially in natural resources), re-organisation of industry and worker participation, and encouraging import-substituting industrialisation. Some redistribution and growth was achieved but the model was eventually brought down by a prolonged BoP crisis due
largely to sluggish exports, low internal savings and high government expenditure, leading eventually to IMF-organised stabilisation.
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