THE THEORY OF SECTORAL CLASHES

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ECONOMIC DEVELOPMENT IN LATIN AMERICA HAS BEEN EXPLAINED LARGELY in terms of the Economic Commission for Latin America school (ECLA) dominated by Raúl Prebisch.[1] According to this school, "outward orientation" of the periphery, was the key characteristic of Latin America before 1930. The growth pattern was determined by the fortunes of the export sector (including the terms of trade) and its linkages with the developed Center. Since 1930, the massive import substitution policies undertaken by the periphery has led to a new phase of "inward orientation" where the strategic role of promoting growth has been played by the linkage-rich industry. Both growth and inflation have been explained in terms of the institutionalist "structuralist" school which has emphasized bottlenecks related to the land tenure system, market imperfections and deficiencies (both domestic and external), and to a lesser degree to the savings patterns of people (where the demonstration effect, income distribution and the taxation system play pivotal roles).

Within the ECLA version of economic growth has embedded itself the more general notion that growth and inflation are the byproducts of class struggle. The institutions of the economy (land tenure, the taxation system and so forth) are considered as the instruments used during the struggle between the capitalist, landowner, and working classes for higher income shares. A novel idea of the structuralist school is that misuse of institutions has given rise to the growth-impeding "structural" bottlenecks during the class struggle in Latin America.

The combined "structuralist-class struggle" school, of which Celso Furtado, Nicholas Kaldor,[2] and Walt Rostow have been key exponents, has presented the most vocal and widely accepted view of economic development and inflation in Latin America.[3]

In the present essay the process of economic growth and more specifically that of inflation in Latin America are viewed as an integral part of "sectoral struggle." Rather than accepting the Richardian, Marxist, Keynesian, neoclassical and structuralist notion that competition between income groups—class struggle—determines growth and inflation,[4] I single out the competition between economic sectors[5]—sectoral struggle—as *the* moving force behind growth as well as inflation. The underlying idea here is that a set of people is likely to act as a "team" or "group" as long as it belongs to the same sector,

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in spite of the fact that some persons belong to different income groups, in an effort to jointly maximize their respective income shares.[6] The actions of strategically situated sectors,[7] or "sectoral teams," play a key role in determining the rate of growth of income, the sectoral composition of output, the distribution of income, the rising inequality of income between Latin America and the developed West, and also the movements in the absolute and relative level of the private and public sectors. The theory of sectoral clashes attempts to analyze this phenomenon of competition between sectors acting as teams and the results of establishing gevorement as an active partner of a sectoral team, an event that changes the economic as well as the political balance between sectors and classes.

The present analysis neither negates nor precludes the classical income-group (class) approach. Instead it provides a complementary sectoral approach which, by introducing new dimensions into the discussion of economic prenomena, aims to provide better insights and suggest better policy solutions.

Sectoral clashes can arise in developed as well as in underdeveloped countries. According to the present essay they have existed before and after the Great Depression. Although the theme of sectoral struggle as a growth-determining force is a great general one, the framework, ideas and most specific examples of the essay have primarily, but not exclusively, in mind the post-1930 sectoral struggle which developed in Latin America with the industrial sector playing the strategic role.

I. THE THEORY OF SECTORAL CLASHES: THE GENERAL FRAMEWORK

In planned, as well as in market economies, we have been witnessing large-scale government intervention in all aspects of economic life. The spread of socialism, strong and recurrent shocks felt by the market mechanism, and the mushrooming of young nations, have been major forces and stimuli leading to an extended role of government.

We have also been observing, along with and as a key aspect of this intervention, the phenomenon of unequal treatment of sectors by government. Most frequently this appears in the form of preferential sectoral treatment with government giving "more," in terms of attention, protection, funds, and resources to one sector and "less" to another.[8] In a world operating under constraints and establishing priorities among competing projects, this is natural. Less frequently, but not necessarily by accident, government takes "too many" resources away from one sector while it promotes another.

A clash or collision of sectors is defined as the phenomenon of aggressive and administered antagonism resulting in the struggle for maximum privileges and advantages between an economy's sectors. Sectoral clashes often develop when government intervenes in a deliberate attempt to promote a particular sector beyond the limits set by a transfer of resources and funds from other sectors, either through voluntary saving or nondiscriminatory fiscal policies. The objective of the intervention that causes sectoral clashes is to accelerate growth through a privileged treatment of some "strategic" sectors. Three types of sectors are involved in this struggle: "dominant," "suppressed," and "neutral." A sector[9] is called dominant in this framework, if government openly endeavors to stimulate its expansion in a variety of ways but in particular by raising its income share or share of investment funds or other favors above the level achieved under free-market conditions. In contrast, a sector is called suppressed if government deliberately seeks to and/or accidently discourages its expansion by reducing its income share below its natural level. Finally, sectors[10] without a well-defined role in the game of sectoral clashes are referred to as neutral ones.

The pivotal relationship of sectoral clashes is to be found in the close cooperation between government and the dominant sector. A sector becomes dominant either by being selected by government for promotion, preferential treatment and stimulation in addition to, or even against, the prevailing market forces, or after the sector takes control of the governmental apparatus to an extent sufficient to permit its use at its own discretion and for its own benefit. Most frequently, and for obvious reasons, the banking system and Central Bank are drawn into the cooperative game. Long-run growth is then in part determined by the nature and strength of cooperation between the dominant sector, government, the banking system, and the resulting discrimination of other sectors. The final outcome often depends on the characteristics of the sector chosen for dominance and especially its structural interdependence with other sectors.

An attempt is made here to demonstrate how the long-run growth process is shaped by the interplay between three powerful economic agents, that is Government, the Dominant Sector, and the Central Bank.[11]

The resulting intersect competition can be excessive in two respects: it involves an attempt by a sector to control banking and government services, and also involves the use of these services, once controlled, to the benefit of one sector or even to suppress another. The first aspect refers to the period before the government machinery's takeover. The second aspect emphasizes the fact that government must actively intervene in favor of or against a sector, in a fashion disrupting sectoral interdependence, for sectoral clashes to erupt. Since government actively participates in sectoral clashes, once taken over, competition between sectors is no longer free but administered.[12]

We plan to describe the first three types of sectors involved, that is dominant, suppressed, and neutral, and then proceed to discuss some symptoms, corollaries, and effects of sectoral clashes. In most of the discussion, it is assumed that industry is the dominant sector.

II. THE PARTICIPATING SECTORS

A. The Dominant Sector

A primary objective of raising a sector to dominance is to accelerate its growth. The motives for offering preferential treatment to a sector range from national prestige, and self-sufficiency, to sectoral diversification, and regional military balance. The underlying leit-motif is, nevertheless, predominantly economic. It stems from the nowadays widely accepted dogma that some sectors deserve and should receive preferential treatment. The formulation of this principle was stimulated by the alleged retardation of capitalistic growth, often attributed to excessive reliance on the market mechanism and the consumer, and the spectacular expansion of socialist economies, attributed to the farsighted role of government and the special treatment given to capital goods production and the industrial sector.[13]

At the beginning a sector is protected from foreign competition, or just preferred in relation to other domestic ones. As long as all sectors receive equal protection and distinctions made by government are small, there is hardly any place for dominance. But the danger of overprotection and discrimination is always present.

Conviction of governments that promotion of industry is the *deus ex machina* in achieving growth and use of the instruments in their arsenal to fulfill their objective lead to the clash. Government involvement in the process of industrialization rises from subtly inducing a resource transfer to a transformation of the existing price matrix, to a partially or totally controlled reallocation of resources. During the implementation of forced-draft industrialization schemes, industry frequently becomes dominant; sectoral clashes then follow as an undesirable, little noticed, but hardly unexpected progeny of these schemes.

Industrial dominance is the most frequently observed phenomenon. A preferred status can be, nevertheless, and has been conferred to other sectors, including, for example, producers durables, nationally owned segments of a sector, the public component within industry, and, especially before the Great Depression, the export sector and foreign enclaves.

It is rare that, during government's attempt toward growth, domestic production as a whole is favored against foreign competition. Development of sectors other than industry is either neglected or, in extreme cases, suppressed as having detrimental repercussions on industrial growth. Alba's statement that ". . . In Latin America a ready-made cure is always available. Today it is industrialization, . . ."[14] is less than an axiom but widely held not only in Latin America but also in other continents.

Revival of the industrialization doctrines that swept the European continent at the turn of the century and a depression theory of economic growth, similar in origin—both being outgrowths of the Great Depression—but different in outlook from the Keynesian employment theory, started the trend. In the thirties, as mineral and agricultural exports collapsed, grave doubts rose in the minds of policy makers about the ability of the respective sectors to contribute to long-run growth, especially as agents securing foreign exchange. Industry, with its domestic orientation, diversified capacity, and manifold linkages, was imagined, by politicians and economists alike, as the lever capable of lifting the economy from stagnation to independent growth.[15] The war bottlenecks and cyclical export fluctuations only strengthened this view. The center periphery, the terms of trade, and the external economies arguments, became the paraphernalia of this industry-centered growth formula. Marxism and socialist doctrines, prevalent among many parties in these countries, have also favored industrialization, but on different grounds. According to this ideology, many Latin American countries are in a stage of semi-feudalism, and historic development requires an industrial transformation to bring about a proletarian class and create objective conditions for socialism. In this context, theories of balanced multi-sectoral growth were at best ignored, at worst systematically assailed; and the importance of foreign trade faded away. Industry became a symbol of development, achievement, prestige.[16]

If the objective is to raise a domestic sector to dominance at the cost of a foreign sector, rates of return on domestic activities preferred are raised artificially by erecting open or hidden barriers to entry to competitive foreign outputs or inputs. The objective is accomplished by imposing import quotas, requiring licensing, establishing multiple exchange rates, raising old or imposing new tariffs and by other general or selective means that create a protected domestic market. If the objective is to make the sector dominant at the expense of domestic sectors also, *rates of return* in preferred sectors are raised artificially by granting subsidies, tax exemptions, regulating entry and so forth. The former case is associated with changes in intercountry, the latter in domestic intersectoral, price relationships. When the objective is to establish industrial dominance both sets of price relationships are normally transformed.

There is no one-to-one correspondence between dominant and expanding or dominant and strategic sectors. Agriculture is regarded as a strategic sector but is rarely dominant. And even neutral or suppressed sectors can be rapidly expanding.

B. The Suppressed Sector

What is meant by suppression, this general and rather elusive concept? Most easily, it can be defined as the opposite of dominance. Suppression has three variants: neglect, penalty, and active suppression.

On an aggregate level, *neglect* involves omission of public investment possessing a social rate of return that is higher than the rate of return private investors would enjoy. On a sectoral level, neglect reflects the failure of government to invest in a sector even though the social rate of return exceeds substantially the private rate, and private rates of return cannot be raised unless public investment is undertaken first.

Penalty of a sector exists when public investment in another sector takes place even though the latter's rate of return is below that of private investment. Sector A is penalized if public investment is undertaken in Sector B even though both its social and private rates of return are below those in Sector A.

Now, we can give a more precise definition to *suppression.* It exists when public investment or government intervention or the lack of them reduce the private rate of return on investment, possibly leading to zero investment or disinvestment.

Although the variations of suppression were defined here in terms of government investment, mainly in order to emphasize its importance as a discriminatory device, this classification can be made explicitly consistent with the earlier definition of dominance. Thus, suppression of an economic sector exists whenever the sector's income share is below its natural[17] income share, as a result of government intervention. Neglect leads to a low income share because government does not remove basic bottlenecks restricting growth. Penalty leads to a lower than normal income share because government artificially raises the income share of other sectors. Finally, active suppression lowers the income share of a sector by reducing it directly, through price controls, taxation and other means, and artifically raising another sector's income share. Government intervention uses numerous instruments, only one of them being investment in the conventional sense. Thus, the term investment, as earlier used, has to be understood in a very broad sense.

The apparent cause of suppression is to obtain a release of resources.[18] The whys of suppression are, nevertheless, manifold, often non-economic, and vary among sectors. Thus, suppression of agriculture, in Argentina, Chile and Colombia has been partially the result of resentment against the conservative landed oligarchy, partially an expression of anti-imperalist feelings (whenever there exists foreign-owned plantations), partially the result of disillusionment with agriculture as a growth and export sector during depressions. This disillusionment is sometimes caused by the alleged deterioration of its terms of trade, but mainly results from the belief that an industrial revolution—even without an agricultural one—is the key to growth. Agriculture is also suppressed because it is believed that it can release its disguised unemployment and the share of output supporting it, and because it is associated with backwardness, stagnation, and the undesirable segment in a dualistic economy.[19]

The clash with, and suppression of the mining sector, with its heavy foreign investment has been inspired by anti-imperialist doctrines especially because it is identified as a "foreign" sector. Suppression of foreign-owned sectors frequently displays a peculiarity of its own: it follows their earlier dominance. Originally, foreign capital receives special treatment, which is strongly resented by domestic sectors. But then, later, as if these concessions were highly regretted, and as the political machinery is controlled by domestic sectors, an effort is made to "make up" through heavy taxation, other discriminatory devices, and even expropriation. Gains from early dominance, and losses from subsequent suppression, may or may not balance out during the investments' lifetime.

The terms suppressed and declining are by no means synonymous. Sectors are likely to decline for reasons other than suppression such as changing income-elasticities of demand, introduction of new products, and similar market forces. Furthermore, a suppressed sector does not necessarily become a "losing" one unless, due to disinvestment, it experiences an absolute decline in output, labor, and productivity. If the degree of suppression is mild and entrepreneurs are sufficiently pioneering to react to discrimination with aggressive policies of technological change, all artificial odds raised against a sector can be overcome. A massive exodus of resources is likely to follow only extreme suppression.[20]

C. The Neutral Sector

Neutral is a sector that lacks a well-defined role in the game of sectoral clashes. Neutrality is of crucial importance because it imparts the characteristic of being "open" or a "last resort" to a sector. As such, it can potentially undermine the primary objective of treating a sector preferentially. If government-sponsored promotion of a sector leaves the loophole of neutrality open, neutral sectors are bound to benefit from the presence of accidental or planned excesses and mistakes and related bottlenecks. The desired resource transfer or "flight into the dominant sector," which is anticipated to coincide with the induced flight out of the neglected or losing sector, may not materialize in part or in total if, due to greater attractiveness of investment in the neutral, it is superseded by a flight into neutral sectors.

Frustration of government plans following the flight of resources into a neutral sector, and attempts to close existing loopholes, can lead to what we may call here three types of "serial takeover" of sectors. The first type of serial takeover results from the sequential nationalizing of sectors as they successively serve as sectors of "last resort" and thwart sectoral clashes. For example, if the objective of industrial dominance is foiled by a flight of resources out of agriculture and into import trade, import trade is nationalized. A further flight into export trade, domestic retail trade, banking services, and so forth, leads to a closing of the successive loopholes through their sequential nationalization. The second category of "serial takeover" involves the transformation of booming neutral sectors into dominant or suppressed within a private or mixed ownership framework, until the economy is divided, not always neatly, into two—dominant and suppressed—groups of sectors and all loopholes have been closed. Finally, the unexpected flight into the neutral sector quite often reveals to government the wasteful excesses committed and the bottlenecks created by its intervention and creates the need as well as the desire for nondiscriminatory sectoral treatment. Introduction of "correct" organized long-run planning, where dominant, neutral, and suppressed sectors harmoniously mesh into equal ones, is the beneficial aftereffect that leads to the third "equalizing serial takeover." It was this last approach that Chile, Argentina, and even Colombia, had adopted during the late fifties with respect to most of their sectors.

The attribute of neutrality changes over time as alliances between sectors and classes undergo constant shifts. Some sectors are, nevertheless, more susceptible to neutrality than others. Thus, the presence of large numbers of firms, lack of natural oligopolies and political power, are likely to prevent development of original or induced offsetting power to that of the dominant. Sectors that possess little-known theoretical significance, that are overlooked in aggregative models, that evade the almost undefinable label of "key" or "strategic," are also prone to be neutral.

Some instances of neutral sectors are well celebrated. The flight into housing in countries experiencing both sectoral clashes and inflation comes to almost everybody's mind. Domestic services and petty trade are also examples of sectors remaining neutral in the struggle between industry and agriculture. Another recent phenomenon that can at least partially be explained by the present framework, is urbanization without industrialization. The flight into bricks and steel which in many an economist's mind, was expected to materialize whenever the masses of disguised unemployed fled agriculture, has taken the form of a flight into services that is also identified as urbanization.

III. SECTORAL CLASH AND COALITION PATTERNS AND THEIR RELATION TO GROWTH THEORY

Sectoral clashes involve coalitions as well as clashes among income groups and sectors.[21] Coalitions determine the sector that can achieve dominance and the specific income groups within the various sectors that are likely to increase their income share during the sectoral conflict. In order to keep the discussion as simple as possible we distinguish here only four income groups and four sectors. The letters of the Greek alphabet represent income groups, and Arab numerals, used as subscripts to the letters, economic sectors. We denote by the letter α, government, by the letter β, employers, by γ, white-collar workers—or salary earners—and by δ, blue-collar workers—or wage earners. The four representative economic sectors are: sector number 1, mining. Mining is considered as the export sector, and as a quasi-capital goods sector, because it makes available, through trade, the machinery and equipment which are not domestically produced. Thus, only open economies can be considered here. Sector number 2 is the industrial consumer goods sector which will be referred to as the industrial sector. Agriculture is sector number 3, and number 4 will represent personal services, construction, government or any other sector depending on the requirements of the exposition.

It is believed that economic growth can be analyzed better by means of the "sectoral-class" framework, which places equal or primary emphasis on the sectoral aspect, than with the traditional framework that places almost exclusive exphasis on the "income group" or "class" aspect.

The four patterns of class and sectoral coalitions and clashes which are presented below provide the foundation of this essay and the core upon which the later analysis is based.

The macromodels presented below can be easily modified to incorporate the role of parties, the church, labor unions and other organizations in the process of growth and decision-making. Since coalitions and clashes always take place in a world involving classes and sectors, and "conservative" or "progressive" groups "in the constitutional decision-making body"[22] are only agents for these classes and sectors, both the motives and economic-political implications of the decisions taken by these agents can hardly be understood outside the sectoral-class framework. Furthermore, and this is especially true in Latin America, classes and sectors have transferred only a fraction of their decision-making power that leads to change and reform to "Parliament." They have used the power they have retained to introduce *de facto* change and reform which can be easily recognized within the broad macromodels even though it can not be recognized as part of the *de jure* reform. *Status quo* for the economy as a whole is inconceivable since change in the real world is almost automatic. Within the sectoral-class framework it is possible to distinguish between *de facto* and *de jure* change and reform; it is also possible to distinguish between both the desirability and feasibility of either type of reform, and also analyze the inter-connections between the political, social and economic variables. This can be done by looking at classes and sectors in terms of income, employment and other variables, and then by looking at the "agent" of classes and sectors. The formal models where this is done are not presented here because of space limitations.

Four coalition patterns will be presented below, in order to illustrate some key aspects of policy making and sectoral growth. These patterns are the following:

A. The Clasical Pattern: Conflict between Income Groups

Competition and conflict between employees and capitalists for larger income shares are the foundations of classical growth and distribution theory. Labor is conceived as one entity confronting capitalists, identified here as employers, in the battle for major income shares. Coalitions, indicated by the continuous line in Table 1, are horizontal uniting income groups throughout the economy; the clash is vertical, as shown by the arrows. Government plays a neutral role confining itself to equitable taxation, maintaining law and order, and a minimum of entrepreneurial activities. This laissez-faire horizontal-coalition, vertical-clash pattern is rare in developing nations.

The present and also following models of sectoral clashes go, by means of disaggregation, beyond the classical and Marxist theory in two respects. The economy, which in classical analysis is composed of a consumer and a capital goods sector, is successively disaggregated in different combinations. Furthermore, the traditional division of income groups between capitalists and workers is enlarged to include government, and workers are subdivided into white and blue-collar workers. Through this disaggregation, as it will be seen later,

Table 1

Class Struggle

Income Groups \ Sectors	Mining	Industry	Agriculture	Services
Government	α_1	α_2	α_3	α_4
Employer	β_1	β_2	β_3	β_4
White-collar / Blue-collar	γ_1	γ_2	γ_3	γ_4

it becomes possible to suggest that the proletariat in one sector has different interests or even clashes with the proletariat in another, and that conflict can exist between labor groups of the same sector, ideas that would be ostracized in socialist theory.

The class struggle model in its classical form has never been applicable to Latin America because it involved profit and wage earners in a capitalistic society that has, basically, a capital goods and a consumer goods sector. With the capital goods sector being either partially or totally absent in Latin America, the theory of capital accumulation underlying the Marxist model, which links profits with investment, was inapplicable. Furthermore, class consciousness[23] has been always narrow in the sense that it linked persons within a sector rather than the economy as a whole. The consciousness of class interest has been frequently linked to or based upon a consciousness of race, color, or ethnic origin. Thus, such groups as landowners, absentee foreign capitalists, European immigrants, migrant farm labor, and mining blue-collar workers have had a *consciousness of class interest* in their participation in the production and distribution process. But this consciousness of class interest has been derived from and has been secondary to a *consciousness of sectoral interest* and occasionally of other types of social links. The type of consciousness that develops, however, depends not only on the behavior of the group involved but also upon the treatment accorded to them by government, the rest of the people and the world economy.

B. Traditional Pattern Government-Export Sector Coalition

The export sector, be it mining or agriculture, receives a preferential treat-

Table 2

Sectoral Struggle: Export Sector Dominance

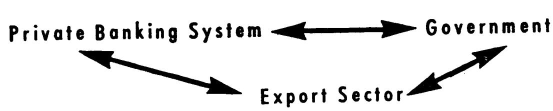
Sectors / Income groups	Mining	Industry	Agriculture	Services
Government	α_1	α_2	α_3	α_4
Employer	β_1	β_2	β_3	β_4
White-Collar	γ_1	γ_2	γ_3	γ_4
Blue-Collar	δ_1	δ_2	δ_3	δ_4

ment by government. All participants in the export production process receive high income shares, and government income from the export sector is used to pay high salaries for government employees in other sectors or even to finance selected investment projects such as railroads and other social overhead. Neither workers nor capitalists present a united front throughout the economy. This pattern characterizes early stages of development when the export sector is booming—and often foreign-owned—and is often accompanied by neglect of agriculture. The coalition is vertical, within mining, and horizontal, within government.[24]

Before 1930, when the traditional pattern A was prevalent, a private banking system cooperated with the export sector. The coalition between government and export-oriented agriculture or mining coincided with a period of agrarianism and control of political and economic power by the landed oligarchy and was served by the cooperative, private banking system. In many instances, these private banks were also foreign-owned and served the foreign interests in the various sectors. The anti-imperialist and anti-capitalist sentiments in Latin America have their roots in this period.

The dominance of the export sector in most Latin American countries covers the period between 1830 and 1930 when the difference in per capita in-

Pattern A



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come between the Latin American countries and the Developed West becomes evident and rising.

During this era Latin America develops at least three different patterns of sectoral growth combinations. First, an advanced modern export sector alongside a subsistence sector that produces for the domestic and/or export economy. Second, an advanced export sector alongside a modern service sector, and an infant but growing industry. Third, an export sector, subsistence or other, and a highly prosperous service sector. In all three models, agriculture is a major source of employment and income but only in the smaller countries is it the absolutely major employer.

Although the importance assigned to the export sector differs greatly between writers, some basic ingredients of the so-called export model of economic growth, which is related to the traditional coalition pattern, are present in the writings of Enrique Kaempffer,[25] Nicolás Palacios,[26] Macchiavello Varas,[27] Miguel Cruchaga,[28] Julio Jobet,[29] Aníbal Pinto,[30] Osvaldo Sunkel[31] and numerous others.[32]

According to one theme, the coalition between the foreign capitalists of the export sector, the landed oligarchy, and an urban plutocracy created by government and the riches of the export sector, led to a use of resources that favored consumption and an exodus of resources from the Continent. According to another theme, this coalition fostered immigration of people and capital to Latin America and completely transformed its productive capacity. In retrospect, however, the preferential treatment given to the export sector is considered excessive since it meant massive outflows of capital and underdevelopment of some sectors.

Most major Latin American countries had experienced this coalition pattern before 1930 while a number of smaller ones, especially Central American countries, are going through it presently.

C. *Modern Pattern: Government-Industry Coalition and Industry-Other-Sectors Clash*

In this modern coalition-clash pattern, government provides preferential treatment to the industrial sector while it suppresses or neglects mining and agriculture, with services being neutral. This coalition can have two different shades. One that links government with the industrial sector as a whole—indicated by the combination of dash and continuous lines in Table 3—and another that links government with the publicly-owned segment of industry—indicated by the continuous line exclusively. The industrial sector in Table 3 is therefore subdivided into the government-controlled sector, denoted by Greek alphabet

Table3

Sectoral Struggle: Industrial Dominance

Income groups \ Sectors	Mining	Industry		Agriculture	Services
Government	α_1	α_2		α_3	α_4
Employer	β_1	β'_2	β''_2	β_3	β_4
White-Collar	γ_1	γ'_2	γ''_2	γ_3	γ_4
Blue- Collar	δ_1	δ'_2	δ''_2	δ_3	δ_4

letters with one prime, and the privately-owned one denoted by the letters with double prime.

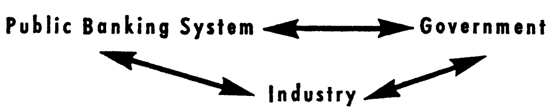
In this pattern, the element of sectoral clashes becomes important. The coalition between government and industry is directed at discriminating other sectors, as the arrows indicate. The clash is between economic sectors and, as will be mentioned later, any clash between income groups has a derived nature. The government-industry coalition can be directed against sectors preferred during earlier periods, such as mining, and/or against agriculture, and/or against private industry.

The present coalition pattern has been achieved as well as accompanied by a transformation of the financial structure.

Since 1930, government intervention, import substitution policies, and rising needs for investment credit forced the banking system to expand, often through new, government-owned or controlled banks. The new public segment of the banking system served the new, government-owned industrial ventures and part of industry or other sectors which government directed it to support.

The transition from a wholly privately-owned banking system, to an increas-

Pattern B



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ingly publicly owned one, coincided with the gradual transfer of dominance from the export and foreign-owned sectors to national ones, especially industry.

This changing composition of the finance sector in favor of the public segment was accompanied by a declining foreign-ownership throughout the economy. Occasionally the declining British ownership in finance was replaced by American banks and American-controlled sectors as, e.g., in Venezuela.

This modern coalition pattern had its roots in the nineteenth century when the nascent industry and government started cooperating. Industry grew first on its own, while agriculture and mining were favored. In time, however, the privileges of agriculture were reduced, and then, even turned against it. A detailed description of the effects of industrial dominance is found in Part V.

D. *The Alliance for Progress Coalition Pattern. Coalition between Government, Government-Controlled Industrial Sector and Blue-Collar Workers*

The rise in the lower income groups' political power, social unrest, and increasing interest of the United States in social problems of the Latin American continent have established a new precarious coalition-clash pattern. In many Latin American countries, the government-controlled industry is still preferred but primary attention is given to improving the income status of the blue-collar workers throughout the economy. This coalition finds expression in efforts for land reform, increasing taxes paid by the powerful middle and upper income groups, and indirectly in a diminution of discrimination of mining, private industry, and agriculture which slows down overall growth and ultimately hurts the lower income groups. This coalition pattern hopes to estab-

TABLE 4

Sectoral-Class Struggle: The Ascent of the Poor

Sectors / Income Groups	Mining	Industry		Agriculture	Services
Government	α_1	α_2		α_3	α_4
Employer	β_1	β_2'	β_2''	β_3	β_4
White-Collar	γ_1	γ_2'	γ_2''	γ_3	γ_4
Blue-Collar	δ_1	δ_2'	δ_2''	δ_3	δ_4

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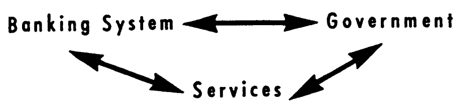
lish an equitable treatment of sectors through what I earlier called equalizing serial takeover of sectors. Undoubtedly, this pattern leads to a vertical clash between income groups as it attempts to reduce the income shares of well-to-do classes.

These patterns, though being of a predominantly descriptive nature, should not be conceived as being fixed and unchanging. Patterns two, three, and four can be of sequential nature.

Simultaneously with the increased attention paid to the poor, a new trend of a government-service sector coalition has been developed and supported by the banking system. With export failures and the foreign exchange bottleneck becoming binding, industry, in spite of its dominance, failed to pull the economy into a path of self-sustained growth. The inadvertent expansion of services has enabled those sectors with the political power required to further discriminate against agriculture. It also enabled them to take some power away from the industrial sector and favor, at least on a regional basis, free trade, and also advocate price stability, reform of the public sector and other institutional changes often resented by industry.

Pattern C



It would be more a hope than a prediction to say that the interplay of sectoral forces and power games is likely to become more balanced once each sector has risen to dominance and has also been subjected to suppression.

IV. SYMPTOMS AND COROLLARIES OF SECTORAL CLASHES

A. Symptoms of Sectoral Clashes

The symptoms of sectoral clashes can differ greatly in the various patterns. They depend on the sector that becomes dominant, on the nature of the sectors that enter into coalition or clash with the dominant sector, and, finally, the degree and nature of the emerging competition, conflict or clash. In order to keep the discussion within reasonable limits, the present section confines itself primarily to the "modern pattern" where industry is the dominant sector.

The clash between sectors[33] is open in some instances, disguised in others. If a domestic and a foreign-owned sector clash, overt discrimination of the foreign one can be a political asset and thus preferred. Special taxes are imposed, the "foreign" sector is forced to release dollar earnings at artificially low exchange rates, domestic credit facilities to this sector are curtailed or elimi-

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nated and so forth. In contrast, if the struggle for resources is among nationally owned sectors, the instruments used are subtle and hidden. They include price controls, discriminatory social welfare, government investment and subsidy policies, and various administrative devices. In summary, the events in which the full-grown clash between dominant and suppressed sectors finds expression depend on its strength and the parties involved. Some of the symptoms, instruments, and events of sectoral clashes and induced inflations are presented below:

(1) A clash aiming at industrial dominance and agricultural suppression is acompanied by imposition of *price controls* on agricultural commodities.

These disrupt the market mechanism, deprive agriculture of protection from industry's domination and from inflation, deprive it of incentives to expansion, and accelerate the flow of funds from agriculture to industry. As a result, relative product prices of agriculture and industry change, a smaller share of the gross national product goes to agriculture and a larger one to industry, the agricultural rate of return declines, and finally, a "flight out of the losing sector" leads to ultimate stagnation of agriculture. Bottlenecks in food supplies, which the monetarists attribute to inflation[34] and which the structuralists regard as a basic cause of inflation[35] can largely be the result of such a clash. On the import side, the costly industrial import substitution policies lead, ironically, to enlarged and even costlier offsetting (export substituting) agricultural imports. Thus, in this game of sectoral clashes, whenever the domestic industrial consumer goods sector is elevated to dominance every effort will be made to prevent foreign industrial consumer goods sectors from entering domestic markets; however, whenever the domestic agricultural sector is neglected or oppressed, foreign agricultural sectors are being stimulated because of the rising demand for their output as a consequence of internal supply bottlenecks, artificially low import prices and so forth.

Price controls can have a strong, direct or indirect inflationary impact.[36] If they freeze output prices but leave input prices uncontrolled, they create artificial "cost-induced" deficits in the agricultural sector, which are then covered by central bank credit. Furthermore, funds which are normally siphoned off in output markets by higher prices, are spilled over to other sectors, when agricultural prices are prevented from rising to their equilibrium level.

(2) *Overvaluation* of domestic currency is a symptom of the clash of industry with the export mining and agricultural sectors. Foreign exchange prices are kept rigid as the internal price level rises, thus artificially lowering the output value of export industries. Multiple export exchange rates illustrate variations in the strength of the dominant's clash with domestic sectors and reflect the suppressed sectors' relative strength in resisting industry's dominance.

Multiple import exchange rates are an indicator of the degree of collaboration between the dominant and foreign sectors or countries (foreign agriculture often being preferred when domestic is penalized!) as well as a barometer of the strength of the clash with domestic ones.

Overvaluation of domestic currency, by lowering the share in domestic product, deprives the export sector's financial incentives to output expansion and diversification, and can ultimately contribute to its stagnation. The dominant industrial sector benefits because its imported capital goods, fuels, raw materials and food inputs are subsidized with the resources released from the discriminated sectors. The clash with, and suppression of, mining with its heavy heavy foreign investment, has undoubtedly been inspired in Latin America by nationalism and anti-imperialistic ideologies such as that of Haya de la Torre.

(3) The absence of, or extremely low *taxes* on, industrial profit income, and excessively high taxes on income of mining corporations, especially if foreign-owned, is another symptom of the industry-mining clash. Highly discriminatory tax treatment is evidence of both a strong government and of a fiscal policy actively participating in the sectoral clash.

(4) Freezing or inadequate adjustments of rents is a symptom of the clash between industry, on the one hand, and the construction sector and the rentier class, on the other. However, the negative effect on the supply elasticity of the construction sector of zero or negative rents is normally offset by inflation-induced capital gains and a spectacular hedging ability of housing.

(5) A symptom of the clash between industry and the rentier class is the *ceiling* placed upon the *money rate of interest.* During inflation this lowers the real rate of interest, and reduces the income and wealth of the rentier class to the benefit of the debtor industrial sector. Total savings and the portion allocated to industry, through the money and capital markets, can thus be severely discouraged. The rigidity of the savings function, which to the structuralists is a cause, and to the monetarists a result, of inflation can be largely viewed as a byproduct of the struggle between industry and the rentier class that prevents money rates of interest from adequately discounting price changes.

(6) The clash of industry with the public utilities sector can lead to a chain of partially counter-balancing government actions. Controls imposed on the rates charged for transportation, electricity, and water, artificially lower rates of return. But, when revenues fall short of expenditures by a politically intolerable amount—the limit of tolerance depending on the loss of income and resistance to such a loss by the income groups of the losing sector—government artificially raises the rate of return, and income, through subsidies. Though both actions add to inflation (price controls have an income effect, and subsidies

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require inflationary credit), they can act as a powerful obstacle to overall growth by causing a misallocation and waste of resources.[37]

All of the above events are advocated by the promoters of industrial development because they stimulate industrial growth and prevent an induced rise of wages, interest rate, raw material and capital goods cost, presumably detrimental to the industrial sector.

B. *The Corollaries of Sectoral Clashes*

The importance of sectoral clashes, especially those between industry and other sectors, and the inflations related to or caused by these, have been largely underestimated or ignored. Some of the results and corollaries of this clash, however, have been occasionally recognized. In view of the importance of these corollaries in understanding the relationship between inflation and growth, we will now proceed to discuss them.

The major corollaries, known or new, are the following:

1. *First Corollary: Vertical Cash of Income Groups Within a Particular Sector*

Whenever a weaker sector, such as agriculture or public utilities, loses in the battle for sectoral pre-eminence, a fierce fight can develop among the income groups participating in the losing sector's production process. The ultimate loser is often the weaker (least organized) income group within the losing sector.[38] Class struggle is obvious and strong but induced by the underlying sectoral struggle. A massive exodus of the ultimately losing income class to non-suppressed sectors and urban areas follows.

Because of this corollary, someone can venture to speculate that sectoral clashes are likely to affect the course and success of revolution in less-developed nations. So long as revolutionary elements adhere to orthodox Marxist theory and rely too heavily on the industrial proletariat, which is satisfied by belonging to the dominant sector and by enjoying a relatively high real income, both the rate of Marxist revolutions and their success ratio is likely to be low.

Sectoral clashes that lead to industrial dominance can postpone revolutions by providing the industrial proletariat with an economic and political status which it would have otherwise won only by revolution. But a new, and possibly more important possibility, has appeared. Agriculture and some services become the sectors exploited and unskilled agricultural workers and "servants," the ultimate losers, form a new proletarian class. Those neo-Marxists who will decide to shift toward the Chinese doctrine that revolution in agricultural lands cannot succeed unless it is based on the disgruntled agricultural elements, may ultimately receive all necessary support among the non-industrial, clash-created proletariat of underemployed, and succeed. This time, nevertheless, it will be the unresolved sectoral clashes that both provoke and sustain revolution, not class struggle—a phenomenon very distant from what is anticipated in pure Marxist theory. Since numerous less-developed countries are not "prepared" to enter communism through class struggle, the socialist camp may find and welcome, in sectoral clashes, a substitute short cut, and an even more efficient "formula" to their ultimate goal of converting these economies to socialism.

2. *Second Corollary: A Horizontal Clash Between Sectoral Subgroups of the Same Income Group*

Such an intersectoral, intra-class clash develops mainly when the entrepreneurial class of the industrial sector attempts to establish a most favorable position for industry as a whole—since it benefits from such a gain—while the entrepreneurial classes of agriculture and mining oppose it because a loss for the sector means lower profits and a smaller share to them. If the profit recipient group of a sector is composed of foreign citizens, as for instance it is in Latin American mining, while in another sector it is composed mainly of domestic entrepreneurs, the modern rise of nationalism tips the scale in favor of the national profit recipients. Barriers to entry established by labor unions of the dominant sector, and other measures that reduce the intersectoral mobility of labor and suggest a clash between labor groups of various sectors, are a typical corollary of the overall sectoral clash.

3. *Third Corollary: The Apparent Clash Between Income Groups for the Economy as a Whole*

Although labor in developed countries clashes frequently with the employer class on a national level, and both can collide with property owners or government, such a course of action is unlikely in the Latin American countries. Here labor is organized by sectors, with industrial labor leading in power, while agricultural labor is often completely unorganized. Nor do employers act on a national front. Nevertheless, since the original clash between sectors, and occasionally within sectors, leads to a temporary or secular decline in the income share of a class, it is concluded, often incorrectly, that a clash between income groups for the economy as a whole takes place. But the overall decline in the income share is the corollary of a decline in one or more sectors during a sectoral clash. In the dominant sector all gain, blue and white-collar workers, rentiers, and profit recipients, while in the subordinate sectors one or more income groups lose.

A struggle between government, businessmen, and labor for a larger share of income is not necessarily the original, let alone the only, cause of inflation, as asserted by traditional analysis,[39] nor is it an autonomous factor propagating inflation, as claimed by the structuralists.[40] Whenever industry is dominant, evidence of class struggle between government, labor, and businessmen in it is lacking; indeed, it appears that one class supports and joins the other in the common effort to promote industry.[41] Real wages, profits, and government participation in industry rise simultaneously, at the expense of other sectors. The class struggle that develops in losing sectors is defensive and induced by the underlying sectoral conflict.

4. *Fourth Corollary: The Apparent Clash of Investment and Consumption*

A symptom and corollary of sectoral collision is the apparently competitive use of resources for investment or consumption. If a country possesses both an industrial sector producing capital goods as well as a construction sector, the gain of these sectors at the expense of others is reflected in an increase in investment as a percentage of gross domestic product at the expense of consumption, excluding inventory investment. But in Latin America, except Argentina, Brazil and Mexico, the sector producing machinery and equipment is negligible.

While the supply of such investment goods can be raised primarily through higher exports, there is no evidence that industrial consumer goods expansion contributes either to the demand or supply of investment goods more than any other consumer goods sector.[42] Indeed, without sectoral clashes the same investment could lead to a higher growth rate if the capital-output ratio is lower in the penalized, rather than in the dominant, sector. Industrial consumer goods production leads to as much consumption as does agricultural production, and sectoral clashes change the composition of final "consumption" by increasing the supply of one type of consumer goods at the expense of another type, but not the share of resources invested.

A rise in building and other construction investment is one aspect of this corollary. With inflation progressing, losing sectors defend themselves by investing in sectors with high returns and minimum barriers to entry. Construction, mainly because of easy entry and in spite of low and lagging rents, benefits from the flight out of losing sectors. Dwellings are likely to stay empty, while with an equivalent investment in agriculture, both agricultural output and derived construction output could be raised simultaneously. This is especially true because labor, and raw materials such as wood, cement, bricks, as well as other inputs necessary for an expansion in construction investment, are abundant in most less-developed countries.

5. *Fifth Corollary: Expansion of Services*

Finally, with a dominant industry and agriculture either neglected or suppressed, there is a natural tendency for labor released from agriculture, but not absorbed by industry, to flow into service sectors.

Two types of surplus labor can be identified in this context. The first, usually referred to as agricultural disguised unemployed labor, leaves agriculture either because it is pushed out of it or pulled by industry. If there is a pull, there are no employment problems since the dearth of industrial labor is met by the migrating laborers. But with a forced (push) rather than a derived (pull) labor exodus from agriculture, there is no guarantee that migrating labor will find industrial employment since expansion in industry can be insufficient, or the adopted technology highly capital-intensive, or there may exist union-erected barriers to entry.

A second type of surplus labor evolves as labor unable to find employment in the commodity sectors—such as agriculture and industry—flows into service industries. As sectoral clashes break open and slowly permeate the economy, labor first trickles, then flows in a stepwise fashion from agriculture, to industry, to services. The intermediate step is frequently omitted: agricultural surplus labor becomes surplus labor in services,[43] without passing through industry.

These two types of surplus labor differ both in origin and implications. Agricultural surplus labor, which is caused by land scarcity, is supported by an embryonic form of social welfare built on the family or village unit. Although forces equating marginal product to real wages are here inoperative, this family or village system has the favorable characteristic that its social problems, even including poverty, are not of an explosive nature.

Service surplus labor, which normally coincides with the urban surplus labor, is the frequent combined effect of sectoral clashes, the so-called social revolution, and other factors. Neglect of rural problems and the strengthening of agricultural bottlenecks sustain an internal push. The social revolution, manifesting itself in rising legal minimum wages in the organized urban labor market, rapid industrial growth, and numerous amenities of city life, exert a magnetic pull. The two sets of forces combined can overcome the built-in inertia of agricultural labor if they are of sufficient strength. But to the extent that the migrating labor adds to services and open unemployment, it is only a mixed blessing.

Whether sectoral clashes are desirable or not depends on their effects which are analyzed in the following section.[44]

V. SECTORAL CLASHES AND GROWTH

The effects of sectoral clashes are far-reaching and complicated, and as such cannot be easily detected or accurately predicted. We therefore presently limit ourselves to tracing some major direct, domestic effects. The discussion starts with an analysis of the relationship between sectoral clashes, capital formation, and the growth of services, and closes with a summary description of the various stages of sectoral clashes.

Sectoral clashes have an employment, an income distribution and a growth effect. The employment effect relates both to the absolute level and the intersectoral distribution of employment. The income distribution effect has a number of different angles. The most important is related to the (inter) sectoral distribution of income; however, the intra-sectoral income distribution, the distribution of income between classes, between private and public segments of a sector, and between foreign and nationally-owned segments of an industry can, in various historical experiences, be as fascinating and important as the sectoral angle. Finally, the growth effect is related not only to aggregate income but also to specific sectors.[45]

The effects of sectoral clashes on growth depend on the degree of the clashes, their strength, how long they last and what sectors they affect. They also depend on the type of response generated by income groups and sectors. It is impossible to state *a priori* that any type of sectoral clash is *eo ipso* detrimental to growth.[46] The effects of sectoral clashes on capital formation and growth can be the following.[47] Sectoral clashes that favor the capital goods and quasi-capital goods sectors in economies where the capital goods constraint is binding should have a favorable impact on growth. At the same time, suppression or even neglect of the capital and quasi-capital goods sectors in economies where the capital goods constraint is the binding one will have detrimental effects. During the period 1930–1965, sectoral clashes have reduced the rate of growth both in Chile[48] and Argentina[49] by strongly discriminating against their quasi-capital goods sectors, i.e., their export sectors.

Sectoral clashes can affect the composition, income and employment of the service sector. Services can benefit either by being a neutral sector or because a segment, say government, is raised to dominance. This impact can be reflected in employment as well as in income figures. The relationship between sectoral clashes and employment in services, referred to as the *service-employment-effect,* will be discussed first. Subsequently, the relationship between sectoral clashes and value added originating in services, to be called the service-income-effect, will be analyzed.

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The employment rise in services can be the result of a variety of forces. Rise to dominance leading to an employment increase would be one such force. Government and finance are the two service subsectors that may have benefited most in Latin America from this force. Labor attracted to these two sectors is largely of the skilled type used in industry, mining, construction and agriculture. Furthermore, such employment gains in government and finance can lead to a shortage of skilled labor in the commodity sectors, raise its cost above normal productivity levels and retard growth.

Another force can be a clash-induced shift in the demand pattern in favor of services. Sectoral clashes raise the income share of urban-centered middle classes and these in turn demand personal servants, gardeners, guards and so forth. Since "middle class" incomes in Latin America are a multiple of the incomes of low-paid service workers, the relative price of hiring such labor is low.

Incorporation of labor into unskilled services will depend on developments in the labor markets of the dominant, suppressed, and other sectors. In the dominant sector, salaries and wages can rise while in the suppressed, they go down. The higher the income and wage differential between the dominant and suppressed sectors, the higher the probability that labor from the suppressed sector will seek employment in services catering to the dominant sector. In contrast to the employment in government and finance, the present type of employment centers in personal and miscellaneous services. In both instances part of the employment increase is in unproductive activities. It is both push and pull factors that lead to this service-employment increase.

Very important is another force of technological nature. In order to control entry, the dominant sector favors the adoption of capital-intensive projects. With a limited supply of capital and a disproportionately high share of it appropriated by the dominant sector, other commodity sectors using less capital-intensive technologies grow sluggishly. Of necessity, labor unemployable in commodity sectors finds its way into labor-intensive services. This movement is strengthened as the favorable treatment given to the industry, and possibly government, starves agriculture and mining of investment funds and leads to an induced push of labor out of these sectors into services. All these factors, and possibly many others, lead to voluntary labor absorption by open-ended services sectors.

We turn now to the service-income-effect of sectoral clashes. A rise in the income share of special services, such as finance and government, is likely under any sectoral clash pattern. After all, the banking system plays a central role in serving all government-dominant sector coalitions, and furthermore, the export sector, industry and services, may be permitted to rise to dominance only in return for an income increase in key government services. Furthermore, in most Latin American countries, protection to industry has meant heavy windfall profits to trade, especially since importers reap heavy quasi-rents especially on their noncompetitive imports. However, even within trade the degree of "artificial income gains" varies substantially, with the trade subsector dealing in protected and non-competitive products benefitting most, and the trade subsector dealing in products with prices controlled benefitting the least.

An examination of the statistical evidence concerning the trends in relative income and employment of service sector in Latin America is presented in the following paragraphs.

The role of services as a source of income and employment has increased steadily in Latin America for as long as statistical information is available. However, the growth trends of the service sector's percentage contribution to value added (income) and to employment have followed two distinctly different patterns. The statistical evidence cited below, albeit of limited historical coverage, suggests that services have been contributing or receiving a disproportionately high share of value added as late as 1964, while their contribution to employment has been relatively low. In order to evaluate the role of sectoral clashes in shaping this pattern, I will present first the aggregate statistical information, with hardly any specific reference to service subsectors or single Latin American countries, then a diagram depicting the pattern of the empirical information, and finally another figure describing the "quasi-rents" possibly enjoyed by the overall service sector in Latin America due to sectoral clashes.

The service sector is defined broadly to include banking, insurance, and real estate, wholesale and retail trade, health, education and welfare, government, and personal services.

Income generated in services for Latin America as a whole was 44.0 per cent of the gross domestic product in 1950 and 40.6 per cent in 1964.[50]

This percentage of income generated by services was, in particular countries, higher than the Latin American average: in Chile it was 53.4 per cent in 1950, and 50.7 per cent in 1964; in Mexico it was 46.8 per cent of the gross domestic product in 1950, and 47.8 per cent in 1964. The only country that had a share of income generated in services distinctly below the Latin American average was Colombia.[51]

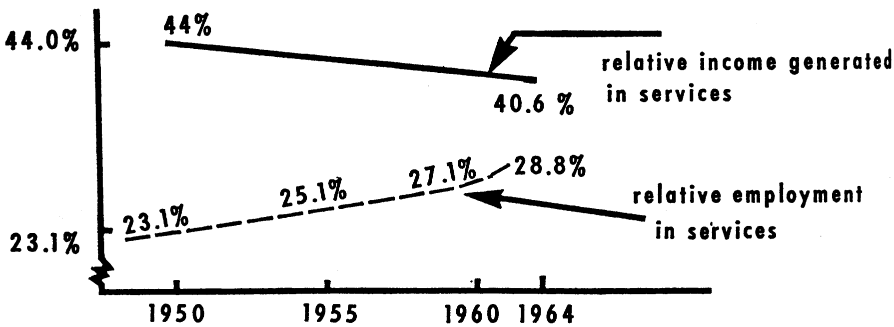
The role of the service sector as an employer has been substantially less important than its role as a source of income. Thus, for Latin America as a whole, 23.1 per cent of the active population was employed in services in 1950, 25.1 per cent in 1955, 27.1 percent in 1960, and 28.8 per cent in 1962.[52] What is even more important is the fact that since 1950 a disproportionately high share of the additions to the labor force has found employment in the service sector. Thus, 40.3 per cent of the increment in the labor force in Latin America found employment services during 1950–1955, and 47.1 per cent of the increment during 1955-1962.[53]

Although the present discussion develops the theme that the observed process of "servicealization" is in part a by-product of sectoral clashes, it is by no means intended to suggest that sectoral clashes are the only or exclusive factor responsible for the growth of services that is being observed.

The aggregative macroeconomic pattern emerging from the statistical evidence already mentioned is presented in Figure 1.

Figure 1

Relative Income and Employment in Services in Latin America, 1950 –1964



During 1950–1964 the share of income generated in services declined mildly while the share of services in employment increased rather rapidly. In order to understand these recent developments we present in Figure 2 the "hypothetical" behavior of services emerging from the limited information available. We use the term hypothetical to underscore the tentative nature of the present model and the fact that we do not intend to verify it in this essay. However, I should add that this pattern is real for Stages I, II, and III for those countries for which information is available.

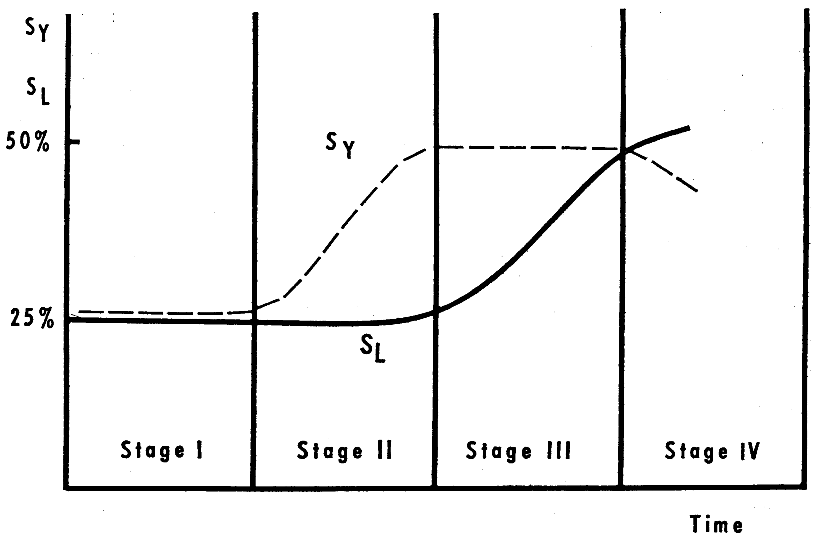
S_Y = value added in services as a percentage of total value added (gross domestic or national product).

S_L = employment in services as a percentage of total labor force.

If we use relative value added, (S_Y), and relative employment, (S_L), in services as criteria, the growth of services is expected to go through four stages. During the first stage of early development S_Y and S_L are approximately equal.

Figure 2

Relative Importance of Income and Employment in services



S_Y = value added in services as a percentage of total value added (gross domestic or national product)

S_L = employment in services as a percentage of total labor force.

During the second stage S_Y rises rapidly while S_L remains almost completely constant. By the end of Stage II, S_Y has already stabilized and remains approximately constant during Stage III. During Stage III, however, S_L starts rising and by the end of the period has caught up with S_Y. Since most Latin American countries have passed Stage I and are currently either in Stage II or Stage III but have not yet entered Stage IV, it is impossible to make anything but conjectures about the pattern that will develop in Stage III. Both Figure 2 and Figure 3 suggest that an analysis of the service sector in the long-run in terms of either employment or income would be incomplete. Both variables have to be considered and preferably in conjunction.

In order to analyze the unequal growth pattern of the service sector's employment and income the concept of the "balance ratio" is introduced. The "balance ratio," which measures the degree of relative "productivity," is de-

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fined as the ratio of income generated in services, expressed as a percentage of aggregate income, to the employment in services, expressed as a percentage of aggregate employment.[54]

A major concern of the theory of sectoral clashes is to determine whether deviations from a "normal" balance ratio are determined by productivity differences or power elements related to clashes. In Latin America, the service sector-balance ratio has been steadily declining since 1950 when it was equal to 1.9. In 1955 it fell to 1.6; it was further reduced to 1.5 in 1960; and finally, in 1962, reached a value of 1.4.[55] The declining balance ratio resulted from the increasing share of the labor force employed in services[56] and the slowly declining share of domestic income originating in services. In terms of the sectoral clash theory, it can also mean that the dominance of the service sector, indicated by a balance ratio exceeding a value of 1.5, has been fading away as the clash-induced retardation in the growth of the commodity sectors and their labor-absorptive capacity forced increasing amounts of unskilled labor into services.

In Figure 3, the difference between S_Y and S_L is attributed in part to sectoral clashes and in part to market forces. Sectoral clashes are assumed to have only an income effect originally and later also an employment effect. Services are enjoying high quasi-rents which result in part from raising some service subsectors to dominance and in part from suppressing other non-service sectors. During Stage III sectoral clashes have almost exclusively an employment effect with the result that the gap between S_Y and S_L narrows constantly until S_Y and S_L have reached equality. This brings to an end our discussion of the relationship between sectoral clashes and services.

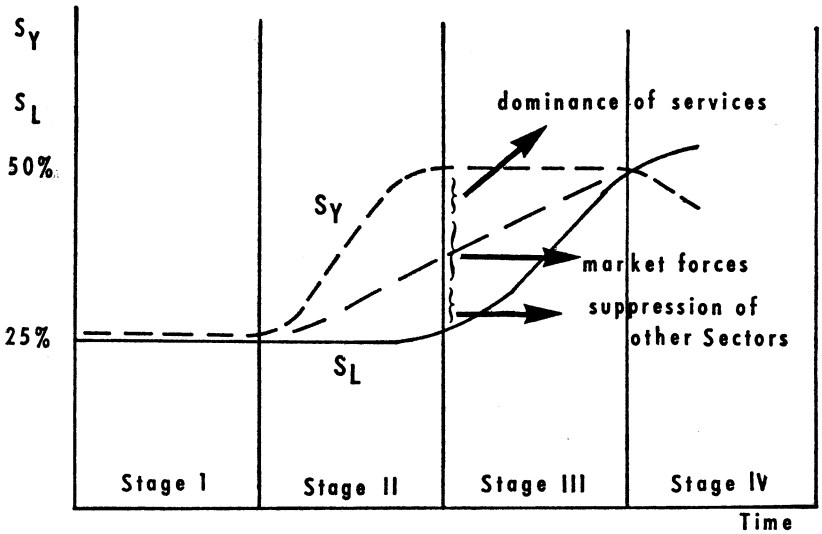
Agriculture displays a pattern inverse to that of services. Its balance ratio since 1950 has been below 1.00 in all countries and close to .5 in a large number. This evidence supports the hypothesis of this essay that agriculture has been either a neglected or a suppressed sector.

Sectoral clashes can pass through a variety of stages. Here we describe what might be called the representative three stage sequence.

Each phase is distinguished by a unique event. During the first, when output is still determined by past investment decisions, all sectors expand, but the dominant most rapidly of all. During the second phase, the neutral sector experiences an acceleration in growth, due to the flight of resources into it, while the suppressed experiences an actual decline, as it loses the battle for sectoral preeminance. The third phase witnesses a reversal, with a contraction of the neutral, and recovery and expansion of the suppressed sector. The dominant sector expands continually but at a diminished rate. The economy as a whole expands during the first two phases and occasionally experiences a de-

Figure 3

Relative Importance of Income and Employment in Services



S_Y = value added in services as a percentage of total value added (gross domestic or national product)

S_L = employment in services as a percentage of total labor force.

cline during the third. Since the index for the economy's output is a weighted average of all sectors, both their magnitude and rate of change will be of significance.

An economy undergoing sectoral classes is likely to face a deceleration of its growth rate, and, occasionally, even as absolute decline. Had there been no Malthusian population increases we would worry less. But now, a suboptimum, or even worse, a misuse of resources can hardly be tolerated.

Two important aspects reveal themselves. First, a constant or slightly variable growth rate can easily conceal convulsions of individual sectors. Second, a better undersanding of the components can lead to policies that raise the aggregate growth rate. Economists and politicians alike have had misgivings about industrialization, not because it is incorrect, but because they draw conclusions from instances, albeit too frequent, of overindustrialization and sectoral clashes.

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C. Policy Recommendations and Conclusion

Sectoral clashes are bound to have a strongly national character since they depend on the shifting power constellations which are unique in time and place. Policy recommendations can therefore be formulated only by taking the individual country's political and economic profile into consideration. The general policy implications of the sectoral clash analysis listed below can be considered as major guidelines rather than foolproof policy recommendations.

a) Sectoral clashes that clearly discriminate against capital formation and cause gross inequalities in sectoral income distribution should be removed. Even so, however, it is very difficult to argue that sectoral clashes, even in their extreme form should be automaticaly and immediately eliminated. Sectoral competition is likely to persist, and should persist, since it provides the moving force. Sectoral clashes should be removed whenever their presence reduces the rate of growth of an economy. In more specific terms they should be removed whenever they strengthen binding constraints, whether these are related to saving, entrepreneurship, or lack of capital goods. In Latin America, it would be meaningless to provide a blank prescription since the various countries are too different to be treated as one.

b) If the savings function has become rigid because of sectoral clashes it must regain its original flexibility. By flexibility we mean that it should respond to variations in interest rates and incomes and provide a connecting bridge to surplus and deficit-saving units. This can be partially accomplished by attaching a clause—for example, cost-of-living or foreign exchange—to both old and new issues of government and private debt, thus making these assets inflation-or-sectoral-clash-proof. Furthermore, only real assets or assets with a clause, should be accepted as collateral by commercial banks, and credit should be extended with a price index stipulation to prevent negative real rates of interest and wealth redistribution. The effects of introducing price clauses would be to eliminate the flight out of assets vulnerable to inflation, by equalizing rates of return on financial assets, and to channel funds to activities currently financed with Central Bank credit. Rehabilitation of the mortgage market can also be expected to reduce dependence of the construction sector on inflationary demand by government or development institutes. Although the restoration of capital and money markets will enable an increased satisfaction of the commercial and investment needs of enterprises with naturally high rates of return, it will not dwarf or curtail the need for Central Bank credit to finance artificially stimulated activities, unless the government is willing and able to tax or borrow from foreign or domestic sectors.

c) Grossly discriminatory fiscal policies should be eliminated or reduced.

d) Furthermore, land reform is suggested as the remedy for changing the land-ownership pattern. It is difficult to accept the structuralist sociological tenet that agricultural production will soar if land passes from the *hacendados* to the *inquilinos*. More likely, with land reform, government will restore adequate profit incentives for, and lose the motivation to penalize, agriculture. Inflation may still occur and can co-exist with the latifundio, minifundio, or any other land tenure system. Suggested here is the rather extreme hypothesis that landlords are to be partially blamed and held responsible for inflation because they have incited excessive industrialization. Sectoral discrimination was, in part, the result of centuries-long resentment against domination of the country by rural lords and the persisting political power of the landed aristocracy. Land reform will remove this irrational excuse for excessive industrialization.

In addition, it is suggested that government earmark at least 20 percent of its development funds for purchase of large *fundos*, agricultural overhead investment, and helping smaller farmers to resettle and be trained. In particular, it is also suggested that foreign aid through the Alliance for Progress should have special "strings attached." Governments should receive aid if they prove that domestic resources twice the size of aid given are used to purchase, distribute, and improve the quality of land. Since there will be no confiscation involved, landlords will not object. Simultaneously, foreign aid will permit a net inflow of goods and services which can be used by any sector, including agriculture. Obviously, substantial wealth will be concentrated in the hands of landlords, which may facilitate establishment of new industries. Foreign aid would thus help restore balanced attention between industry and agriculture by transforming that latter sector, through land reform, from an "aristocratic," oligarchic, and conservative one—which is anathema to radical politicians—to a widely owned "democratic" one which deserves immediate and full attention. As the latifundio system disappears, unequal landownership, which is often a key factor leading to irrational economic policy, will have also been eliminated and foreign aid will have scored a lasting gain. Furthermore, agricultural labor should be organized. This can create an obstacle to the rise of sectoral discrimination by making it difficult for landlords to pass the burden of discrimination to unskilled workers, and thus be indifferent to it.

Besides land reform, the ownership of big mining or other foreign-owned concerns should be opened to local investors. The incentives to penalize the mining sector will be reduced as its nature changes from a foreign-owned to a sector with "mixed" ownership, to the benefit of both owners and the country. Once tensions in agriculture and mining are resolved, the various countries can devote more energy to the more thorny aspects of the Common Market. Again foreign aid should be used to enable local investors to buy equity or debt in foreign concerns which will thus become an integral part of national life.

Finally, there exists an obvious need for expansion of international private and public law in relation to foreign (multinational) enterprises, private foreign capital inflows and public foreign capital inflows. Bona fide suspension of payments to private creditors, temporary or permanent suspension of repayment of public foreign "aid", and revival of "unpaid" foreign liabilities by nations facing balance of payments crises belong to the issues where international law should be improved.

Sectoral clashes, like inflation and balance of payment deficits, can be tolerated as long as they are the lesser of two evils. Sectoral clashes are thus weighted against the employment or growth decline which their elimination might entail. As with the case of inflation, the degree of sectoral clashes determines its "evilness" as a growth and employment reducing force. Beyond a certain point, which is by no means easily known or predictable, sectoral clashes enter a reverse trade-off with employment and growth. While at the beginning a slight dose of sectoral clashes may stimulate income and employment growth, once they have prevailed for some time an additional dose may actually reduce income and employment.

This essay contains the seeds of a socio-economic theory of development based on the "horizonal" interactions and resource competition between economic sectors and on the "vertical" interactions between income groups. It may even be considered as a theory of growth competitive to the Marxist one in that it places the primary emphasis on horizontal interactions, which provide the *primum mobile*, and in that it considers the clash between the industrial proletariat and capitalists as a phenomenon derived from sectoral clashes. As an economic framework, the theory of sectoral clashes permits an extension and disaggregation of the classical and Marxist theory of clashes between income groups. In substance, it involves a radical shift of emphasis away from class to sectoral analysis. From the political and sociological point of view, not only does there exist no notion of inevitability of socialism but, furthermore, it is shown that sectoral clashes postpone or even prevent socialism.

There are some basic parallels between the theory of sectoral clashes and Marxist theory. While in Marxist theory it is the control of government by the proletariat and the use of government machinery to serve the interest of the proletariat that provide the moving force, in the theory of sectoral clashes it is the control of government by and the use of the government apparatus to serve the interests of a specific economic sector that provides the *raison d'être* for the government-sector coalition. Furthermore, the Marxist theory was developed to explain historical experience. Similarly, the theory of sectoral clashes was developed to explain historical experiences, especially in Latin America, where the classical and Marxist frameworks failed to provide an explanation. The increasing gap between the incomes of the Latin American countries and the developed West is largely, but not exclusively, attributed to the various sectoral clash patterns described in the present essay.

NOTES

1. The writings of Raúl Prebisch and his followers are well known but too massive to be listed here. Selected references to special aspects of the interrelated hypotheses of this school of thought appear in the various sections of this paper. Raúl Prebisch is the chief exponent of both the Center-Periphery hypothesis and the Structuralist School.
2. One of the clearest but hardly accurate analyses of growth and inflation in Latin America that relies exclusively on the "class model" can be found in Nicholas Kaldor, "Problemas económicos de Chile," *El Trimestre Económico*, Vol. 26(2), No. 102, Mexico City April–June, 1959, pp. 170–221. Kaldor's article has earned him a place in the literature as a staunch structuralist. Although Celso Furtado relies on the class struggle concept and is also a structuralist, he belongs to those few who have argued that the Western class-struggle model has to be modified substantially before it can be applied to Latin America. See Celso Furtado, *Development and Underdevelopment* (Berkeley: University of California Press, 1964), pp. 115–171. The class struggle approach is analyzed in *ibid.*, pp. 5–44.
3. The literature on this topic is too massive to be cited here. Selected references will, however, be given in subsequent sections of this essay.
4. This competition will be referred to as vertical for reasons that will be explained in Part III of this essay.
5. This type of competition will be referred to as horizontal.
6. In this framework the notion of "class solidarity" would be deemphasized in favor of the motion of "sectoral solidarity." The common interest stems from belonging to the same sector rather than from belonging to the same income class.
7. A sector is defined as a group of factors of production producing one or a series of similar products. A class or an income group is defined as an entity receiving payment for contributing a factor of production.
8. The theory of sectoral clashes was first developed in analyzing sectoral growth and inflation in Chile in Markos Mamalakis, "Public Policy and Sectoral Development. A Case Study of Chile; 1940–1958," pp. 1–200, *Essays on Chilean Economy* (Homewood, Ill.: Richard D. Irwin, 1965) by Markos Mamalakis and Clark W. Reynolds. Although the basic elements of the theory were present in this early study, the first complete version was published a year later both in a monograph, and in article form in Spanish. For this early version see Markos Mamalakis, *La teoría de los choques entre sectores* (Santiago, Chile: Instituto de Economía, Universidad de Chile, March 1966), pp. 1–64; and *ibid.*, "La teoría de los choques entre sectores," *El Trimestre Económico*, Vol. XXXIII (2), Abril–Junio de 1966, Num. 130, pp. 187–222. The revisions and extensions leading to the present essay were largely induced by the comment of Rolando Castañeda and Jorge Sakamoto, "La teoría de los choques de los sectores: un comentario," *El Trimestre Económico*, Vol. XXXIII (4), Octubre–Diciembre de 1966, Num. 132, pp. 709–714.

9. The sectoral clashes theory, the sector-class framework and their role in explaning Latin American phenomena will be understood better by a reader who is familiar with the insightful typological analysis of Kalman H. Silvert, *The Conflict Society, Reaction and Revolution in Latin America*, (Rev. ed., New York: American Universities Field Staff, 1966), pp. 3–34. In this distinct but related analysis of political behavior, Silvert came rather close to developing or suggesting some of the ideas of the present essay.

10. An early but incomplete attempt to move away from, or at least modify, the narrow class approach was made in the pioneering work of John J. Johnson, *Political Change in Latin America, The Emergence of the Middle Sectors* (Stanford, Calif.: Stanford University Press, 1958). Johnson's use of the term "sector" is in lieu of the term "group" or "class" and has no relation to the notion of "sector" used in the present essay.

11. One of the primary functions of money in this framework is *to serve the dominant sector* and if "private money" does not do, public money is created through a controlled Central Bank and a government-owned banking complex.

12. Sectoral clashes can be a direct assault on the market mechanism by a "non-neutral" government and can reflect an effort to transform it. There is a basic similarity between post-Marshallian neoclassical value theory and the theory of sectoral clashes. The former stresses deviations from the norm of pure competition caused by non-governmental action, while the latter stresses the implications of government intervention wherein a particular sector is promoted far beyond the limits set for allocation of resources in conformity with the existing market structure.

13. This principle is reinforced by the belief that relative prices, as determined by the market mechanism, are not necessarily optimum from the development point of view. The post-World War II spurt and proliferation of attempts, especially in developing nations, to promote a sector by using the government apparatus, have coincided with an expansion in government's roles, spreading of the belief that some sectors are particularly growth prone, and introduction of long-run growth as a primary policy objective.

14. Víctor Alba, "The Latin American Style and the New Social Forces," *Latin American Issues: Essays and Comments*, Albert O. Hirschman, ed. (New York: The Twentieth Century Fund, 1961), p. 45.

15. Sectoral dominance is often justified by the "leading sector" or "growth pole" argument. But there exists a fundamental difference between dominant and leading sectors. The latter functions as a signaling device, as an avant garde sector, that leads and pulls the rest of the economy as it follows the path to full development, while the dominant sector suppresses and occasionally seeks to destroy the signaling devices that transmit its state of euphoria and establish balanced growth. The transmission of euphoria is objected to because it can slow down the resource release to the dominant sector.

16. The outstanding, if not the first, event that follows the emergence of modern sectoral clashes is the artificial rise in the rate of return of the dominant sector. This is achieved by raising its income share above its natural level. Since this can be accomplished in different ways, the degree of dominance can be measured with a number of criteria. Thus, the ratio of domestic to international prices, that is Pd/Pi, where Pd stands for the domestic, and Pi for the international price, for the output of a particular sector is one measure. If dominance is established through granting of subsidies, tax concessions, and similar instruments, this criterion would fail. Another criterion would be the ratio of real wage rates in two distinct points of time, that is Wa/Wb, where Wa stands for wages after dominance, and Wb for wages be-

fore dominance. If the wage differential overtime exceeds any normal productivity gains, there would exist a supposition of dominance. Instead of using wages only, it would be more proper to use total factor payments to measure dominance of an economic sector since this criterion would bypass problems created by an intrasectoral redistribution of income. This latter criterion is recommended here, unless ad hoc evidence suggests use of a different one.

The terms artificial and natural are defined in greater detail in Markos Mamalakis, "Growth as a Cause of Inflation," *Journal of Economic Studies*, November 1965, pp. 1–29.

Market imperfections in the labor market can also cause differences in income. What is, however, being argued here is that the wage differential cannot increase over time unless market imperfections also rise with time, these being directly related to sectoral clashes. The degree of monopoly is likely to be positively related to the unwillingness of government to expose the particular sector to international competition.

17. "Natural" means that which basic supply and demand conditions would produce without government intervention.

18. The resource transfer is achieved either directly, through governmental revenue-expenditure policy, or indirectly by transforming the constellation of private sectoral rates of return. In either case, this resource reallocation can change the existing pattern of domestic intersectoral flows as well as the volume and distribution of intercountry factor payments.

19. Usually overlooked is the agriculture suppression paradox which arises when domestic agriculture is suppressed while foreign agriculture is favored or elevated to dominance. Many Latin American nations indirectly subsidize agricultural imports while they have imposed price controls on their own. With agricultural production lagging behind population and income increases, and imported food prices kept at artificially low levels, the economy increases its share of resources to import foodstuffs. Industrial expansion can, as a result, be handicapped as domestic agriculture stagnates and valuable resources are syphoned off by consumer goods imports.

20. Suppression of a sector reflects interference with the market mechanism as a signalling device. It is not to be confused with a government policy of extracting unequal amounts of revenue from sectors, in an effort to reallocate resources, whenever this acts as a stimulant rather than a check on the market mechanism. Taxation of agricultural income accompanied by government sponsored social overhead investment and stable or rising agricultural prices by no means suggests suppression.

21. The sectoral stratification developed in the present theory can be used as a complement or substitute to the standard class stratification.

22. See Albert O. Hirschman, "Models of Reformmongering," *Journeys Toward Progress* (Garden City, N.Y.: Doubleday and Company, 1965), pp. 358–384, 360.

23. A very detailed analysis of classical and Marxist growth theory is found in Celso Furtado, *Development and Underdevelopment* (Berkeley: University of California Press, 1964), especially Chapter 1, pp. 1–56.

24. During this period it is commonly found that powerful labor unions develop in the prospering mining sector. As long as the sector receives preferential government treatment and is prospering, only a mild clash is likely to erupt between capitalists and workers in the mining sector.

25. See Enrique Kaempffer, *La industria del salitre i del yodo, 1907–1914* (Santiago, Chile: Imprenta Cervantes, 1914), pp. 1–1233.

26. See also Nicolás Palacios, *Nacionalización de la industria salitrera* (Santiago, Chile: Salón Central de la Universidad, 1908), pp. 1–7.

27. Santiago Macchiavello Varas, *Política económica nacional* (Santiago, Chile: Establecimientos Gráficos "Balcells y Co.," 1931), pp. 3–376.

28. Miguel Cruchaga, *Estudio sobre la organización económica y la hacienda pública de Chile* (Madrid: Editorial Reus, 1929), pp. 1–658.

29. See Julio César Jobet, *Ensayo crítico del desarrollo económico-social de Chile* (Santiago, Chile: Editorial Universitaria, 1951), pp. 1–233.

30. See Aníbal Pinto S.C., *Chile, un caso de desarrollo frustrado* (Santiago, Chile: Editorial Universitaria, 1958), pp. 1–198.

31. See Osvaldo Sunkel, "El marco histórico del proceso de desarrollo y de subdesarrollo" in *Cuadernos del Instituto Latinoamericano de Planificación Económica y Social*, Serie II, No. 1, 1967, pp. 1–64.

32. United Nations, Economic Commission for Latin America, *Economic Survey of Latin Ameria, 1949* (E/CN. 12/165/Rev. 1, 11 January 1951), New York 1951, pp. 263–390, in particular the last paragraph on p. 390.

33. This clash, which is invisible to the uninitiated observer because it has little or nothing in common with barricades and battles, can be diagnosed from its unmistakable symptoms and deep effects. This silent and invisible clash can be as effective and strong as any "overt" class struggle and can enable a sector to achieve an "improper" objective. The choice of this "invisible" clash can exist and decide upon or develop as the outgrowth of strong "underground" forces. It can be said to be an instrument of those sectors or classes which know that the goal of a higher relative income share could not be achieved through more effort, better education, more savings and so forth.

    Without the sectoral clash framework such undesirable phenomena as declining income, inelastic output, bottlenecks, and so forth can be attributed to a third and completely irrelevant cause. Thus, the low income level of unskilled workers can be attributed to their unwillingness to learn, lack of discipline or backward values, rather than to the active resistance of some middle and higher income groups towards universal education systems, or towards the use of taxes for public education. Stagnation of the export sector can be explained by blaming those foreigners that control it for lacking patriotism rather than by looking at the unfavorable exchange rates, profit rates and so forth.

34. Roberto de Oliveira Campos, "Two Views on Inflation in Latin America," *Latin American Issues*, p. 75.

35. J. Grunwald, "The 'Structuralist' School of Price Stabilization and Economic Development: The Chilean Case," *Latin American Issues*, pp. 110–111; Sunkel, "Inflation in Chile: An Unorthodox Approach," *International Economic Papers*, No. 10 (London: Macmillan, 1960), pp. 111–115; Raúl Prebisch, "Economic Development or Monetary Stability: The False Dilemma," *Economic Bulletin for Latin America*, 6, March 1961, p. 15.

36. Price controls are often imposed in an effort to control inflation and their inflationary impact in uncontrolled sectors is normally ignored. Since numerous price adjustments are linked to the cost-of-living index during inflation, price controls are often imposed in order to diminish the officially registered price increases and the related automatic wage and salary increases. This, nevertheless, only leads to further discrimination of the agricultural

sector, since its products have an important weight in the cost-of-living index, while it favors the industrial sector and services.

37. In a study by José Luis Federici, *Tarifas, entradas y gastos de la empresa de ferrocarriles del Estado de Chile* (Santiago, Chile: Instituto de Economía, Universidad de Chile, 1965, No. 76), it is reported that a gross misallocation and waste of government resources is evidently taking place in the Chilean government's railroad system. The deficit of the Chilean government's railroads amounted to 58.5 million escudos in 1961, in prices of the same year, or to 1.1 percent of gross domestic product. The deficit rose to 75.2 million in 1962, 62.3 million in 1963, 65.6 million in 1964, always in 1961 prices. This amounted to 1.3, 1.0, and 1.1 percent of gross domestic product in the respective years. The percent importance of government subsidies to these railroads in gross domestic product amounted to 1.2 percent in 1961, 1.3 percent in 1962, 1.2 percent in 1963, and 1.1 percent in 1964. Federici's study blames mainly rising costs and inefficiency and to a lesser extent a deterioration in the railroads, tariff structure for the huge deficit and government subsidies.

38. Thus, in agriculture, unskilled labor is likely to emerge as the ultimate sufferer, while salaried employees, even in this sector, generally prove themselves a powerful class.

39. E. M. Bernstein and I. G. Patel, "Inflation in Relation to Economic Development," *International Monetary Fund Staff Papers,* November 1952, pp. 363–398, reprinted in *Studies in Economic Development,* B. Okun and R. W. Richardson, eds. (New York: Holt, Reinhart and Winston, 1962), pp. 437–438. The clash-of-income-groups hypothesis is presented as a model of inflation by Franklyn D. Holzman, in "Income Determination in Open Inflation," *The Review of Economics and Statistics,* May 1950, pp. 150–158.

40. Grunwald, "The 'Structuralist' School of Price Stability and Development: The Chilean Case," in *Latin American Issues,* pp. 115–116; Sunkel, "Inflation in Chile: An Unorthodox Approach," *International Economic Papers,* No. 10, pp. 111, 112.

41. Power groups are being created on the basis of association or affiliation with an economic sector without ownership of wealth as a common link and even without explicit political power. The very dependence upon sectoral affiliation as the source of power leads to a high willingness of income groups pertaining to "one sector" to cooperate rather than compete or struggle against each other. Sectoral affiliation as a source of power creates the very conditions that reinforce the structure. Thus, once a "sector-based" power structure has been created, specific income groups within the sector will not attempt or be prevented from seeking income gains at the expense of other classes, since such an attempt might shake up the very foundations of the sector-based power structure.

42. Both agriculture and industrial consumer goods production require investment in order to grow. Their respective capital-output ratios will determine the magnitude of investment associated with a unit of output increase. The statement that one consumer goods sector contributes more to investment than another makes little sense unless additional factors are introduced into the discussion.

43. It is difficult to say whether the expansion of services is a growth-promoting or a growth-impeding force. The problem of balance between the supply of goods and the supply of services will always exist but in different forms in the various stages of economic development. A service-sector product-sector balance can be said to exist if the flow of services acts as a stimulant rather than as a constraint on growth. "Overservicing" describes the phenomenon of excessive employment and overpricing of services in specific branches such as railroads, planning institutes, or among longshoremen.

44. It should be admitted here that the demarcation line between corollaries and effects of sectoral clashes is not always very clear.

45. The growth problem often plays a lesser role than the distribution problem because the benefits derived from a change in the sectoral distribution of income can exceed in the short-run the benefits from overall income growth by a substantial margin. This explains in part why individuals, sectors and subsectors in Latin America consider growth primarily in terms of their own short-run benefits, whatever overall growth is.

46. A detailed geometric analysis of the effects of sectoral clashes on the employment of the dominant and suppressed sectors and the sectoral distribution of income can be found in Markos Mamalakis, "La teoría de los choques sectoriales: un segundo ensayo," *El Trimestre Económico*, Abril–Junio 1969.

47. The effects of sectoral clashes on capital formation can be analyzed within two frameworks relevant to Latin America. One framework involves an open economy which is largely self-sufficient in capital goods production; the other involves an open economy that is heavily dependent on capital goods imports. The first type of an economy has been elsewhere referred to as a complete economic system, and the second type as an incomplete economic system. In an incomplete economic system the export sector makes available to the economy the foreign exchange needed to import capital goods and has therefore been called a quasi-capital goods sector. For a detailed analysis of the role of the export sector as a quasi-capital goods sector in Latin America see Markos Mamalakis, "El sector exportador, etapas de desarrollo económico, y el proceso ahorro-inversión en America Latina," *El Trimestre Económico,* Vol. XXXIV (2), México, Abril–Junio 1967, pp. 319–341.

48. See Markos Mamalakis, *Essays on the Chilean Economy,* pp. 33–54, 71–82, and 149–168.

49. Carlos Díaz-Alejandro, "Essays on the Economic History of the Argentine Republic," forthcoming publication of Yale Economic Growth Center.

50. See U.N. Economic Commission for Latin America, *Economic Survey of Latin America, 1964* (E/CN. 12/498/Rev. 1, 1964) Table 23, p. 36.

51. All this information is derived from *ibid*., Table 23, p. 36. The service-income-share in Colombia was 34.4 percent in 1950, and 33.3 percent in 1964.

52. See *ibid*., Table 29, p. 42. Services in Table 29 include trade and finance, government, miscellaneous services and unspecified activities. They do not include what the Economic Commission for Latin America calls basic services, such as gas, electricity, water, transportation and communications.

53. *Ibid*., Table 25, p. 39.

54. For example, if income (value added) in, and employment by, services, are fifty percent of their respective totals, the balance ratio equals one. If the income share exceeds the employment share the balance ratio is greater than one and if the income share falls short of the employment share the balance ratio is less than one.

55. The service balance ratios were calculated by using information given in *Economic Survey of Latin America, 1964,* Tables 23 and 29, pp. 36 and 42.

56. It was 23.1 percent in 1950, 25.1 percent in 1955, 27.1 percent in 1960, and 28.8 percent in 1962.