ECONOMIC DEVELOPMENT, EMPLOYMENT
AND INCOME DISTRIBUTION
IN DEVELOPING SOCIETIES

by

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ABSTRACT

The thesis explores and analyzes critically current theories and policies of socio-economic development, in market-oriented societies, with specific reference to three interrelated developmental issues:
- the relationship between economic growth and employment,
- the distribution of national income between wages and profits, and,
- the relationship between social participation in the process of production and the levels of individual welfare.

The thesis focuses on the analysis of current theories/policies and establishes the limits of their capabilities to explain/solve the problems of unemployment, inequity, and social alienation for the vast majority of the populations in the developing societies, especially Latin American countries. Specific reference will be made to the Argentinian context.

I argue throughout the thesis, that problems of unemployment, inequality, and social alienation are neither aberrations nor temporary dysfunctionalities, but are by and large the logical and historical outcomes of the normal functioning of the basic socio-economic institutions actually existing in these societies.

From the holistic understanding of the relationships, constraints and requirements implicit in the functioning of the socio-economic institutions of market-oriented developing societies, an embryonic "model" of viable social organization emerges.

Thesis Supervisor: John R. Harris
Title: Associate Professor, Urban Studies and Planning.
ACNOWLEDGMENTS:

I have never been particularly interested in reading the acknowledgments of theses, reports or articles. They never meant anything to me. I realize now that indeed acknowledgments only mean something to their author: in this case to me.

I want to express my appreciation to the Head of the Department of Urban Studies and Planning, Prof. L. Rodwin, for making my studies in the Department possible; and to my advisor Prof. J. Harris for his helpful comments and constant support.

I want to express my sincere gratitude to my colleague and friend, Shoukry Roweis, for what he has taught me, his constructive criticisms and encouraging attitude.

To all those that in some way or another were supportive all my thanks.
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This thesis attempts to study the conditions, characteristics and problems of human work in market-oriented developing societies. My interest in this subject derives from the belief that work is a central activity in the relation of man to himself, to his community and to his environment. Such a study therefore, relates directly to an immediate concern in the quality of life and culture.

Much has been written about issues related to problems of unemployment, income distribution and social welfare in developing societies. Some of these writings are "purely" theoretical. But mostly, they deal with policy issues and try to suggest problem "solutions."

My study fits neither of these orientations.

I am not interested in formulating/evaluating a particular policy (or set of policies) in the context of a particular society, nor am I driven by "purely" theoretical and methodological interests. My interest lies in the pragmatic desire of achieving social and economic equality and of moving towards an institutional set up which allows for the development of human potentiality and creativity.

In other words, my interests are practical interests in social change. But reality can hardly be changed if it is not fully understood. And this engenders a theoretical interest that is inextricable from the practical interest in social change. A theory is obviously needed to allow us to understand the functioning of our current social order and the kinds of changes requisite for the achievement of social and economic equality and of the fulfillment of human potentiality and creativity.
Many scholars/policy-makers/politicians working in developing areas, in particular in Latin American countries express the need to achieve similar social goals. And whether they make them explicit or not, these scholars/policy-makers/politicians also have theories about society and about the ways to bring about social change.

However, after more than twenty years of repeated and diversified efforts (both national and international) starting in the fifties, continuing through what the United Nations have called the "Development Decade" in the sixties, and still being pursued in the "Employment Decade" of the seventies, the results have been extremely poor and discouraging. True, some countries, like Japan, Taiwan and Brazil have been more successful than others in achieving high rates of growth of national output. But how successful have they been in solving problems related to employment, distributional equity, quality of life and environment, and institutional responsiveness? (and parenthetically how successful have the so-called developed countries been on these scores and what accounts for their increasing social malaise?)

The basic question that this thesis asks is: "Why is it that the developing societies have failed to achieve these desired social goals? I will attempt to show that to a large extent the failures can be attributed to the fact that, typically, developmental policies (supposedly implemented to help achieve goals of employment, equity and social participation) take as "given" the current socio-economic institutions of market-oriented societies.
I will argue throughout this thesis, that problems of unemployment, inequality and social alienation are neither aberrations nor temporary dysfunctionalities, but are by and large the logical and historical outcomes of the normal functioning of the basic socio-economic institutions actually existing in these societies.

If these institutions are to remain unchanged there is indeed little grounds for a greater optimism in the coming years as to the likelihood of achieving these broader social and economic goals.

My arguments will be developed with specific reference to three interrelated developmental issues: 1) the relationship between economic growth and employment (which relates to the socio-economic problem of unemployment); 2) the distribution of national income between wages and profits (which deals with the problem of distributional inequity); and 3) the relationship between social participation in the process of production and the levels of individual welfare (which involves the understanding of the problem of human social alienation in market-oriented economies).

In Chapter I I will begin by briefly sketching some salient aspects of socio-economic development in Argentina during the last two decades. I will focus on the analysis of the theories/policies used to explain/solve the problems of unemployment, inequity and social welfare. I will proceed to analyze how the stated objectives of solving these problems failed to become a reality. The main purpose of this introductory chapter is to use the
example of Argentina (which is not atypical in any outstanding sense) to find out the concrete theories/policies used to deal with the aforementioned developmental issues and the concrete outcomes which have followed the implementation of these theories/policies in the last twenty years.

In the next three chapters (Chapters II through IV) I will try to relate these three socio-economic problems to the normal functioning of the basic socio-economic institutions of market-oriented societies.

In Chapter II, I will analyze the likelihood of a market-oriented economy to grow at the rate and in the direction, requisite to absorb the entire labor force a developing society into productive employment. In the same chapter, I will consider the conditions under which a society faces a choice between more output and more employment. This will be used later on to establish the relations between the unemployment problem and the functioning of our socio-economic institutions.

In Chapter III, I will discuss the socio-economic forces which determine the distribution of national income between wages and profits in a developing market-oriented economy. Given these forces, I will then explore the likelihood of labor to augment its share of the national product.

In Chapter IV, I will argue that the basic relations of man to himself, to his community and to environment in market-oriented societies are alienated and as such, alienation is a social problem engendered by the normal functioning of our socio-economic institutions.
These four chapters will provide a holistic understanding of the relationships, constraints and requirements implicit in the functioning of the socio-economic institutions of market-oriented societies. This holistic understanding of the nature and functioning of our basic market-oriented institutions serves as a spring-board for attempts to overcome their inadequacies/failures in future phases of social practice. It is important to emphasize that I will not attempt to formulate an "alternative" institutional set up. Such an attempt would be idle, utopian and undesirable. Future forms of social organization will be determined historically and only in the ongoing process of social practice itself. My purpose is rather to attempt to understand more clearly the tasks ahead and the general directions of structural changes called for if society is to achieve its potential and development.

But in the process of attempting to understand the internal logic of current socio-economic institutions, and to glean the nature of the social tasks requisite to achieve the aforementioned social goals, an embryonic "model" of viable social organization inevitably emerges, at least in outline. And this is far from being a utopian blue-print.

As a matter of fact, few communities in France, Italy, and Israel are actually organized along similar lines. And much more importantly, one fourth of the world population, the people of Mainland China, are moving in solid practical and quite encouraging steps, in the same general direction.
CHAPTER ONE:

ECONOMIC DEVELOPMENT, EMPLOYMENT AND INCOME DISTRIBUTION IN ARGENTINA; a case study.
In this first chapter, I will take a specific historical economic development, the one of Argentina in the last two decades, and illustrate how the theories/policies used in this particular context have failed to explain/solve the problems of unemployment, inequity and social welfare.

Almost all official speeches in the political arena address themselves to two explicit goals of development namely that of economic growth and that of increased welfare for the entire population, with greater prospects for opportunity and participation. These goals are seen both as necessary and desirable for the achievement of a process of national development and integration. But once these national objectives are stressed and repeatedly voiced, the problem still remains as to how to achieve them.

Actually it has been aptly expressed that in the "Latin-American context... employment is the principal institutional mechanism for distributing income and opportunities among the mass of the people..." ¹ It is evident that, for most individuals and their families, lack of employment implies little or no income, little or no opportunity, and, therefore low levels of welfare. Thus, for the unemployed, or even the underemployed, jobs would lead, as a rule, to higher levels of income and opportunity.

For the Argentinian governments, the means of achieving more economic equity was indeed uniquely predicated upon the creation of more jobs. But these jobs could only be created if the economy was to grow at a significant rate of growth, for a long period of time. This faith in a considerable increase in the national output
as the means to resolve the unemployment problem in the long run, relies heavily on the development theory of Raul Prebisch, official advisor to the Argentinian government (and that of other economists of the "monetarist school") according to which a significant increase of the growth rate of the gross national product (of the order of 8 per cent per annum for the next twenty years as R. Prebisch requires in his report of the Inter-American Bank of Development) will be needed to allow for the "productive" employment of the entire labor force. This rate of growth would correct the existing distortions in the occupational structure, and anticipate for the expected increases in the labor force.

R. Prebisch writes, "The economic aspects of the problem are not necessarily in contradiction with its social aspects, but when growth is small, distribution is almost always bad. The practice of social equity requires a high rate of growth."  

The faith that a process of sustained economic growth will resolve the unemployment problem is still held today by the Argentinian government and in the lately approved national plan of development (Plan Nacional de Desarrollo y Seguridad 1971-1975 approved by the law No. 19.039) an average rate of growth of 7 per cent per annum is seen as a "national necessity." However solving the unemployment/underemployment problem while maintaining a high rate of growth seems to be only feasible if jobs are created in sectors of high productivity per worker, namely in the industrial sector. But given the time span that this process of "productive absorption" of the labor force takes, and in order to
avoid extra hardship on a large percentage of the unemployed population, the Argentinian government (as did most Latin-American governments) repeatedly looked upon the service sector as a "momentary" solution for the creation of extra employment (over and above the "normal" market demand of labor). Although, compared to other countries of the region, the productivity per worker has been relatively high in the agricultural sector of Argentina, the government's prerogatives have still been to transfer rural population to the more "productive" sector of the economy, in order to achieve the desired rates of growth of national output.

It should be said that compared to other countries of Latin America, the urban unemployment problem has been less serious a problem in Argentina than in the rest of the region, even with the sluggish economic growth of the past decades. This is due to mainly two factors: the low rate of population growth and the adequate supply of natural resources (especially the richness of the soil). Indeed the annual rate of growth of the population has only been of 2% per year between 1947 and 1960; and has been even lower (1.7%) between 1960 and 1967. (This rate is expected to decrease to 1.5% by 1980.)

The internal migrations between regions and especially between rural and urban areas, have also been less intense in Argentina than in other countries of Latin-America. Indeed the low density of 8 persons per square kilometre and the high ratio of arable land accounts for the fact that the pressure on the land has never been very great in Argentina. Still, Argentina has to be conceived
of as an urban society with 70% of its total population living in the cities (the capital and its surrounding province account for already 48.5% of this percentage).

No precise official figures of overt urban unemployment exist in Argentina. Figures vary from 5 to 7% of the total working force, but as S. Barraclough, a scholar interested in the social problems of Latin Americans stated: "overt unemployment is but the tip of the iceberg." How is the labor force divided in Argentina and how has its composition changed over the years?

TABLE I

ARGENTINA: OCCUPATIONS PER SECTOR 1950/1960
(in thousands and percentages)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1950</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2,211</td>
<td>29.0</td>
</tr>
<tr>
<td>Mining</td>
<td>34</td>
<td>0.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,782</td>
<td>23.3</td>
</tr>
<tr>
<td>Construction</td>
<td>503</td>
<td>6.6</td>
</tr>
<tr>
<td>Trade</td>
<td>866</td>
<td>11.3</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>464</td>
<td>6.1</td>
</tr>
<tr>
<td>Electricity, Gas and Water</td>
<td>57</td>
<td>0.7</td>
</tr>
<tr>
<td>Other Services</td>
<td>1,725</td>
<td>22.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7,642</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Plan Nacional de Desarrollo, 1965-69, Table 69.

Table I indicates that indeed the urban working force has increased, but that this increase was mainly absorbed by the service sector.
By 1960, more than 47% of the entire labor force was employed in the service sector. The projections for 1980 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1960</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>23.1</td>
<td>18.4</td>
<td>11.6</td>
</tr>
<tr>
<td>Industry</td>
<td>33.6</td>
<td>35.2</td>
<td>39.5</td>
</tr>
<tr>
<td>Services</td>
<td>43.3</td>
<td>46.4</td>
<td>48.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


According to these projections, employment is to increase at an annual rate of 1.6% per annum (as compared to 1.5% of the natural increase of the labor force). The highest rate of growth is expected to come from the industrial sector, at a rate of 2.2% per year, and productivity is expected to rise, in both the agricultural and industrial sector.

These projections are summarized in Table III.

Product = at market prices in thousands of millions of pesos (at 1960 currency)

Employment = thousands of persons

Productivity = thousands of pesos (at 1960 currency)

Reprinted from A. Araoz Op. Cit. Table II.
TABLE III

ARGENTINA: PRODUCT, PRODUCTIVITY AND EMPLOYMENT, 1950-1980

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1960</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGRICULTURAL SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>125</td>
<td>149</td>
<td>276</td>
</tr>
<tr>
<td>Employment</td>
<td>1,569</td>
<td>1,412</td>
<td>1,221</td>
</tr>
<tr>
<td>Productivity</td>
<td>80</td>
<td>105</td>
<td>226</td>
</tr>
<tr>
<td><strong>INDUSTRIAL SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>288</td>
<td>413</td>
<td>1,245</td>
</tr>
<tr>
<td>Employment</td>
<td>2,281</td>
<td>2,704</td>
<td>4,146</td>
</tr>
<tr>
<td>Productivity</td>
<td>126</td>
<td>152</td>
<td>300</td>
</tr>
<tr>
<td><strong>SERVICE SECTOR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>326</td>
<td>424</td>
<td>836</td>
</tr>
<tr>
<td>Employment</td>
<td>2,947</td>
<td>3,565</td>
<td>5,129</td>
</tr>
<tr>
<td>Productivity</td>
<td>111</td>
<td>119</td>
<td>163</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>739</td>
<td>985</td>
<td>2,355</td>
</tr>
<tr>
<td>Product</td>
<td>6,797</td>
<td>7,680</td>
<td>10,495</td>
</tr>
<tr>
<td>Employment</td>
<td>109</td>
<td>128</td>
<td>224</td>
</tr>
</tbody>
</table>

SOURCE: CONADE, Educacion, Recursos Humanos and Desarrollo Economico-Social, Buenos Aires, 1966, Table 52.

"(In the future) It is expected for the employment in the agricultural sector to decrease even more (both in absolutely and relatively), and for the employment in the rest of the economy to expand, especially industrial employment. Manufacturing which by 1960 already accounted for the provision of 75% of the jobs of the industrial sector, is expected to increase even further
its supply of jobs (from 2.15 million in 1960 to 3.3 million in 1980)… However these expected levels of employment, calculated by the CONADE (National Development Council) may turn out to be too optimistic. In such a case, we should expect…for the labor force to be absorbed by the service sector, as it has happened in the past years."  

If we follow the terminology used in the studies of the Economic Commission for Latin America and distinguish between the dynamic industries (paper, paperboard, stones, glass and earth, chemical products, petroleum derivatives, machinery, vehicles, metals and their manufacturing) and the lagging industries (foodstuffs, tobacco, textiles and their manufactures, wood and its manufactures, printing, rubber products, crafts…) the National Developmental Plan of 1965-1969 expected the former to grow at a rate of almost 7% while the latter would grow at a rate of only 3%. The generation of employment was expected to be 3.2% for the former group of industries and 1.3% for the latter group.

If we compare however, the figures of "expected growth" of the industrial sector of Argentina with those of the advanced industrial societies, we are surprised. Indeed the Argentinian government was planning on the manufacturing sector providing for 43% of the total national product while in the United States this sector only provided 28% of the GNP; in Great Britain 35.3% and in France 36.8%. Furthermore despite the desired/planned high levels of productivity per worker, the total level of employment is still expected to rise from a 27.3% in 1960 to a 31% in 1980. It is interesting to note that in more advanced societies the dynamic
sectors employ a much lower percentage of the labor force (21.7% in Japan, 27.4% in the U.S., 28% in France, 30% in Holland). 6/

If we analyze the data corresponding to the three greatest urban industrial centers (Gran Buenos Aires, Cordoba and Rosario which encompass 45% of the total population) at the end of the past decade we see that the hopes were indeed ill founded. At the end of the decade one third of the urban population was still employed in the service sector.

<table>
<thead>
<tr>
<th></th>
<th>Gran Buenos Aires</th>
<th>Cordoba</th>
<th>Rosario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ind.Sect.</td>
<td>36.3</td>
<td>29.0</td>
<td>34.6</td>
</tr>
<tr>
<td>Serv.Sect.</td>
<td>61.8</td>
<td>63.2</td>
<td>62</td>
</tr>
</tbody>
</table>

Reprinted from J.C.Rubinstein, Urbanizacion, Estructura de Ingresos y Movilidad Social en Argentina, 1960-1970. ILDIS Santiago de Chile, 1970. But despite these discouraging results the above mentioned national developmental plan for the years 1970-1975 still expect to employ 80% of the labor force in manufacturing, construction, trade and services and achieve a rate of growth of 7 per cent per annum.

How are these expected results to be achieved and how realistic are they?

For these results to be achieved large amounts of capital are needed. Indeed investments are needed for the industrial sector to expand; capital is needed to increase the productivity of the agricultural sector. The Plan, is not, only extremely optimistic as to the need to renew existing equipment and machinery but also builds on an average capital-output ratio of 1.3 to 1.5, while most other developing countries assume a capital-output ratio of approximately 3, and in the past two decades the average capital-output ratio for Argentina has been of more than 3.6
Where could these investments come from and how realistic is it to hope from them? In order to answer these questions a brief history of the Argentinian economy in the past fifteen years seems to be necessary.

First of all, however, we should recognize that the Argentinian government underestimates the amount of investment needed by ascertaining that production can be considerably increased if the already installed productive capacity would be fully utilized. Indeed, the degree of utilization of the installed capacity has only been on the average of about 92% (and rarely exceeded 95%) and the full utilization of the existing capacity would certainly lead to higher levels of production. But besides this possibility, the Argentinian government also argues that the national product can only grow systematically if the productivity of the industrial sector is to increase, and if this increase is to lead to a process of steady growth, it should take place in the dynamic sectors of the economy. Therefore investments should be directed towards these dynamic sectors. This did not occur however in a continuous and articulated way in the past, and repeatedly inflation was blamed for it.

Indeed, inflation is seen as leading to distortions in the allocation of resources. Investments are put into "unproductive activities" (housing, inventories) or else in projects which guarantee immediate returns. Thus investments in the "dynamic sectors" of the economy are extremely low, thus slowing the
process of economic growth. Inflation is also believed to bring about difficulties in the balance of payments as inflation modifies the exchange rates in international trade, encouraging imports and discouraging exports. Sooner or later governments have either to devaluate, or else to impose import controls. Furthermore, inflation definitely leads to price distortions, to problems in the financial market and to a general feeling of mistrust and impoverishment which do not favor investments.

As a result of these problems, caused by the inflationary process, a set of concrete policies are suggested. W. Baer summarizes them as follows:

Given all these distortions and balance of payments difficulties resulting from the inflationary process, the monetarist considers it a sine qua non for economic development that the economy be rid of inflation and all the distortions it has brought along. Since he sees the root of inflation as being an overabundant creation of money supply through substantial government deficits and easy credit policies, he will recommend stringent anti-inflationary policies via: the curtailment of government expenditures and/or increased collection of taxes to eliminate deficits; the severe tightening up of credit; the elimination of inflationary subsidies; the control of wage increases (which is a necessary complement to control of credit increases); and the elimination of subsidized exchange rates (if there existed a system of multiple exchange rates). 8/

The "monetarist" admits that these policies might have an adverse effect on the rate of growth. But once inflation is stopped, both domestic and foreign investments will resume their investment activities and sustained growth could be achieved.

The Argentinian government adhered to such a hope and in December 1958 a stabilization program began. The plan, which
was prepared by the International Monetary Fund adopted a unified and freely fluctuating exchange rate, removed all foreign trade controls, restricted credits and kept wages from increasing. Large inflows of capital were also attracted: the IMF, itself, provided important loans and the new law of December 1958 which allowed for the unlimited repatriation of capital and profits, plus a change in oil policy, certainly accounts for the large inflows of private investments in the petroleum refineries, the petrochemical industries, the tractor industries and the metal-working industries among others. The capacity in several import-competing and social overhead sectors of the economy expanded. Foreign capital inflow accounts for this increase but so does the reduction of the real consumption of wage earners during this period.

However the external debt of both the public and the private sectors grew sharply and the balance-of-payments equilibrium which was expected to be reestablished by stimulating the output of exportable goods (primarily those of the rural sector) could only be achieved momentarily in 1959-1960, collapsing dramatically in 1962-1963. The national product declined by nearly 5 percent in 1959, although labor productivity in several branches of the industrial had increased. "However the gains (in labor productivity were offset from the view of the economy as a whole by a growing amount of open and disguised urban unemployment of labor and excess capacity in many industries especially during 1959-1960 and 1962-1963." 9/
Indeed the stagnation of the economy in 1959 brought about a reduction of the level of employment and of the real wages of the industrial working class. This occasioned, in turn, the severe reduction of private consumption while prices went up considerably at the same time as a result of the peso devaluation, the strong taxes on imports, and the elimination of government subsidies to public services. In 1959 wholesale prices went up by 133%, but wages in the industrial only increased by 68%. This severe decrease of the real wages of the labor force in the industrial sector, was at the root of the labor conflicts and social unrest observed that same year.

These conflicts resulted in the necessity to modify the stabilization plan of 1959 and emphasis in the years 1960-1961 was put to reactivate and expand production and employment, without having to increase prices. This approach, taken in 1960, expected prices to rise only as a result of an increase of costs of production (and depending a great deal on the inflationary expectancies of the entrepreneurs). Departing from an idle capacity, the government expected to be able to simultaneously expand production through an increase of demand and stop inflation through appropriate monetary and fiscal policies. Demand was to be reactivated through an increase on consumption and investment both public and private (direct government investment in "dynamic sectors" of the economy was made possible by foreign loans which increased in 1960 by 180 millions of dollars) and deliberate private investment in sectors of high profits, i.e., oil were induced. The results of this approach was on the one hand a total gross domestic product
recovery during 1960 (8% increase) and further expansion during 1961 (7%), but by 1961 it had reached a level of only 7 percent above 1958. This increase of production went together with an increase of imports of machinery and equipment financed by foreign investments, but the volume of exports did not rise. A fall of the agricultural production originated a decrease of exports of 7.6% and by the end of 1961 the current account showed a deficit of 580 millions of dollars.

On the other hand, the failures of the stabilization plan of 1959 to stop inflation via the reduction of demand, induced the government in the years 1960/1961 to stop the increase of prices by acting directly on the costs of production. The idle installed capacity favored this strategy and wholesale prices went up only 15.7% and 8.3% in 1960 and 1961 (as compared to 133% in 1959). This low increase of costs was mainly due however, to a slowing down of the annual increase in industrial wages. Annual wage increases declined from 68% in 1958 to a 17% in 1960 and 25% in 1961.

The result was the low rate of inflation in 1961 (it was the lowest in the whole decade) which created an unsustainable exchange policy. At the end of 1961, the necessity to correct external imbalances through a new devaluation was seen as a must, but this was to affect again the costs of production.

In 1962 the peso was devaluated and what followed were the national government policies of 1962-63.

The policies adopted were essentially similar to the ones suggested in the stabilization plan of 1958. The results were also similar. Output per capita decreased 8.6% while wholesale prices
went up 67.8%. Wages were not able to catch up at such a rate, and real wages were substantially reduced in 1962-1963 at a level 15% lower than in 1958. Unemployment has never been so high:

One third of the workers in the textile and metallurgic branches were actually unemployed. Strikes, unrests, social and political instabilities were the obvious results.

The terrible crisis of 1963 induced the national government to adopt a "reactivation" policy in 1964/1965 very similar in principle to the one of the years 1960-1961. The basic idea was to increase production in order to utilize the idle capacity (56.3% in 1963) produced by a considerable decrease of the per capita/output. However, while in 1960-1961 the dynamic element in this reactivation was expected to be the expansion of investments both public and private, in 1964 reactivation was mainly based on an expected expansion of private consumption. In 1964 money wages increased by 30% and a 70% increase of the financing of government expenditures through the banking system allowed for a considerable increase of the private sector's consumption capacity. Gross national product increased of 13.4% in this period but inflation, although slightly slowed, could not be controlled, given the annual increase of the costs of production: Wholesale prices increased by 56%.

1966 was again a year of economic recession, and high unemployment (5.2% of the labor force was "officially" recognized as being unemployed), and 1967 was one of the most negative years for the Argentine economy (1963 was equally deplorable): only 83.3% of its full capacity was utilized (65% of its capital) and
unemployment increased 0.9% in just one year.

Given these characteristics, a similar expansion strategy was considered in 1967-68 as in the years 1960 and 1964. Consumption was to be stimulated to increase production (with a direct control over inflation to stop increases in costs of production). But the external conditions were different. While, in the early years, it was easy to channel foreign investments in sectors which substituted for imports, (such as tractors, automobiles, etc...) sectors in which there was an obvious demand; in the later years there was a necessity to expand and induce demand but private entrepreneurs did not find investments as attractive as they used to see them. In 1967 industrial output decreased further by 0.4% with its natural corollary as to unemployment.

As to action on the inflation process, the national government first readjusted wages, public services charges, import regulations, inducing a 25.7% increase in wholesale prices and then tried to decelerate inflation by maintaining the level of the established costs of production.

At the end of 1968 wages had to be controlled again. Prices were expected to stabilize, but inflation could not be stopped. Production was expected to increase but did not, but unemployment did increase and so did the cost of living.

In 1969 the social and economic situation was unsustainable. The result was the "Cordobazo" which finally overthrew the government in 1970.
It is certainly not possible in five pages to describe fifteen years of the economic history of a country. But such an analysis was not the intention of this thesis. Even at the risk of oversimplifying, the intention was to present an overview of the main governmental policies adopted, of the results obtained, of the difficulties encountered.

What can we conclude from such an overview?

It seems that the government policies in Argentina, from 1958 to 1970, can broadly be divided in two categories: 10/

a) those that I have called stabilization plans (1959, 1962/63, 1968/1969), which focused mainly on stopping or slowing down inflation; and,

b) those that I have called reactivation plans (1960/61; 1964/1965; 1966/1967) which had as a main objective to expand production and increase employment.

The former policies can be considered to be based fundamentally on "three hypotheses, or with more precision, on three dogmas, either openly accepted or tacitly supposed.

According to the first postulate, free market forces produce general patterns of investment, production and consumption socially desirable.

The second postulate...states that internal and external disequilibriums--inflation, deficit in the balance of payments--are due to an excessive domestic demand...

The third postulate is based on the belief that market forces free of government intervention, or inflation perturbances, will generate an increase of output and employment without any difficulties in the balance of payments." 11/
The first postulate originated actions along the line of a removal of controls over prices, and of subsidies to production and consumption; and mainly a devaluation of the currency to an exchange rate which would reflect "real market" conditions.

The second postulate was responsible for the restrictive monetary and fiscal policies.

The first governmental policy undertaken in 1959 was a strong devaluation of the peso. But the immediate effect of devaluations, besides all the other deflationary policies was an increase of prices of consumption goods.

When politically it was not possible to maintain a further restriction on wages (given the increase of the costs of living), then wages went up, but this increase was reflected back in higher prices, giving rise again to a wage-price inflationary spiral. However, the nominal wages could not increase at the same speed as prices, producing a considerable lag in the growth of the real wages.

In the first stabilization plan, the economic situation was more favorable given the large flows of foreign investment and attractive "opportunities" for the private sector. But the large private capital outflows and the need to pay back foreign loans; plus the inadequate increase of the national product were still at the root of a serious disequilibrium in the balance of payments. However in later stabilization plans, the reduction of public and private investments and the reduction of real wages were at the root of a reduction of the level of economic activity. Economic depression was followed by a strong increase of unemployment.
aggravated by the natural increase of the labor force and by the negative economic instances by which the country was going through.

The only way out seemed to be an increase of the economic activity and the results were the reactivation plans undertaken by the national government. These plans still believe in the first postulate but base their actions on a second postulate according to which through an increase of private and public consumption and investment, output will grow and correct the imbalances in the balance of payments.

The government objective was to expand the economy by acting on the autonomous components of the global demand for more goods and services. Wages were increased in order to expand private consumption, investments both private and foreign were encouraged. These factors induced an increase of output subject to two main constraints. First, private investments were only important in sectors where the demand was certain and the returns high; while they began to decay when the conditions were not so favorable. Secondly, the increases of demand were related on the one side to the increase of exports subject to international trade conditions (and these expansions became more and more difficult), and on the other, to the level of real income of the population and their possibility and willingness to consume. Consumption did rise, and so did prices, setting up again the inflationary spiral. Furthermore, as the expansion of the economy is always depending on the imports of capital goods whose prices were always higher than the prices of the products they are to produce, serious disequilibriums in the balance of payments always appear. Devaluations,
sooner or later, appear as a necessity, setting up again the whole economic business cycle.

These fluctuations are easily observable in the following table.

TABLE IV

<table>
<thead>
<tr>
<th>Argentina 1955-1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
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<tr>
<td>---------------------</td>
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<tr>
<td>1955</td>
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<td>1964</td>
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<td>1965</td>
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<tr>
<td>1966</td>
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</tbody>
</table>

References

Column I Variation of the gross national income (in % over the past year).

Column II Annual inflation (% over the past year).
C. Diaz Alejandro, op.cit. (living costs in Gran Buenos Aires).

Column III Wages and Salaries (% of the gross national income of that year).
CEPAL, El desarrollo economico y la distribucion del ingreso en la Argentina, 1968.

Column IV Changes in the balance of payments (in millions of American dollars)
C. Diaz Alejandro, op.cit.
This table summarizes the economic processes which we have been describing. But what influence have these fluctuations had on the distribution of national income?

On the average per capita income increased at the low rate of 1.3 per cent per annum during this period, with considerable fluctuations from year to year (as shown in the first column of Table IV). The relative shares of wages and salaries of the national product during this period, decreased from 43.0 per cent to 39.8 per cent despite the fact that by 1961 the average productivity per man was already 23 per cent higher than in 1953. 12/

How were these over-all changes distributed among sectors?

Devaluations always intend to improve the disequilibrium in the balance of payments as relative prices of exportable to importable goods are modified. As such devaluations always benefited in Argentina, the agricultural sector and to a certain degree too the financial sector. But they also produced a rise in the prices of imports and food products, initiating an inflationary process which certainly went against the interests of the urban sector. In the meantime too, government policies intending to stop the inflationary process freezed wages and adopted fiscal and monetary policies which acted as disincentives to the industrial urban sector thus curtailing production and employment.

These policies seriously affected the urban sector 13/ and pressures slowly built up. Wage increases were generally concerted and inflation slowly eroded the negative effects of devaluation on the urban population. The concrete result of the "cycles" is the
extreme instability of income of the different sectors of the national economy which is expressed in Table 5.

**TABLE V: INTERSECTORIAL CHANGES OF INCOME, ARGENTINA 1958-1965**

<table>
<thead>
<tr>
<th>Sector</th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rural</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>12.1</td>
<td>34.8</td>
<td>-20.8</td>
</tr>
<tr>
<td><strong>Urban</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>4.8</td>
<td>10.1</td>
<td>-8.5</td>
</tr>
<tr>
<td>Construction</td>
<td>7.8</td>
<td>37.5</td>
<td>-11.1</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>4.4</td>
<td>12.7</td>
<td>-6.7</td>
</tr>
<tr>
<td>Government</td>
<td>8.1</td>
<td>14.3</td>
<td>-17.0</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>10.1</td>
<td>37.5</td>
<td>-20.0</td>
</tr>
</tbody>
</table>

**References**

Column I Average (absolute) variations of income for each sector during the period. (%)

Column II Year of highest positive change (% over past year)

Column III Year of highest negative change (% over past year)

**SOURCE:** CEPAL, *El desarrollo economico y la distribucion del ingreso en la Argentina,* 1968.

What can we conclude from such an analysis?

The trends are clear. The distribution of national income between wages and profits (including the government sector) has remained fairly constant, with a slight decrease in the labor's share. The struggle seems therefore to be between the rural owners and the non-wage earners of the industrial sector, as to whom is to get the greatest share out of the national income.
The inflationary impact of the struggle may be momentarily slowed down by a further decrease in the real income of the wage-earners. But especially in the industrial urban sector, wage-earners are strongly unionized and manage to create enough political pressure as to regain soon their losses and political struggles emerge again.

However the struggles are in the long run ficticious. 30% of the population still holds the power and receives as such 66.7% of the national income (top 1 per cent 16.3; 8th decile 10; 9th decile 13.2; 10th decile 40.9) while the rest of the population struggles to find its way out, maintain its position and find a job. It is only their organized political action, strikes, protests, unrests, that has assured them a stationary socio-economic position.

It becomes now redundant to ascertain that given past historical trends the optimism of the actual government as to the possibilities of increasing the employment opportunities and the prosperity for greater participation for the great majority (70%) of the national population, are totally ill founded. Is the impossibility to achieve these goals specific to the Argentinian context, or are these goals unachievable in other developing societies too? Is this impossibility related to unique structural problems of the Argentinian economy, or is this impossibility inherent to the actual functioning of these societies?

It is to the analysis of these questions that I turn now.
FOOTNOTES : CHAPTER ONE


2. R. PREBISCH, Transformacion y Desarrollo, La gran tarea de America Latina, Santiago de Chile, 1970

3. R. PREBISCH ibid, p.3.

4. Figures vary from source to source. I refer to: "La Razon", 21 de Mayo de 1971, "Desocupacion en todo el pais".


10. For a more extensive analysis see: (I used the same terminology) M. S. BRODERSOHN, "Estrategia de Estabilizacion y Expansion en la Argentina" in A. Ferrer, M. S. Brodersohn, E. Eshag and R. Thorp (eds), Planes de Estabilizacion en la Argentina, Paidos, Buenos Aires 1969.


13. The question as to what group in the urban sector is affected, will be treated in the next page.
CHAPTER TWO:

ECONOMIC GROWTH AND EMPLOYMENT: the problem of unemployment.
This section of the paper concentrates on the employment issue, in its relation to economic growth. As shown in the earlier section, the policies adopted by the Argentinian government during what I have called the reactivation periods were based on the faith that a substantial growth of the economy (as measured by a considerable increase of national output) will automatically and in the long-run resolve the unemployment problem. In the meanwhile, the commercial and the public sectors were expected to meet the employment needs of the increasing labor force that concentrated in the urban centers. The agricultural sector was expected to maintain its high level of underemployment.

In the first part of this section, I will address myself to the problem of how likely it is -- in the near future -- for output to grow at the rate and in the direction requisite for absorbing the entire labor force in reproductive employment. A correlate of this is an investigation of the factors which determine both the rate and the direction of economic growth in a developing society.

In the second part, I will analyze the conditions under which a society faces a choice between more output and more employment. Such an analysis is necessary to understand the link between our socio-economic institutions and our persistent incapacity to resolve the unemployment problem.

1. The Problem of Growth

The idea that the preservation of full employment in a capi-
talist economy requires a growing output goes back as far as classical economic theory and in particular to marxian economics. Its modern revival, after years of little consideration, however, started with the papers published by both Harrod and Domar in the late 1940's.

The Harrod-Domar model in a highly simplified version can be summarized as follows:

"... the possibility of steady growth in a model of a fixed capital-output ratio $C$ and a fixed savings-output ratio $S$ is established. A unit of capital will produce $1/C$ unit of output, which in its turn will generate $s/C$ units of net savings (i.e., addition to capital stock), so that the rate of growth of the capital stock will equal $s/C$. Since output is proportional to capital, that will be the rate of growth output as well." 1

Assume an initial stage of full-employment. For full-employment to be maintained, given the increase in the labor force and in its productivity, national income must grow at the "combined rate" of growth (of both the labor force and its productivity).

But, as J. Robinson remarked: "The rate of increase in productivity of labor is not something given by Nature", but is dependent on capital goods, i.e., on capital already utilized.

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Labor productivity is not a function of technological progress in the abstract, but of technological progress embodied in capital goods as well as of the amount of capital goods already existing. There are even instances where (at least during certain phases of development) capital accumulation without technological progress increases labor productivity both because more capital per man is used and because there is a logical shift of labor to industries that use more capital and can afford to pay higher wages.

If labor productivity is directly affected by capital accumulation it becomes obvious why an immense part of growth economics as applied to developing societies discusses the growth process as engendered by the accumulation of capital subject only to a constraint related to the supply of labor. "Growth proceeds with capital accumulation with a given capital-output ratio as long as the labour requirement at the current level of productivity does not exceed the size of the force."

In a dynamic model of a developing economy in which the accumulation of capital and its productivity, as well as the growth of the labor force and its utilization, is modified constantly through time, the problem of accelerating growth while maintaining (or achieving) full-employment can only be achieved when:

\[ \frac{S}{C} = n + m \quad \ldots \quad (1) \]

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4 A. Sen, op.cit., page 16.
where \( n \) is the rate of growth of the labor force
\[ m \] is the rate of labor-saving technical progress
and as before,
\[ S \] is the savings-output ratio
and \( C \) is the capital-output ratio

What is this equation saying? Where is this equality possible? Are there any adjustment mechanisms that are likely to bring both terms close enough in developing economies? Are these mechanisms inherent in the normal functioning of the socio-economic system? Ultimately, this equation is saying that if the economy is growing at a rate of \( S \) and if this rate exceeds the rate of growth given by \( \frac{n + m}{C} \), the economy will achieve full-employment but it can no longer grow; if on the other hand the reverse is the case, the economy can grow further even if high levels of unemployment exist, hoping for future adjustments to happen. Any of the four variables can be individually or jointly used to "serve the cause of adjustment, and indeed all the four avenues (and combinations thereof) have been explored in the literature on economic development at various levels of sophistication."

Let us examine the degree of maleability of these four variables and what forces influence their values.

In subsection 1.a. below, I will examine the conditions which limit the rate of growth of capital accumulation (S).

In the subsection that follows, 1.b., I will turn to an in-

5 A. Sen, op.cit., page 16.
vestigation of the conditions and limitations facing the increase of productivity of capital (C).

Subsequently, I will examine in subsection 2.a. the factors which induce us to look at the growth of the labor force (n) and in subsection 2.b. I will analyze the direction of technical progress (m).

1.a. Capital Accumulation

To analyze the investment capacity of a developing economy I will postulate, as J. Robinson does,

"... an economy in which there are no border-line cases between firms and households (such as peasant families) and no border-line cases between saving and spending (such as buying a house)."

The analysis in this section will try to show how the rate of accumulation of capital is determined and limited by the control of capitalists over the process of production and by the distribution of income between workers and capitalists which this control implies and engenders. This amounts to belief that the encouragement of the level of domestic savings necessary to promote the desired capital accumulation cannot be brought about without major institutional changes. The need for major institutional changes will be discussed further in the next section.


The same assumptions have also been used by most of the so-called Cambridge models of growth.
Let us therefore analyze the relationships between the role of savings, the mode of production and the distribution of income. For this purpose I will assume, at least in the first part of the analysis, that there is full use of the installed capacity. If there is full use of capacity and if the productivity of capital cannot be improved, then the rate of growth of output must depend solely on the growth of capital. Thus neo-classical economists argue that present consumption slows future growth of output (since it slows growth of capital).

As such, the neo-classical point of view naturally urges that workers' and capitalists' consumption both be kept as low as possible in order to foster more rapid economic growth.

However, the workers' consumption ratio out of additional wage income and the entrepreneurs' consumption ratio out of additional profit income is far from being equal. The fact that the capitalists' propensity and ability to save is much higher justifies the search for, and the creation of, incentives towards a shift from wages to profits, i.e., a shift towards a different distribution of income between wages and profits, in which profits would have a larger share, as a means to decrease the aggregate consumption ratio, thereby increasing the ratio of investment to income and thus increasing the rate of growth of output.

Furthermore, the fact that in a developing society both

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7 This is the extreme case where a perfectly elastic labor supply co-exists with perfectly inelastic capital supplies.
wages and workers' consumption tend to be at a minimum (consistent only with the workers' subsistence needs of both health and incentives to work) increases the reasons for looking upon the capitalists as the salvation board for more productive investment.

L. Pasinetti's research in this area is extremely relevant:

"This is the most striking result of our analysis. It means that in the long run, workers' propensity to save, though influencing the distribution of income between capitalists and workers does not influence the distribution of income between profits and wages. Nor does it have any influence whatsoever on the rate of profit... Second, the relevance of the capitalists' propensity to save which is the only one to appear ... uncovers the absolutely strategic importance for the whole system of the decisions to save of just one group of individuals: the capitalists. The particular saving function of this group transforms the open proportionality relation

\[ \frac{P_w}{S_w} = \frac{P_c}{S_c} \]

into a definitive function in which the proportion that profits must bear to savings in the whole system, is given by the saving propensity of one single category of individuals. The similar decisions to save of all the other individuals, the workers, do not count in this respect. Whatever the workers may do, they can only share in an amount of total profits which for them is predetermined; they have no power to influence it at all."

where \( P_c \) and \( P_w \) stand for profits which accrue to the capitalists and profits which accrue to the workers; \( S_w \) stands for the workers' savings and \( S_c \) for the capitalists' savings.

These conclusions derived by Pasinetti in 1961 reinforce the old "classical idea" of a strong relation between the savings of that group of individuals who are in the position to carry on the process of production and the process of capital accumulation. It simply follows from the principle that profits are distributed in proportion to ownership of capital. As such, in analyzing the process of capital accumulation we become interested in very specific kinds of decisions: capitalists' decisions concerning savings out of profits as such.

But the crucial question to ask is what makes capitalists spend/invest out of their profits the way they do? What determines both their level of investments and its composition?

I will show here how unrealistic it is in market-oriented developing economies to work towards a reduction of consumption, on the part of the capitalists as means to increase investment and how, on the contrary, it is only an increase of the aggregate demand or a reduction of production costs, which can engender an increase of supply (production/investment), given the functioning of our current socio-economic institutions.

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9 In a similar way, both Keynes and Kalecki have been interested in the consumption patterns of the capitalists. See their position in N. Kaldor: "Alternative Theories of Distribution" in Essays on Value and Distribution, G. Buckworth & Co., Ltd. London 1960, Part V, pages 227-236.
Aside from a few dissenters, whole generations of economists (both classical and neo-classical) based their theories of production on Say's Law which postulates that an increase of supply would call "forth an equal amount of demand" through automatic market processes. Economists admit only the possibility of temporary imperfections in the market in one sector or the other, imperfections which if acted upon would establish the competitive characteristics of the market which assure mobility of capital from one sector to another and the elimination of "involuntary" unemployment or "excessive" supply.

The kernel of truth in Say's law is the platitude that supply equals demand at every moment if we consider that every purchase constitutes a sale, and every sale means wage or profit income to someone, which again is used for more purchases.

Ricardo phrased the argument for Say's law in this way:

"No man produces but with a view to consume or sell, and he never sells but with an intention to purchase some other commodity which may be useful to him or which may contribute to future production. By purchasing them, he necessarily becomes either the consumer of his own goods, or the purchaser and consumer of the goods of some other person." 10

Classical and neo-classical belief in Say's law implies confidence in market mechanisms as a means of achieving maximum efficiency in the allocation of resources. Misallocations, inequities, inefficiencies, etc., are, accordingly, caused by market imperfections which are seen as the major impediment for the

achievement of a stage of equilibrium in which supply equals demand. However, if that stage is attained with maximum efficiency in the allocation of resources and maximum welfare for both the consumer and the producer, would be achieved. The optimism in the possibility of achieving that "optimum" is totally unwarranted and does not hold against any historical analysis.

As H. Sherman tried to establish, the belief in Say's law must be wrong as applied to contemporary economics:

"Say's law is, indeed, true for certain earlier types of economics, the mistake was in taking these simpler economics as a model, and then applying the conclusions to the modern private enterprise economy without considering the fact that entirely new institutions have evolved since the medieval period." 11

As long as most economists accepted Say's law (which says that there cannot be a general deficiency of effective demand relative to supply), there were only a few logically possible explanations for the fluctuations of aggregate output. The most frequent line of explanations forwarded by economists concentrated on the reaction of economy to "external" or noneconomic forces affecting demand and supply.

So far, however, Say's law has only been attacked by Malthus, Marx, Keynes and their respective followers. In rejecting Say's law they intended to explain the depression capitalists' business cycles independently of the shortcomings in the supply of output.

Although their explanations differ, they do have in common the acceptance of a lack of effective demand as a possible and frequent economic stage, generated by the normal functioning of a market-oriented economy. The most frequent explanation of depressions has been forwarded in relation with the "underconsumptionist approach" that argues for the need to enlarge the markets given that a lack of consumers' demand causes a fall of investments and a recession in economic activities. This objective relationship between a stationary demand and a fall in investments can, however, be interpreted in different ways. The point of view of the more conservative is that the relative decline in consumer spending merely reflects the saving desires of individuals as their incomes rise above their already satisfied basic needs. The problem, in this framework, becomes one of inducing individuals to spend above their actual pattern of consumption.

This position considers individuals' consumption patterns to be independent of their position in the income distribution spectrum and unaffected by "external" economic factors: prices, depressions, etc. A more realistic explanation of the causes of

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The distinction will be made recurrently, between market-oriented and non-market-oriented economies. The accent will be put on the different socio-economic institutions which they both imply. It seems to be appropriate and necessary to distinguish between a non-planned (or quasi) market-oriented economy (Western model), a planned market-oriented economy (Yugoslavia, U.S.S.R.) and a "socialist" non-market-oriented economy (China). A full development and explanation of the institutions will be given in the next chapter.
limited consumption, especially in a developing economy where a marginal increase or decrease of the national income's share of the low income groups considerably affect their social consumption patterns, should take into account the shifts in the distribution of income.

Empirical data has tended to show that the average consumption ratio, in business cycles, falls in prosperity and rises in depression but that in the long-run the average consumption ratio remains almost constant. This long-run constancy has been explained in different ways by several economists dealing with consumers' behavior. But most of the explanations, however, are based on the "relative income" hypothesis which argues that the percentages of his income that an individual spends in consumption depends on his position in the spectrum of income, and as such, the consumption pattern of any society depends on its actual distribution of income. If the distribution of income is constant over time there is then no obvious reason for the aggregate consumption ratio to change. Furthermore, given that workers' wages are all, or almost all, spent on consumption whereas most of the capitalists' profits are not consumed explains why a fall in the wage share of national income during the expansion of the

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14 J.S. Duesenberry, op.cit.
economy restricts consumption. Studies done in advanced economies showed that workers spent 85 per cent of additional wage income on consumption while capitalists spent only 40 per cent of additional profits on consumption (and the latter percentage was based only on the personal income of capitalists and not the retained profit of corporations which obviously enough does not go for consumption).

The restricted growth of consumers' demand is even more limited in a developing economy with a stable or declining wage share of national income. (The determination of shares of national income will be treated separately in section II of this chapter.) This restricted growth of consumer demand lowers the attractiveness of the market and causes a fall in investments. This statement opposes the classical view that a shift from wages to profits assures a higher investment to income ratio and therefore a greater rate of growth of output. The classical assertion seems to hold only for a planned economy where aggregate demand can be controlled and all output above wages may be used for re-investment. In such planned economies it is correct to suppose that the most direct way to promote more investment and further economic growth is by restricting consumption, but this does not seem feasible in a non-planned market-oriented economy. This is

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not to say that I do not consider the reorientation of consumption to be appropriate strategy for increasing saving/investments. What I am arguing is that the actual pattern of consumption is determined by the control of the mode of production and as such is not likely to change unless there is a new institutional arrangement (e.g., economic planning) governing the ownership/control of means of production.

To illustrate what is defined by marxists as "unnecessary consumption", the explanation given by Marx himself in his Grundrisse seems to be the most adequate:

"Production furnishes consumption not only with its object. It also gives consumption its definition, its character, its finish... The object is not an object as such, but a specific object which must be consumed in a specific way, a way which is again determined by production itself. Hunger is hunger, but the kind of hunger that is satisfied with cooked meat eaten with a fork and knife is different from the hunger which bolts down raw meat with hand, tooth and nail. Therefore production produces not only the object of consumption, but also the manner of consumption, not only objectively but also subjectively. Production thus creates the consumer. Production not only furnishes the object of a need, but it also furnishes the need for an object." 17

In a passage of Capital, Marx also writes:

"It would seem, then, that there is on the side of demand a certain magnitude of defi-

nite quantity of a commodity on the market. But quantitatively, the definite social wants are very elastic and changing. Their fixedness is only apparent. If the means of subsistence were cheaper, or money-wages higher, the labourers would buy more of them and a greater 'social need' would arise for them...
The limits within which the need for commodities in the market, the demand, differs quantitatively from the actual social need, naturally vary considerably for different commodities; what I mean is the difference between the demanded quantity of commodities and the quantity which would have been in demand at the other money-prices or other money or living condition of the buyers." 18

These two passages link consumption with both the prevailing class structure and the mode of production. In a classless society, the social need for a given commodity depends on the capacity of society to satisfy this need, and the "felt needs" are uniquely socially determined. As such they differ from the consumption of theunnecessaries (unnecessary given the actual level of development of the social means of production) which are "induced needs" determined by the market-oriented mode of production and distribution. These "induced needs" include the consumption of luxuries by the upper classes and all the commodities which are sold on the market for the pursuit of maximizing the profit of the owners/controllers of capital without necessarily adding any improvement to the use-value of consumers.

A. Gorz gives among other examples the case of the spread of disposable packaging for milk products:

"From the viewpoint of use value, the superiority of milk in a cardboard carton or yoghurt in a plastic cup is nil (or negative). From the viewpoint of capitalist enterprise, on the other hand, this substitution is clearly advantageous. The glass bottle or glass jar represented immobilized capital which did not 'circulate': empty bottles or jars were recovered and reused indefinitely, which entailed the cost of handling, collection, and sterilization. The disposable containers, on the other hand, allow a substantial economy in handling, and permit the profitable sale not only of the dairy product but also of its container." 19

This explains in part why gigantic waste coexists with largely unsatisfied fundamental needs (needs for basic food items, education, medical care, housing, etc.) and brings us to the issue of when "productive" investments are undertaken. In an economy based on private ownership of individual competing units, the sum of the decisions of entrepreneurs to produce may not equal the sum of decisions by other individuals and businesses to consume and invest. If there is not enough revenue for the private entrepreneur to both cover his costs of production and make an additional profit, then he will not continue production (or will shift to a more profitable line of production). In a competitive market economy, therefore, only commodities which can yield the "average" rate of profit (or more), will be produced. Competition in the market assumes maximum productivity (in an exchange-value sense) but not necessarily maximum use-value.

In a market-oriented economy only investments that maximize

profits are undertaken. What market competition does is to lower the rate of profit to a "reasonable average".

"The notion that competition would be a factor in accelerating technical and scientific progress is thus, in large part, a myth. Competition does not contribute to technical progress unless such progress allows for the growth of profits. Technical progress, in other words, is essentially concentrated on productivity, and only incidentally on the pursuit of human optimum in the manner of production and in the manner of consumption." 20

If this assertion is true for competitive units of production, this is even more the case in the branches of the economy where the production of goods and services is controlled by one or a few units of production which are able to set and control the prices on the market independently of consumers' demand.

But in making these arguments, I am certainly not arguing that the confiscation of the "surplus value" consumed by the capitalists would result in a considerable improvement of the condition of the working class. I would rather argue with A. Gorz that what must be attacked is not the personal incomes created by capitalist profits and the consumption patterns which these incomes lead to. It is rather the control of the capitalists over the apparatus of production and the resulting inversion of real priorities in the model of consumption which should be denounced. Ultimately it is the orientation that the process of capital accumulation impress on the economy and the society as a whole that has to be reviewed.

20 A. Gorz, ibid., page 81.
Given this analysis, and in order to understand the limits and possibilities of the process of economic growth in developing societies, I consider it to be essential to establish a link between the investment function as reflecting the decisions of the owners/controllers of means of production and the consumption function as deriving from the actual distribution of income and establish their mutual interrelations.

On the one hand, firms are still conceived to be attempting to "maximize profits" in the sense that -- with respect to a set of concrete choices -- they prefer a more profitable to a less profitable alternative. Thus, if there are a variety of techniques, already known, for carrying out a particular line of production, investment plans are assumed to be designed to embody the technique which promises the highest rate of profit on the finance committed.

In view of such institutionally engendered behavior, a higher rate of accumulation requires a higher level of profits, both because it offers more favourable odds in the risk that is involved in capitalists' investments and because it makes finance more readily available. A higher rate of profit engenders greater investments and an economic reactivation period.

But, on the other hand, the fall in the wage share of national income during reactivation periods restricts the capacity to consume which in turn lowers the rate of profit on sales, which eventually causes a fall in investment, and thus leads to a depression (or recession). In the peak of prosperity large profits may be translated into a high rate of investment, which has as a
result a vast increase in the demand for raw materials and machinery. The rise in prices of capital goods, given their dependency on foreign producers and their unelastic supply, is far more rapid than the increase in prices of the products they are used to produce. As a result "there is a squeeze on profits in consumer goods from the cost side" and falling profits in consumer goods depress the outlook for expected profits throughout the economy causing a fall in investments, thus setting off the depression.

Furthermore, as we are going to see in the next section, when I will analyze in more detail the cost/price relationship, if profit-maximization is the rule governing production decisions, then the willingness to alter factor combinations is affected not only by changes in the technical conditions of production, but also by changes in factor/price ratios and investments will be governed by those decisions. Thus writes Marx:

"The (ordinary) man does not grasp the fact that it is precisely the change in the cost of production, and thus in the value, which caused a change in demand, in the present case, and thus in the proportion between demand and supply, and that this change in the demand may bring about a change in the supply. This would prove just the reverse of what our good thinker wants to prove. It would prove that the change in the cost

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Sherman also explains (pp. 86-88) why the wage share of national income declines in an expansion and rises again in the ensuing depression.
of production is by no means due to the proportion of demand and supply, but rather regulates this proportion." 22

To summarize, a clear description of the mutual dependence and circularity between production and distribution as reflecting the normal functioning of our socio-economic market-oriented institutions, can also be found in Marx:

"Supply and demand determine the market-price, and so does the market-price, and the market-value in the further analysis, determine supply and demand. This is obvious in the case of demand, since it moves in a direction opposite to prices, swelling when prices fall, and vice versa. But this is also true of supply. Because the prices of means of production incorporated in the offered commodities determine the demand for these means of production, and thus the supply of commodities whose supply embraces the demand for these means of production. The prices of cotton are determinants in the supply of cotton goods. To this confusion -- determining prices through demand and supply, and, at the same time, determining supply and demand through prices -- must be added that demand determines supply, just as supply determines demand, and production determines the market, as well as the market determines production." 23

All the preceding policies' suggestions which I have been discussing regarding an increase of internal demand as the most realistic and efficient way of increasing national output can, therefore, have grounds for optimism only if it is assumed (or asserted) that capital equipment in developing countries is not

likely to be fully utilized given the limited size of the internal market. I have shown how if we assume full capacity utilization, these policies would fail to produce the desired effects.

However, as we have seen, the internal demand which is limited and determined by the actual distribution of income is not likely to increase considerably in the short run and as such the increase of output becomes dependent on foreign demand for exports. But the growth in national exports -- given the current rules of the game of the international market -- is subject to the capacity of national products to compete with the goods produced in developed economies with a more "efficient" mode of production. The comparative advantages in favor of the less developed economies only materialize in very few items generally in relation to raw materials and food products which constitute, on the average, some twenty per cent of their total exports.

The International Monetary Fund has published a study on foreign trade which described the three following trends that occurred in the last two decades:

"1) the commercial growth of the imperialist countries was much greater in value than that of the Third World.

2) the imperialist countries have come to depend less on the Third World for their exports, and

3) the latter has become more dependent on the countries of the capitalist group."

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Developing countries, acting individually, tend to base their exports on only a few goods and trade them with only a very limited amount of buyers, allowing the buyers to easily exert monopsony power evidenced in the establishment of terms of trade favoring these buyers.

At the same time, an increase demand for exportable goods is generally coupled with a parallel increase of imports, predominantly manufactured consumer goods and capital goods, whose favorable terms of trade as compared to the primary exportable goods, only end up by ruining the balance-of-payments of the developing countries and increase their dependency on the economies of the developed ones.

So, not only is the expansion and diversification of the demand for exports not likely to occur, but even if, at best, some products are placed on the international market, the need to import the capital goods necessary for their production, counter-balances any of the benefits derived from an increase of trade.

We have been analyzing the conditions which limit the variations of the rate of capital accumulation. Let us consider the possibilities of variations in the "productivity" per unit of capital invested.

1.b. Capital-Output Ratio

In this section I will analyze the variations of the capital-output ratio and establish how these variations are determined on and by the market. In other words, I will be arguing that the
factors of production (capital and labor) are utilized in the production process insofar as the owners/controllers of the means of production find it "profitable" to do so, given the conditions established both in the markets in means of production and in essential commodities.

The product per unit of capital is the other variable which strongly influences the rate of growth of a developing society. The variation of this variable reflects changes in technology, natural resources and the labor force. Thus far as the output per unit of capital may be viewed as determined jointly by the output per worker and the use of capital per worker it can be considered to include the incentives and productivity of both workers and capitalists/managers; the amounts of labor and raw materials available; the organization and efficiency of allocation and use of all factors.

Given the fact that the amount of labor and raw materials available for production can only be minimally and very slowly influenced by conscious social policies, their analysis will be left apart and considered to be peripheral to this discussion.

I will concentrate, therefore, on discussing the variations in the productivity of workers and managers, and the organizational aspects involved in the utilization of factors. I will try to show how the market-oriented mode of production determines their specific characteristics and possibilities of variation.

To initiate the discussion on productive and unproductive labor a quote from P. Baran seems appropriate:
"...the mere distinction between productive and unproductive labor encounters a determined opposition on the part of bourgeois economics. From the experience of its own youth it knows the distinction to be a powerful tool of social critique, easily turned against the capitalist order itself. Attempting to do away with it altogether, it seeks to quench the entire issue by judging the productivity, essentiality, usefulness of any performance in terms of its ability to fetch a price in the market. In this way indeed all differences between various types of labor disappear -- all except one: the magnitude of the remuneration that any given activity commands. As long as a performance rates any monetary reward, it is treated as useful and productive by definition." 25

On top of this market-defined productivity, workers whose activities are non-marketable but constitute essential "indirect" contributions to the production of marketable output, and workers who are essential for the preservation and functioning of the capitalist system as a whole, are also considered to be productive and rewarded correspondingly.

In market terms, productivity has a very specific meaning and refers to the potential output of goods and services that a worker is capable of generating.

In both classical and neo-classical economics the "law" of diminishing returns has been used to define the limits of this productivity. The law of diminishing returns states that if capital, natural resources, and technology remain unchanged and

if there is a limit to the physical level of output then an additional worker will add less product than the worker hired before him.

The utilization of this "law" in development economics has been extensive as a justification of the existing patterns of rewards to labor and capital. The shortage of capital is said to impose a limit to the level of output long before full employment is achieved. Once the full capacity level of output has been attained, the marginal product of labor is said to be zero, and the reward too (as seen in the next section). But this assertion also implies that the attainment of full employment, in a developing economy, is only possible if a substantial part of the economically active population is economically unproductive. The only policy foreseen as a satisfactory solution to promote both economic growth and full employment is to seek to expand the capital stock per worker at a faster rate than the growth rate of the labor force, raising progressively the labor's marginal product. Technological adjustments appear then as the most effective way of increasing the productivity of labor. However, these adjustments are of a very specific nature and can only be undertaken if they are "efficient" on the market.

Let us analyze what this "efficiency" means. Marx's characterization of productivity in market-economies seems relevant:

"The value of a commodity is determined by the total labor-time of past and living labor incorporated in it. The increase in productivity consists precisely in that the
share of living labor is reduced while that
of past labor is increased but in such a way
that the total quantity of labor incorpor-
ated in that commodity declines; in such a
way, therefore, that living labor decreases
more than past labor increases." 26

But the law of increased productivity of labor is not ab-
solutely valid for capital. So far as capital is concerned,
productiveness does not increase through a saving in "living
labor" in general, but only through a saving in the paid por-
tion of living labor.

Labor will be considered productive, and therefore em-
ployed, as long as it is capable of producing commodities
which are sold on the market, it is labor's "character as the
creative element of exchange value" which is paid and cherished.
It is also in this context that the substitutability between
labor and machinery can be understood and interpreted.

"The use of machinery for the exclusive pur-
pose of cheapening the product, is limited
in this way, that less labour must be ex-
pended in producing the machinery than is
displaced by the employment of that machi-
nery. For the capitalist, however, this
use is still more limited. Instead of pay-
ing for the labour, he only pays the value
of the labour-power employed, therefore the
limit to his using a machine is fixed by
the difference between the value of the
machinery and the value of the labour-power
replaced by it." 27

27 K. Marx, Capital, Vol. I (ed. by F. Engels. New World Paper-
As such the productivity of labor is limited and conditioned by the mode of production itself. The non-communal ownership/control of the means of production confers to labor specific characteristics of productivity, characteristics that would change in a different institutional set-up.* (I will develop this further in Section III of this chapter.)

On the other hand, "labor may be necessary without being productive" in a market sense as indeed is the case for teachers, artists, physicians, philosophers, etc., that engage in labor the demand for which in a "rationally ordered society far from disappearing would become multiplied and intensified to an unprecedented degree."

Baran's definition of unproductive labor as consisting of all labor resulting in the output of goods and services the demand for which is attributable to the specific conditions and relationships of the capitalist system, and which would be absent in a rationally ordered society, appears an an acute characterization which in some sense echoes Schumpeter's earlier formulation:

"A considerable part of the total work done by lawyers goes into the struggle of business with the state and its organs ... in socialist society there would be neither need nor room for this part of legal activity.

* This is to say that the institution of non-communal ownership/control of the means of production confers to the production process the characteristic of only "using" the factors of production (i.e., labor, capital) insofar as they yield on the market, at least, the expected average rate of profit.
The resulting saving is not satisfactorily measured by the fees of the lawyers who are thus engaged. That is inconsiderable. But not inconsiderable is the social loss from such unproductive employment of many of the best brains. Considering how terribly rare good brains are, their shifting to other employment might be of more than infinitesimal importance."

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These differentiations between productive and unproductive labor are diametrically opposite to their characterization in market terms and as such it becomes difficult to consider workers actually unemployed or "unproductive" as unable to contribute to economic growth in an alternative institutional set-up. This observation leads us to believe that there is a form of potential economic surplus which is hidden in the market-oriented economies. I will try to establish now how the waste and irrationality in the productive organization also fall in this observation resulting in a reduction of output markedly below what could be obtained with the same input of human and material resources.

In this analysis two steps may be taken. First, on the national level, excess capacity in plants can be encountered due to the underutilization of economies of scale stemming from irrational product differentiation and from lack of capital available to individual firms. But these conditions called forth by the irrational smallness of enterprises have their counterpart in the waste on the part of monopolistic giants who, shielded by

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their monopolistic positions, need not bother with minimizing costs or with maximizing efficiency and lose therefore the benefits potentially achievable with their plant-size.

Secondly, the organization in the capitalist firm itself that is defended on grounds of economic rationality and efficiency, also has to be relocated in its correct perspective. S. Marglin's research addresses the following questions: "Why, in the course of capitalist development, the actual producer lost control of production; What circumstances gave rise to the boss-worker pyramid that characterizes capitalist production; and What social function does the capitalist hierarchy serve?"

Marglin's research leads him to conclude that "neither of the two decisive steps in depriving the workers of control of product and process... (i.e., the minute division of labor and the factory organization of work) took place primarily for reasons of technical superiority. Rather than providing more output for the same inputs, these innovations in work organizations were introduced so that the capitalist got himself a larger share of the pie at the expense of the worker..." (emphasis added).

The advantage of capitalist methods of work organization materialized in bureaucratic production, was to allow the con-


30 S. Marglin., ibid., page 3.
centration -- in the hand of capitalists -- of control, over the surplus. Bureaucratic organization does not appear as the only method for accumulating social capital, as such, but is certainly an effective alternative for successful control over the production process and the capitalist appropriation of the fruits of accumulation. It was only within the constraints of maintaining heirarchical control that changes in the work activities were introduced. The current system of production, is not technologically superior to any of its alternatives but is certainly superior in securing to both capitalists and managers an essential place and reward in the production process.

Marglin explains the adoption of the factory system of production as follows:

"The key to the success of the factory, as well as its inspiration, was the substitution of capitalists' for workers' control of the production process, discipline and supervision could and did reduce costs without being technologically superior." 31

As such the lack of bureaucratic organization could be disastrous for profits without being inefficient; furthermore, there are some indications that an alternative organization/division/control of work could be more beneficial for society as a whole. (In the last chapter I will analyze this alternative organization and its indications of success/failure.)

One example in this direction can be the workers' desire to

31 S. Marglin, ibid., page 34.
trade between goods and leisure. The shift from workers' control of goods-leisure choices to capitalists' control over the workers' choices between work and leisure through the factory system, assured the capitalist of the ability to forsee his future profits.

"It is a fact well known (wrote a mid-century commentator) ... that scarcity, to a certain degree, promotes industry, and that the manufacturer (worker) who can subsist on three days work will be idle and drunken the remainder of the week... The poor in the manufacturing counties will never work any more time in general than is necessary just to live and support their weekly debauches ... We can fairly aver that a reduction of wages in the woolen manufacture would be a national blessing and advantage, and no real injury to the poor. By this means we might keep our trade, uphold our rents, and reform the people into the bargain." 32

The bureaucratic organization must not therefore be seen as a shift from one production function to another but merely as a shift along the same production function with a specific control of the inputs involved in the production process. Furthermore, all the manpower used in this organization, coordination and public relation system can make us believe that output could be increase in an alternative production process.

In this subsection, I discussed how the ownership of the means of production by the capitalists and their control over the production process determine the level of output per unit of

32.
J. Smith, Memoirs of Wool (1747), quoted in S. Marglin, op.cit.
capital according to the criteria of profitability established on and by the market.

In this first part, subsections 1.a. and 1.b., I have been analyzing the factors which determine the direction and speed of economic growth in a market-oriented developing economy. I established how our socio-economic institutions determine and limit both the level and type of production and the use of factors involved in the production process. In the next part, I will discuss how possible it is, given the institutions, for the growth of output to assure a "full-employment" (and) "productive employment") situation.

2. The Problem of Full-Employment

In this second section I will address myself to the problem of how likely it is -- given the socio-economic institutional constraints analyzed above -- for the "productive" sectors of a developing economy to grow sufficiently to absorb the entire labor force. In other words, I will analyze how these constraints influence the absolute growth of the labor force employed in the production process. From the analysis of sections 1 and 2 I shall establish that the variations in output and employment do not necessarily correlate positively as postulated in neo-classical developmental strategies but may move in opposite directions (given our socio-economic institutions). Furthermore, I will argue in the next chapter that these institutions define the characteristics of production process in such a way that when
society has to face a choice between more output and more employment, the alternative adopted will, in principle, be geared towards maximization of the satisfaction of the owners of the means of production (i.e., a small minority at expenses of the majority).

I start by posing the question: What is meant by unemployment: In considering the economic situation actually existing in developing societies, the objective of employment should be clarified as to distinguish between the creation of more jobs and the creation of more "labour-time". The creation of more jobs can be directly related to the unemployment problem defined as the number of those seeking work at existing wage rates, while the creation of more "labour-time" depends on the characteristics of the production process itself and on the existing difference between the number of hours of work on offer (depending as such on the technology in use) compared with the number of hours of work that is taken up. As such full-employment is perfectly compatible with underemployment and with low productivity per man (even though productivity per man hour may be high, and high productivity per man/hour (in developing societies) is not achievable with full-employment). If the primary concern of developmental policies is to increase the productivity per man hour then the increase of productivity per man and the whole notion of full-employment are only to be seen as desirable by-products. The main objective pursued becomes the increase of productivity of labor (i.e., increase the productivity per man/hour) in all
sectors which has evidently nothing to do with the goal of increasing the available labour time (i.e., the increase of the productivity per man).

B. de Vries, a senior economic advisor to the International Bank for Reconstruction and Development, defined this objective as follows:

"Let the objective be a society in which all are employed in activities in which the most productive methods known to man are used. This objective may be best achieved by concentrating on the establishment of an advanced sector and expanding it rapidly to absorb and integrate those presently engaged in the backward sector. "

This goal of developing the modern sector, with a high productivity per man/hour, is advocated on the grounds that its expansion will suffice to absorb more and more workers actually employed in less productive activities. How realistic is this prospect given the rate of growth of the labor force and the direction of technological change in the modern sector? Let us consider what forces condition and determine the process of absorption.

2.a. Rate of Growth of the Labor Force

The writings referring to the concept of "optimum population" go back as early as 1798 to the first edition of Malthus' "Essay

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on Population" and was elaborated upon repeatedly in all the classical literature. Decades later, the need of controlling the rate of growth of population became incorporated in the economic growth literature dealing with developing societies:

"Capital accumulation, technical progress, and the phenomenon of increasing returns to scale may have dispelled the shadow of Malthus from the few rich industrial countries, that shadow still hovers over the many poor agrarian countries ... In these countries per capita income has remained pitifully low, and the alarming prospects of population growth have revived neo-Malthusian fears. Once again there is widespread concern that economic betterment will be thwarted by excessive population growth, the 'revolution of rising expectations' must remain unfulfilled." 34

Although the concept of an optimum population can be considered to have some theoretical utility in social research, in practice, it has been of little use in formulating socio-economic policy. Apart from some modest results produced by physiological control programs, little seems possible in terms of decreasing the gap between the actual population size and the size required in the existing production process. Attempts to control the growth of population are obviously based on the belief that the maximization of output does not require the growth of the labor force and that, as such, the well-being of the working class depends on how big its size is when it comes to "dividing up the pie"

after costs of production, profits, interests and rents have been discounted. Implicitly, such attempts unwittingly acknowledge the conclusion we arrived at in the former section; namely, that the mode of production adopted is determined by the expectations/speculations of the owners/controllers of capital and not by the basic needs of the population at large.

Furthermore, I will argue that it is difficult to conceive of a situation of absolute overpopulation in a developing society. The so-called labor surplus problem is not a problem of excess labor per se, but rather a problem of imbalances between the required and available skills. A high demand for skilled labor coexists with a shortage in supply, while the supply of unskilled labor considerably exceeds the demand for it. As such, it can be considered not as a problem of superfluous social "labor time" but as a problem for the owners/controllers of means of production of how to organize production in order to maximize output given the human resources available. It should be understood that the demand for skilled or unskilled labor is uniquely determined by the mode of production. The increasing division of labor in current production processes calls for more and better coordination and organization. Further technological developments, along the current trends, require more specialized skills, and depends on an ever growing technocracy/bureaucracy, and can absorb less unskilled labor. In the preceding section, we have seen that the social function of hierarchical control of production was to make possible the accumulation of capital and not to
achieve higher levels of efficiency. This view of the hierarchical division of labor, certainly opposes Hirschman's view, who sees modern and up-to-date technology embedded in highly systematized and hierarchical work situation as

"...perform(ing) a crucial function in aiding management in the performance of new, unfamiliar and perhaps somewhat uncongenial tasks. By predetermining to a considerable extent what is to be done and where and at what point of time, the machines and the mechanical processes they perform reduce these difficulties immeasureably in comparison with a situation where work schedules depend exclusively on the convergence and coordination of many human wills and actions."

What Hirschman and other developmental strategists are arguing for is a division of labor; i.e., a given mode of production, which demands exactly what can be considered as being one of the most scarce resources of developing countries: skilled labor. The crucial observation to make is not that there is a surplus of labor in absolute terms, but that by choosing a mode of production we also determine the specific amounts and ways by which the "factors of production" (capital, unskilled and skilled labor) are to be utilized. The specific form in which these factors are combined depends solely on the methods of production and the degree of absorption of the labor force becomes a "dependent" variable, dependent on the intention of owners/con-

trollers of the mode of production to increase the productivity of labor as a means to augment their profits. (I will develop this argument further in the next section.)

The majority of society, as such, is adapting to technology instead of technology adapting to society: a basic irrationality, especially if we have shown that technology was (and is) not geared to efficiency but to accumulation.

In a similar way, we encounter sectorial imbalances among industries with very specific skill requirements; and further anomalies as high urban unemployment and agricultural underemployment coexisting with vast areas of fertile uncultivated land and with industrial plants working at a very low percentage of their installed capacity.

In a very pragmatic sense, it is hard to imagine conditions in which it would be impossible to find anything useful for extra hands to do. More men and women must surely be able to produce more in an alternative organization of production, but what we are facing here are the choices that the owners/controllers of the means of production have to make in a market-oriented economy as to what methods of production to use: the more labor-intensive methods or the more capital-intensive ones. What forces govern these choices? This is the subject of the following discussion. (A further discussion will be done when analyzing the shares between wages and profits - Section II)

2. b. **The Choice of Technology.**

Baer and Herve make the following observation:

"The difficulties encountered in effectively
absorbing labor in newer industries in many industrialized countries were at first explained principally by the existence of a rigid factor proportion problem, in which the choices of techniques were few and of a relatively capital-intensive variety. However, the mounting evidence accumulated in the 1950's and early 1960's suggests that even where a choice was possible, many developing countries were not adopting the most labor-intensive techniques possible or promoting only those industries which absorbed the highest amount of labor. 36

The trend toward adopting "modern" labor-saving technology has been especially supported by technical missions of international organizations. The main reasons are given:

1. Returns on capital are lower in labor-intensive sectors.

2. Capital per unit of output is higher in the same sectors. For these reasons, the argument gives, labor-intensive technologies result in less "competitive" production and in less "attractive" investment opportunities. Let us examine these arguments.

Low labor productivity is not unexpected in a labor-intensive industry, as compared to a capital-intensive one, but what accounts for the "unsuitability" of the more labor-intensive methods of production (in the sense of the method which uses a lower capital/labor ratio) is that they actually involve more capital per unit of output than the capital-intensive method and as such require more of the scarce resource in developing societies: capital. 36

Several empirical studies have been done to examine figures of costs of production in different production situations and indeed they have shown that techniques that use much labor also use much capital per unit of output. How predictable were these results? Indeed, we could consider these results to be absurd if all techniques of production were developed simultaneously. If this would have been the case, neo-classical economists would argue that in a competitive market, labor-intensive methods of production would never have developed. But in fact methods of production are developed over a historical period of time and Marx's thesis on the development of technology seems especially useful to illustrate this process. His argument is mainly based on the observation that in order to compete in the market, the producers have to strive for a reduction in their costs of production (or increasing the productivity of labor) which leads to the adoption of cost-reducing (labor saving) innovations. This adoption assures the producers of a larger share of the market and extra profits, which compensate and justify for their lowering of prices in the commodities produced. Historical analysis has shown how the trends in the technological development process have been towards more and more division of labor, as well as larger and larger scales of production correlated with the requirement of increased lumpiness in investments.

To argue, then, for the adoption of capital-intensive technology (adapted especially for large-scale production) in developing societies on the grounds that it reduces the capital costs in relation to output, becomes a self-evident argument. Obviously, to be competitive in the international market, either the developing societies adopt the large-scale production system (with the economies of scale they provide) or else they will not be able to expect any of their manufactured products.

The higher productivity in the modern technological sector is likely to always erode the benefits from the utilization of more labor-intensive techniques even if wages are extremely low. This has actually been the case in many sectors using "intermediate" technology. However, this is not to say that in small-scale production processes oriented towards highly protected internal markets, the older techniques of production could not remain efficiently.

To illustrate this argument an analysis can be made of technological change in Japan, and:

"If Japan's experience teaches any single lesson regarding the process of economic development in Asia, it is the cumulative importance of myriads of relatively simple improvements in technology which do not depart radically from tradition or require large units of new investment." 38

The second argument that is given in favor of capital-intensive techniques is that they yield higher returns to investments. Already in the mid-fifties Galenson and Leibenstein urged upon the desirability of high capital intensity in underdeveloped countries as a source of profits and therefore of savings and investments. The relation between profits, savings and investments has already been discussed in the first section. I still want to emphasize very briefly what the alternative of increasing the productive power/per worker means for the owners/controllers of means of production.

Marx had already noted that the productivity of labor increased the rate of profit:

"the degree of exploitation of labour depends on the average intensity of labour, if the working-day is given... The degree of exploitation of labour determines the rate of surplus-value, and therefore the mass of surplus-value for a given total mass of valuable capital, and consequently the magnitude of profit..." 40

and that this accounts for the direction of technological progress:

"The progress in civilisation, therefore, or, in other words, any increase in socially productive forces, in the productive


forces of labour itself, if you like -- as they come about as a result of science, inventions, the division and combination of labour, improved means of communication, the creation of a world market, machinery, etc. -- do not enrich the worker, but only capital; they only serve, therefore, to increase the power that controls labour still further; they merely increase the productive power of capital. Since capital is the opposite of the worker, they only increase objective power over labour. The transformation of labour (as a living purposeful activity) into capital is in itself the result of the exchange between capital and labour, insofar as it gives to the capitalist property rights in the product of labour (and command over labour). This transformation is first of all established in the production process itself. The question whether capital is or is not productive is thus absurd. Labour itself is only productive when taken into capital, when capital forms the basis of production, and the capitalist takes command of production. The productivity of labour likewise becomes the productive force of capital, just as the general exchange value of goods is crystallised in money." 41

The Marxian analysis is useful insofar as it illustrates the strong relationships existing between the nature of the production process with its actual division of labour and the trends of technological development. As such, given our actual socio-economic institutions, modes of production will be chosen according to the criteria of efficiency determined by the operation of markets and the technological alternatives chosen will always be geared towards the maximization of returns to capital. These

choices definitely yield greater benefits to the owners/controllers of capital but do not necessarily lead to the well-being of the working population as minimally assured by a stable remunerated job. Evidently the faster the population grows the less likely the modern sector is to absorb it in "productive activities"; and this observation allows us to predict that it is more likely for the actual unemployment situation to deteriorate rather than improve in the future, if the current socio-economic institutions persist.

In the first section of this chapter, I have analyzed the factors which condition the rate of growth of the economy; in the second part, I discussed the absorption of the labor force given its natural growth and the direction of technological progress. The main effort behind the analysis has been to attribute to the normal operation of our socio-economic institutions, in particular to the institutions of ownership of factors of production and of control of the production process; the actual unemployment/underemployment problem affecting developing societies. I have established the inevitability of the problem given these institutions and as such we can derive that there is nothing inherent in them that can justify the optimism of neo-classical developmental economists regarding the possibilities of "solving" the unemployment problem. Indeed, there can be some regulatory policies which can momentarily slow down its gravity but, given the direct correlation between the socio-economic institutions and the
unemployment phenomenon they engender, subject to maintaining these institutions, the problem will reappear and progressively increase.
CHAPTER THREE:

ECONOMIC GROWTH AND INCOME DISTRIBUTION: the problem of distributional equity.
In this section of the paper I will discuss the factors which determine the distribution of national income between wages and profits in a developing market-oriented economy.

The pertinence of this discussion can best be understood if we have in mind that only 10% of the population of Argentina, for example, live on an income derived from sources other than the immediate reward to the product of their work, and that the "welfare" of the rest of the population is exclusively dependent on this reward.

As in the earlier section, I will only consider two main groups of income-earners: the wage-earners and the profit-earners, as represented respectively by households and firms. (The case of the self-employed, for example, can easily be linked to that of the wage-earners given both his level of income and the alternatives open to him.)

I will ascertain, as Ricardo did in 1820, that the discovery of the laws which regulate distributive shares is the "principal problem in Political Economy." ¹ But while Ricardo considered that in "different stages of society the proportions of the whole earth which will be allotted to each of these (three) classes under the names of rent, profit and wages will be essentially different"; I will argue, that today, the problem of distributive shares becomes crucial precisely because in "different stages of capitalist society the proportions of the national income allotted to wages, profits, etc., are essentially similar." ² Given this observation, I will analyze how the normal functioning of our socio-economic institutions account for the relative constancy of these shares despite changes in
techniques of production, variations in organization of production, higher levels of accumulation of capital and increases in the average real incomes per head as experienced at least in "the advanced capitalist economies over the last 100 years or so."

I will oppose this constancy to the optimism of neo-classical economists as to the possibilities of change in relative shares as expressed in their marginalist theory of production and their marginal utility theory of value. To illustrate the views of these economists, quotes from J.B. Clark, father of the marginal productivity theories, seem appropriate:

"Where natural laws have their way, the share of income that attaches to any productive function is gauged by the actual product of it. In other words, free competition tends to give to labor what labor creates, to capitalists what capital creates, and to entrepreneurs what the coordinating function creates." 4/

"If he (a man) is to gauge the real importance to himself of a particular saddle horse, he may, perhaps, do it by ascertaining how many hours he must work in order to get enough in the way of boats, guns or a tennis outfit, etc., to afford as much pleasure as he can get from the horse... The final measure in the case is one of pain; for the ultimate infury that is done to a man by depriving him of any one means of pleasure, resolves itself into putting him under the necessity of enduring a certain amount of personal sacrifice in the effort to secure something that will effectually replace it... If each man could measure the usefulness of an article by the effect that it costs him to get it, and if he could attain a fixed unit of effort, he could state the utility of a number of different articles in a sum total. Similarly, if all society acts in reality as one man, it makes such measurements of all commodities, and the trouble arising from the fact that there are many measurers disappears. A market secures this result, for society acts as a unit--like an individual buyer." 5/

The first statement asserts that each individual in the economy, receives the value of his contribution to production. The second, argues that in the absence of market imperfections,
each individual's income is proportional to his desire to work i.e., is a function of both his own distaste for the sacrifice involved in working and of the pleasure/utility he can derive from acquiring given commodities on the market.

In subsection II.1. I will discuss the first statement and analyze the forces which influence and determine the actual share of a factor of production. In subsection II.2., I will explore the real possibility, given market-institutions, for labor to modify its share of the national product.

II.1. The determination of factor shares:

With reference to an individual firm, the marginal productivity theory needs no elaborate discussion. The demand of a firm for a specific factor service is determined, under market competition, by the firm's production function, the prices of the outputs it produces, and the prices of the various factor services it uses.

"The individual firm under perfect competition hires factors according to the equimarginal principle. An optimum combination of factors implies equalization of the weighted marginal physical products taken over all the factors, the weights being factor prices.

\[
\frac{MP_1}{W} = \frac{MP_k}{r} = \ldots \frac{1}{Mc} \ldots \ldots \ldots \quad (2)\ldots.
\]

The competitive firm maximizes profits by equating price to marginal cost. Profit maximization implies cost minimization, and the latter is a synonym for payment to factors in accordance with their marginal productivity." _6/

In this passage of M. Blaug's, "Economic Theory in Retrospect," \(MP_1\) and \(MP_k\) stand for the marginal productivity of labor and capital respectively, \(W\) for the wage rate, \(r\) for the rate of interest and \(Mc\) for the marginal cost. At micro level of the
firm, the demand curve for labor is logically a function of the marginal productivity of labor but the problems arise when we convert this micro-theory of the firm into a macro theory of income distribution. This is in fact what the marginal productivity theory does when it states that each productive factor will be rewarded, in equilibrium, according to its marginal productivity as measured by the effect on the total product of the addition or withdrawal of a unit of that factor (the supply of all other factors being held constant.) Therefore, according to the marginal theory, we may say that "if the total supply of all factors... is being taken as given, independently of price, and all factors are assumed (in the theory) to be limited substitutes to one another, the share-out of the whole produce can be regarded as being determined by the marginal rates of substitution between them." 7/
If relative shares have been observed to be constant over time, neo-classical economists proceed to say, then the marginal rate of substitution of labor to capital must have remained unchanged. However, the only case when the marginal rate of substitution of labor for capital remains unchanged, at each combination of labor and capital, is when technological progress takes a "neutral" form.

"Neutral technological changes include a change in the efficiency of a technology and/or a change in technologically determined economies of scale," but it does not include technological change that is associated with "variations in capital intensity and elasticity of substitution." These "neutral technological" changes may indeed be thought to occur at the firm's level, but certainly for the economy as a whole, in advanced economies at least, the trend of technological progress has shown a move towards higher capital intensity and greater ease of substitution of labor for capital. As such the explanation of the constancy of relative shares on the basis of "neutral" technological change is certainly a highly unsatisfactory explanation, but it seems that a better and more rigorous understanding of the constancy of income shares can not be undertaken without analyzing first the basic assumptions of the marginalist school when forwarding such an explanation. In the first subsection II.1a, I will intend to undertake such an analysis.

In the next subsection II 1.b., I will try to derive from such an analysis, how in order to justify the existing socio-economic order, neo-classical economists proceed to ignore the socio-economic institutions ("essences") which determine the actual distribution of income and only proceed to describe the "appearances," considering them as being the fair and natural
II.1.a. The marginal rate of substitution between factors

In neo-classical economics, the marginal rate of substitution of labour for capital is understood to be the ratio of the marginal product of capital to the marginal product of labour. However, to be able to determine this ratio, a "common numeraire" that relates both productivities should be established.

The need for such a numeraire has first been discussed by J. Robinson (1953) and has clearly been restated and summarized by G.C. Hartcourt:

"The first puzzle is to find a unit in which capital may be measured as a number, i.e., an index, which is independent of relative prices and distribution, so that it may be inserted in a production function where along with labour, also suitably measured, it may explain the level of national output. Furthermore, in a perfectly competitive economy in which there is perfect foresight (either in fact or for convenience of measurement), this unit must be such that the partial derivative of output with respect to capital equals the reward to capital and the corresponding partial derivative of output with respect to labour equals the wage of labour." 10/

The finding of such a unit seems indeed to be a unique requirement, if we are to construct the neo-classical production function, i.e., the iso-product-curve showing the different quantities of labor and capital which produce a given level of national output.

One of the main problems arises from the fact that in a market-oriented economy, it is impossible to conceive of a quantity of capital which is forewarded in the production process independently of the rates of interest and wages. This is to say that the neo-classical production function can not be constructed unless the profit and wage rates are known; and these rates are...
exactly what neo-classical economists try to derive from the construction of the aggregate production function.

Let me develop this point a little further. In the production of any commodity, capital is advanced and capitalists expect to earn a profit on such advances. Capitalists invest where the rate of profits is expected to be greatest, but in a perfectly competitive economy, there is a single rate of profit and all costs incurred in the production of any commodity are expected to be recouped with the profits accrued at the competitive rate of profit, over the period of time (duration of the production process) during which the capitalist has his capital "out of pocket." However, the amount of profits depends on the amount of capital invested; the greater the quantity of capital invested, the greater the rewards to capital. But for this capital to enter the production process, capital must be converted into capital goods and it is this observation that leads us to an important differentiation which the neo-classical economists fail to incorporate in their analysis, namely; the difference between capital and capital goods.

"Capital goods are not the same thing as capital. 'Capital' has two meanings. On the one hand, it is property in the means of production, enabling owners of equal amounts of claims in these means to receive equal returns (given competitive conditions). In this sense it is a homogeneous fund of value, capable of being embodied in different forms. On the other hand, 'capital' also means produced means of production—that is, specific materials, tools, instruments, machines, plant and equipment, on which, with which, and by means of which, labor works. In this (latter) sense, it is a set of heterogeneous, disparate products."
By not differentiating between capital and capital goods, neo-classical economists seem to be considering that the "reward" to capital is a phenomenon independent of the actual form that this capital takes in the production process. It must be understood however that "capital", as a homogeneous fund of value, has no bearing on the actual technological characteristics of production, it is only when it is converted into "capital goods" (a specific technology) that it determines the productivity of capital. But capital can not be converted into capital goods unless the instruments of production have already a set of prices, prices which in turn can not be established, unless we take as given the general rate of profit. The rate of profit appears as such as a variable whose value has to be known a priori if capital is to be converted into a specific technology although it is precisely this value that the neo-classical economists want to determine from the construction of the aggregate production function. However, the neo-classical economists still claim that the relative prices of the factors of production can be determined uniquely from technical substitutions and the capital-output ratio. I will argue that this unique determination is indeed possible if, and only if, the actual socio-economic structure is taken as given, i.e., if a situation of socio-economic equilibrium is postulated. J. Robinson defines this equilibrium as follows:

This is the definition of equilibrium. It entails that there have been no events over the relevant period of past time which have disturbed the relation between the various valuations of a given stock of goods, and that the human beings in the situation are expecting the future to be just like the past--entirely devoid of such disturbing events. Then the rate of profit ruling to-day is the rate which was expected to rule to-day when the decision to invest in any
capital good now extant was made, and the expected future receipts, capitalised at the current rate of profit, are equal to the cost of the capital goods which are expected to produce them.\textsuperscript{12}

Indeed if the future rate of profit is established on the basis of the rate of profit ruling to-day, i.e., if we accept the actual socio-economic structure, then the supply price of different technologies can be calculated. If these supply prices are incorporated by the owners/controllers of means of production as "costs of production," then as wages rise or fall, different technologies will become more or less profitable. As such each rate of profit determines uniquely a choice of technique.\textsuperscript{13} For each technology adopted, on the basis of the actual rate of profit, a production function can indeed be drawn connecting different amounts of capital per man employed with different rates of output and this is precisely what the neo-classical economists do. Under what circumstances, however, does the problem of reevaluating the capital goods become unnecessary, as the wage rises and the rate of profit falls?

This would indeed be the case if the general rate of profit would equal the marginal product of capital and this would only be possible if all industries independently of whatever they produce would use capital goods and labor in the same proportions. If indeed the capital-output ratio is to be equal in all branches of production, then it can be considered as an independent variable. Furthermore, if technology is such that it is expected to provide diminishing marginal returns to the value of capital per man employed, then and only then, can the
changes in relative shares be established on the basis of technological substitution possibilities and variations in the supply of factors of production, independently of the on-going rate of profit. Now, for different industries using different capital-labor ratio where the wage rate rises, only those industries with a high capital-labor ratio will be able to meet this increase in wages, without having to increase their prices. The industries with low capital-labor will have to increase their prices. But as competition establishes a uniform rate of profit among different sectors of production the relative prices of inputs and outputs of different industries will have to be resettled. These prices however can only be established in accordance with the rate of profit as price determination requires an already "unambiguous, constant and confidently anticipated rate of profit."  

According to this argument, relative prices (including the price of labor) are established in the sphere of production and as such are not dependent on the demand of consumers, (as the neo-classical market paradigm considers them to be) but on the technological interdependences of production. If we reconsider also the arguments that I have developed in the previous section, namely the conditions under which labor is hired, then we can indeed redefine the income distribution problem altogether.

We have seen in the preceding section that the marginal worker is hired insofar as the value of the output he generates is higher than the wage he receives, i.e., insofar as he is
"productive for capital." As such the productivity of labor is reflecting the technological characteristics of production as determined and defined by the owners/controllers of the means of production.

If both the level of employment and the wage rate—and therefore the labor's share—are conditioned by the technological conditions of production then indeed the distribution of income reflects the social relations of production. But given (as we argued in the last section) that it is society that shapes technology and not technology that shapes society, these social relations of production should be understood as governed by our socio-economic institutions and not by (either) a technological necessity nor by the dictates of an exogenous variable, technology, independent of the existing socio-economic structure. This is to say that the distribution of income between wage earners and profit-earners is the outcome of the interdependencies occurring in the sphere of production, interdependencies which are crystallized in a specific set of technologies. This emphasis on the process of production, and as such on the way the means of production are disturbed is diametrically opposed to the neo-classical view of markets as rewarding each factor of production according to its contribution to the production process.

This is not to say that competitive market conditions can not bring about an equalization of the rate of profit among industries, nor that a labor shortage does not produce an increase of wages but it says nothing about how the profit and the wage rate are determined in the first instance.
It is precisely to the analysis of such a determination that the next subsection will be devoted.

II.1.b. The determination of factors share and socio-economic Institutions

In this section I will try to explain how our socio-economic institutions determine the factors share. First of all at a general level of analysis, and in a market-oriented economy, the institutions are such that the property in value capital means that its owners share in the distribution of the national income by receiving profits in their invested capital. (Neoclassical economists pay no attention to whether this income is earned or unearned and as Solow says, "All that is necessary... is to draw a conceptual distinction between the imputed return to capital and the income of capitalists.") At the same level of analysis, workers can be considered to be deprived from the ownership of means of production and as such are obliged to sell their labor in order to survive.

On the basis of such a differentiation between wage-earners and profit-earners, let us consider how their shares of the national product can be said to be established.

A certain amount of capital is forwarded by the capitalist for the production of specific goods and by selling these goods on the market, the capitalist not only recoups his costs of product but also a profit. How is this profit obtained?

Marx's concept of production of surplus-value seems to be relevant to the understanding of how profits are obtained:

"In buying the labouring power of the workman, and paying its value the capitalist, like every other purchaser, has acquired the right to consume or use the commodity bought."
You consume or use the labouring power of a man by making him work as you consume or use a machine by making it run. By paying the daily or weekly value of the labouring power of the workman, the capitalist has, therefore, acquired the right to use or make that labouring power work during the whole day or week...

The value of the labouring power is determined by the quantity of labour necessary to maintain or reproduce it, but the use of that labouring power is only limited by the active energies and physical strength of the labourer. The daily or weekly value of the labouring power is quite distinct from the daily or weekly exercise of that power, the same as the food a horse wants and the time it can carry the horseman are quite distinct.

The rate of surplus value, all other circumstances remaining the same, will depend on the proportion between that part of the working day necessary to reproduce the value of the labouring power and the surplus time or surplus labour performed for the capitalist. It will, therefore, depend on the ratio in which the working day is prolonged over and above that extent, by working which the working man would only reproduce the value of his labouring power, or replace his wages. 16/

This unpaid labor is not visible in a capitalist society since wages, by appearing as the reward to labor, eliminate the possible distinction between the paid and the unpaid proportion of work. In fact, when wages appear as the reward to labor, surplus-value appears as the natural reward to capital under the name of "profits."

Marx makes the distinction between the rate of surplus-value and the rate of profit. In his terminology, the surplus-value (s), or profit, consists precisely in the excess value of a commodity over its cost-price (i.e., the excess of the total labor embodied in the commodity over the paid labor embodied in it) and this surplus-value measured against the variable capital (v; value of labour power) he has called the rate of surplus-value, and against the total capital (c + v; c is the value of used-up machinery and raw materials) he has
called the rate of profit.

If the excess value of a commodity over its cost-price is compared with the total capital advanced by the capitalist, then this excess value seems to be derived from all the components of this "capital" in an equal and amorphous way. Marx considers the analysis of the rate of profit to be an irrelevant analysis, dealing with only the "surface of the phenomenon" as he ascertains that it is only the portion of capital that is allocated to "buy the labour power" that actually contributes to the formation of the surplus-value. For Marx, even the value of capital goods is given by the amount of past labour embodied in them. But the analysis of the rate of profit seems in fact to be extremely relevant to the capitalists. No doubt, that the capitalists consider it a crucial examination, as it exhibits the results of the self-expansion of the capital advanced and to them the sources of this self-expansion are not important. Capital invested for the capitalists is capital invested whether used-up in capital goods or in acquiring labour power. It is however by looking at the rate of profit that the process of capital accumulation is "cloaked in mystery and appears to originate from hidden qualities inherent in capital itself."

As Marx writes:

"Although the rate of profit thus differs numerically from the rate of surplus-value, while surplus-value and profit are actually the same thing and numerically equal, profit is nevertheless a converted form of surplus-value, a form in which its origin and the secret of its existence are obscured and extinguished. In effect, profit is the form in which surplus-value presents itself to the view, and must initially be stripped by analysis to disclose the latter. In surplus-value, the relation between capital and labour is laid bare; in the relation of
capital to profit, i.e., of capital to surplus-value that appears on the one hand as an excess over the cost-price of commodities realised in the process of circulation and, on the other, as a surplus more closely determined by its relation to the total capital, the capital appears as a relation to itself, a relation in which it, as the original sum of value, is distinguished from a new value which it generated." 17/

Why is, however, the analysis of the rate of profit \( \frac{S}{c + v} \) important? Clearly, the rate of profit is relating the different factors of production. The fact that labor cannot work without machinery and raw materials; and capital goods cannot produce without the collaboration of labor, is, to some extent, transcribed in this formulation of the rate of profit. But, by no means is the nature of the interrelation between capital and labor captured. It simply tells us the amounts of constant and variable capital utilized in the production process without even attempting to specify the characteristics of the technological dependency between labor and capital that brought these amounts into being. Indeed the technological dependency is such that capital goods and labor are "designed" to fit each other perfectly. Skills, conditions of work, productivity of labor are determined technologically and as such it is impossible to consider at all the factors of production in isolation of each other. (It is, however, precisely on such an independence that the whole marginalist theory relies and calls upon to justify the unequal returns to factors of production.)

The question arises as to how can we determine the contribution of each factor to the production process, given such an interdependence. Once again, the more we analyze the external manifestations of the economic system, the more its internal
structure disappears. With the tendency of the rates of profits, (and to a certain degree of wages) to equalize among different branches of production; profits do not appear in direct relationship with the degree of exploitation that each capitalist imposes on the labor force in his branch of production. Furthermore, the division of profits into rent, interests... tends to obscure completely the fact that profits are the outcome of the surplus-value generated by the workers in the production process.

To understand the way the division between wages and profits is established, we have to move beyond the world of appearances and ask how is it then, that society through its socio-economic institutions, materializes this division, independently of what occurs in one or another branch of production. A market in labor converts the worker into a commodity whose "market price," according to classical economists (i.e., Ricardo, A. Smith) corresponds to a subsistence wage:

"The working man will, on an average, only receive the value of his labour, which resolves into the value of his labouring power, which is determined by the value of the necessaries required for its maintenance and reproduction, which value of necessaries finally is regulated by the quantity of labour wanted to produce them." 18/

Marx did not only relate wages to minimum physiological needs but also to "the satisfaction of certain wants springing from the social conditions in which people are placed and reared up." According to Marx, this "historical or social element" entering into the value of labour, may be expanded or contracted, so that nothing remains but the "physical limit"; but we also have to understand that even this notion of physiological minimum is an elastic one. A need that has been created by
technical progress and the power of demonstration becomes a physiological need over a certain period of time.

In the preceding section, we have already discussed the need for the capitalist to induce "artificial wants" in society in order to enlarge the market for his products and therefore his profits.)

If needs are socially determined, then we can understand why wages in an historical perspective, can be seen as varying considerably in space, but very little in time. Their fluctuation only seems to have a strong lower limit, a limit under which a social crisis would become eminent.

To understand the upper limits attainable by the wage rate, a quote by A. Emmanuel seems relevant:

"Upward fluctuations are also limited because labor power is not a commodity like others. It is a commodity that is, so to speak, instantly perishable. The worker cannot save it up so as to take advantage of a favorable market conjecture. Every hour that passes is an hour lost." 19/

If the workers are indeed, obliged to sell their labor in order to survive, i.e., if they must work now, even if the wages are low; then their bargaining power becomes almost illusory. However, the range of possible fluctuations in the wage rate is primarily regulated and limited by the variations in the rate of profit. If "the capitalist and workman have only to divide this limited value, that is, the value measured by the total labor of the working man, the more the one gets the less will the other get and vice versa"; 20/

then the following passage of Marx's "Wages, price and profit" becomes easily understandable:
"As to profits, there exists no law which determines their minimum. We cannot say what is the ultimate limit of their decrease. And why cannot we fix that limit? Because, although we can only say that, the limits of the working day being given, the maximum of profit corresponds to the physical minimum of wages; and that wages being given, the maximum of profit corresponds to such a prolongation of the working day as is compatible with the physical forces of the labourer. The maximum of profit is, therefore, limited by the physical minimum of wages and the physical maximum of the working day. It is evident that between the two limits of this maximum rate of profit an immense scale of variations is possible. The fixation of its actual degree is only settled by the continuous struggle between capital and labour, the capitalist constantly tending to reduce wages to their physical minimum, and to extend the working day to its physical maximum, while the working man constantly presses in the opposite direction.

The matter resolves itself into a question of the respective powers of the combatants. 21/

The concepts of power and struggle are alien to the neo-classical literature. In this literature, these concepts are unnecessary as conflicts are resolved in and by the market. Market mechanisms are expected to resolve these conflicts, independent of the socio-economic structure. M. Dobb has described this belief in the operation of markets as follows:

"The methodology of modern economics (unlike that of classical political economy) has tended to make economics essentially a theory of exchange—a determinate theory of price relationships between things which appear on a market as objects of sale and purchase...

What is customarily called distribution is nothing more than an extension of the general theory of price relations from products to factors of production, the latter being treated—in complete abstraction from the individuals which supply them, and the social relations of those individuals—simply as productive services which enter the market because there is a demand for them derived from the demand for the final product... Excluded are such considerations as the ownership of the means of production and the class relations contingent thereon. Excluded is any notion of a distinction between cost payments and a surplus, which formed the crux of the classical approach to questions of distribution... The only 'system' which can occupy an economist's 22/ attention is the market system—the form of price determination.
In neo-classical economics, this price determination is said to be settled through market mechanisms, which makes it appear as if prices were established independently of the social relations of production and simply an automatic operation. How, then, does this differ from the classical approach? In the classical world, exchange relationships were regarded as being essentially determined by the conditions of production and not by market conditions.

Exchange ratios were, for the classical economists, not simply relations of exchange but social relations. Exchange was considered to pertain to the "sphere of the apparent and the phenomenal" and production to the "sphere of the essential and the substantial". Marx considered these exchange ratios to be determined by the relative quantities of embodied labour in various commodities and it is these quantities which, according to Marx, confer on them their values. Although with the development of capitalism it is easy to see, Marx says, that the average prices at which commodities normally tend to sell, diverge appreciably from their values, in his much-criticized statement "the sum of prices of production of all commodities produced in society...is equal to the sum of their values" still ascertains that for the economy taken as a whole the "labor theory of value" holds. This is to say that what Marx calls the "rate of exploitation" (\(V\)), i.e., the relation between the surplus labour and the necessary labour, is of primary importance in determining prices, even in later "capitalistically modified" societies.
R. Meek's reformulation of the Marxian view seems relevant to elucidate this point:

In a commodity-producing society of the modern capitalist type, the labour-capital production relationship still determined the distribution of the national income between wages and profits--i.e., it determined the total amount of profit available over the economy as a whole for allocation among the individual capitalists. As capitalism developed, changes certainly occurred in the mode of allocation of this profit between industries and enterprises, but these changes were logically and historically secondary. The socio-economic production relation between workers and capitalists, determining as it did the proportion of the national income available for allocation in the form of profit, was still in a meaningful sense the primary and determining relation. Given the total amount of profit, and given the amount of capital employed in producing each commodity, the profit constituent in the price of each commodity, and therefore its "price of production", were automatically determined. 23/

We can derive from this analysis that the distribution of income between workers and capitalists is mainly determined by the relationship of labour to capital (or its degree of exploitation). It is precisely the relationship between unpaid to paid labor which determines the relative shares between wages and profits. The observation that in the historical development of capitalism the importance of capital has increased only allows us to conclude that the distribution of profits among capitalists is proportional to the capital they employed in the production process but by no means can we derive from such an observation what the rewards to labor should be.

The neo-classical theory has been incapable of explaining in a convincing way why relative shares have remained fairly constant over time. On the basis of the previous analysis, how can we try to explain such a constancy? In the next section I will try to explore some of the processes by which socio-economic institutions allow this constancy to occur.
11.2. The variations in the labor's share

First of all let us consider the case where upon an increase of the "costs of living", workers would demand for an increase of wages. In such a case:

In insisting upon a rise of wages, the laborer would only insist upon getting the increased value of his labour, like every other seller of a commodity, who, the costs of his commodities having increased, tries to get its increased value paid. If wages did not rise, or not sufficiently rise, to compensate for the increased values of necessaries, the price of labour would sink below the value of labour and the labourer's standard of life would deteriorate. 24/

Furthermore, if money wages rise and their increase brings about a new increase of prices, the only result is the initiation of an inflationary spiral, without bringing about any improvement in the workers' condition.

"Inflation... is one manifestation of the struggle over who gets the surplus" 25/. The wage-earners' struggle for an increase in their wages and the capitalists thrive for an increase in their profits.

In other circumstances, money may be de- or revaluated. The relation between the values of necessaries and that of labour may remain unchanged, but normally changes in money prices are not equally distributed among all sectors and as such, at best these changes modify the consumption patterns of the consumers and at worst they decrease the total purchasing power of the working class.

Finally in analyzing the relative power of wage and profit earners, the trend towards further and further mechanisation in the production process should be discussed.
As a response to an increase in wages, capital will tend to increase its productivity through the development of the productive powers of labour. This in turn allows for the process of capital accumulation to be accelerated (even with a high rate of wages) and simultaneously with the accumulation of capital, a progressive change in the "composition of capital" takes place. That part of the aggregate capital that is laid out for machinery and raw materials increases as compared with the part that is laid out in wages.

"If the proportion of these two elements of capital was originally one to one, it will, in the progress of industry become five to one, and so forth... In the progress of industry the demand for labour keeps, therefore no pace with the accumulation of capital" 26/.

This excess of labour, that Marx calls the "reserve army", by increasing the competition among workers, allows the capitalist to push the "value of labour more or less to its minimum limit".

Furthermore, as Marx points out, the process of industrialization may indeed lower the "relative" position of the working class:

By virtue of the increased productivity of labour, the same amount of the average daily necessaries might sink from three to two shillings, or only four hours out of the working day, instead of six, be wanted to reproduce an equivalent for the value of the daily necessaries. The working man would now be able to buy with two shillings as many necessaries as he did before with three shillings. Indeed, the value of labour would have sunk, but that diminished value would command the same amount of commodities as before. Then profits would rise from three to four shillings, and, the rate of profit from 100 to 200 percent. Although the labourer's absolute standard of life would have remained the same, his relative wages, and therewith his relative social position, as compared with that of the capitalist, would have been lowered.
If the working man should resist that reduction of relative wages, he would only try to get some share in the increased productive powers of his own labour, and to maintain his former relative position in the social scale.27/

The processes I have described indicate the procedures by which the capitalists are able to recoup some of the benefits that the working class had previously obtained through a wage increase. These processes clearly show that as long as there is a division between labour and capital, the distribution of the national income between wages and profits is the outcome of the struggle between two opposite interests.

Throughout the whole analysis I have considered society as formed by only two main groups, wage and profit earners. However, I still want, at least to mention, the role of the State in influencing the relative shares of these two groups. The tax system, the fiscal and monetary policies, the general development plans that the State adopts—as exemplified in the first section by the analysis of Argentina—certainly influence the relative shares. This is to say that the control of the State by one group in society allows this group to increase its share of the national income.

The State can also appear as a mediator between the two groups but insofar as these two opposite interests are crystallized in two institutions namely, the market in labour that that obliges the worker to sell his labour and the non-communal ownership of means of production which allows the owners of capital to derive profits from this simple right; the role of the State remains secondary. The income shares are clearly determined and defined by these institutions. It is only the
changes in the relative power of both groups that can slightly modify the shares.

However, in the historical development of capitalism it is the power of capital that has really increased. The process of technological development, which in fact as we have seen is conditioned by the owners of means of production, has converted capital into the scarce and cherished means of production (as compared to labour), and its owners have been able to exert more and more control and power over those who are deprived from such an ownership. This has turned the struggle between the two classes into a mild dispute on the working conditions, the level of wages...

Marx has written on these "struggles":

(The workers') struggles for the standard of wages are incidents inseparable from the whole wages system... in 99 cases out of 100 their efforts at raising wages are only efforts at maintaining the given value of labour and... the necessity of debating their price with the capitalist is inherent in their condition of having to sell themselves as commodities. 28/

and it is precisely this condition of workers having to sell themselves as commodities that should be questioned, if the actual pattern of income distribution is considered at all as a problem.
FOOTNOTES: CHAPTER THREE


3. N. Kaldor, *ibid*, p.84.


13. To maintain the argument clear I will not consider here the "Cambridge Controversies" about the switches in techniques.

14. This point is clearly developed in references 11 & 15.


(Footnotes: Chapter Three, Continued)

CHAPTER FOUR:

ECONOMIC GROWTH AND SOCIAL WELFARE: the problem of alienation in market-oriented societies.
For more than two centuries now, capitalism has been criticized on the ground of distributing unevenly the benefits of socio-economic development. Large masses of individuals, belonging to the working class, although contributing with all their "labor power" to the production process, benefit only marginally from the surplus they generate, while the owners/controllers of the means of production seem indeed to benefit disproportionally in relation to their contribution to production. In Section III, I have discussed how given the historical trends in the development of capitalism, unemployment and underemployment appear as structural problems generated by the normal functioning of our socio-economic institutions. As such the likelihood for a great majority of the population, especially the unskilled labor force (but certainly not exclusively), to remain/become unemployed seems to be extremely high if technological progress and organization of production are to follow the same path as in the past decades.

Furthermore, in Section IV, I have argued that even if employed, the possibility of the working class as a whole to enlarge its relative share of the national income is limited by the actual distribution of the means of production and the capital intensiveness characteristic of the production processes.

As capitalist countries become more and more affluent the desire for an equitable distribution of material goods and services among workers, and between workers and non-workers in society, is still an important and relevant concern, on the political arena; but new interests, in much broader issues, has also emerged and developed. These are issues related to the
quality of life in capitalist societies: i.e., to the meaningfulness of work, to the capacity of self-expansion of individuals, to the degree of communal integration. Affluence has not made individuals happier and counter-cultural and radical movements are increasingly questioning the basic socio-economic institutions which engender our actual quality of life.

If indeed, developing societies are to follow the same path that the developed societies have followed in the past, then their concerns should not only be geared towards achieving distributional equity but also and primarily, towards reconsidering the nature and characteristics of human activities in society. The vast majority of the developing societies are organizing today their productive structure along the same lines than the developed societies did a few decades ago. They use the same organization in production, a comparable distribution of means and outputs of production, an analogous technology, etc. Therefore they have to take into account not only the concrete potentials of this system of production as to the provision of goods and services but also the correlations between such a system of production and distribution and the broader issues related with the quality of life in capitalist society.

Rarely in the social sciences, do social scientists have the possibility of foreseeing the outcomes/consequences of specific modes of human interactions. This unique chance for the social scientists of developing societies to see in the developed societies the reflection of their own future can not and should not be underestimated. It should be considered with all seriousness as the
analysis of the present quality of life and culture in advanced capitalist societies may indeed point to the search for an alternative mode of economic development and social organization in developing societies. But in order to undertake such an analysis we must first argue that in market-oriented societies the basic relations of individuals to themselves, to their work, to their communities are alienated. I will establish this by describing in subsection III.a. the nature of this alienation. In subsection III.b. I will try to show that alienation is a social problem engendered by the normal functioning of our socio-economic institutions, and finally in subsection III.c., after having analyzed the processes by which alienation is institutionalized, I will consider the possibilities of overcoming it.

III.a. The Nature of Alienation

In order to discuss alienation we must first make clear what meaning we will attach to the term.

I shall try to describe very briefly what sociologists have considered in the last decades to be the most important components of the alienation syndrome, namely the feelings of powerlessness, isolation, meaninglessness and self-estrangement. ¹/

Let me try to summarize these feelings.

Powerlessness refers to "the expectancy or probability held by the individual that his own behavior cannot determine the
occurrence of the outcomes or reinforcements he seeks". In this sense powerlessness refers to anything from the immediate work process to the broader economic and political processes of society. This sentiment can either be objective or subjective depending on whether individuals are indeed controlled by other individuals or by an "impersonal power" i.e., technology, the establishment, etc....

Isolation refers to the fact that in actual society individuals belong only to functional groups but not to true communities in which they can cultivate their talents and relate to each other in a real "humane sense". It is only in communities that personal freedom is possible and that man does not feel isolated from himself, from his fellows and from nature.

Meaninglessness refers to the inability of individuals to perceive the cause-effect relationships between what they do/conceive and the outcome of their actions/thoughts. Individuals' roles do not seem to have any organic link with the structure of the roles in society nor with any form of social organization.

As such man does not engage himself in any type of activity which is rewarding in and by itself, any act of creative self-expression. All relations/activities become instrumental. Hence his feeling of estrangement from the "species" and from his true self. Given this meaning of alienation, I will try to show now how this phenomenon is generated by the actual socio-economic organization of society.

Within the classical and post-classical philosophical systems the problem of "alienation" has been conceptualized as some type of
privation between the "one" and "its other". Alienation is seen as the deprivation of man. The human agent participates in the construction of his world and it is intrinsic to this process of creation that these "constructs" become independent objects. Anything which we, as human beings fabricate or produce, project out of our own body (and mind; i.e., the Hegelian idea) and become separated from us. As such any kind of labor, is alienated labor because in any society and under any social relations of production, human beings are obliged to become separated from the products of their labor. This process has been described in the Hegelian philosophy as the process of externalization (Entausserung) and the central motif of the whole philosophy becomes one of restoring the relation of man with himself in his "otherness": society, culture, environment. The basic means of overcoming human alienation is then through this process of reappropriation and the crucial question to ask is how can this reappropriation take place.

Bourgeois thinkers (including Hegel) always argued that reappropriation can only take place through the "reign of reason". It is only Marx, who for the first time, overcame the conceptualization of alienation as the alienation of consciousness and rejected the process of "spiritualization" as the unique means of man to fulfil his desire of self-relective transcendence and liberation.

For Marx, reappropriation can only take place through material praxis. Marx has argued that all reifications are included in the dialectic of work and alienation cannot be destroyed until there is a material change in this praxis.
However, the main difference between the Marxian concept of alienation and this of his predecessors, is that Marx denies the fact that the separation of ourselves from the product of our labor does necessarily imply that the product of our labor must oppress us. As such, according to Marx, alienation is not the result of the projection of things out of our body but is rather due to the organization of society.

"More concretely, (according to Marx) only in a society which is based on commodity production and only under the specific economic and social circumstances of a market economy, can the objects which we project out of us when we produce, acquire a socially oppressive existence of their own and be integrated in an economic and social mechanism which becomes oppressive and exploitative of human beings." 3/

For Marx, transcendence as such is not only spiritual but also and mainly practical resulting from specific forms of social and economic organization.

In this section I will ask to that extent does this Marxian position hold and to what degree is it really descriptive of the alienation phenomenon in the industrial societies of the XXth century.
III.b. Alienation and Socio-economic Organization

In this section I will argue that in market-oriented economies the alienation of the individual stems from the normal operation of our basic institutions. I will develop this argument in some detail in relation to the alienation from the work-process and the work-product (given the central theme of this dissertation). Alienation from community and self will only be treated peripherally.

But before examining the specific causes of alienation in market-oriented societies, it is necessary to remind very briefly how this phenomenon existed in different previous stages of human history.

The most primitive forms of alienation arise from the divergence between human needs and the human desire to control nature.

"Alienation is... a social expression of the fact that men lack adequate control over the forces of nature and have thereby not yet acquired control over sources of daily sustenance." 4/ But as such, in primitive societies, men are oppressed by nature, but not by the products of their labor. In early history, production remained simple but collective, the producers had control over their process of production and the disposition of their product. Man was alienated from nature, but not from himself and his community. However,

"Civilized man's growing control over nature was attended by a loss of control over the basic conditions of his economic activity. With the extension of the social division of labor, more and more goods became converted into commodities and entered exchange in the market. The
producers thereby lost control over their product as it became subject to the laws of the commodity market. In turn, these laws came to rule the producers to such an extent that in time men themselves became commodities to be bought and sold. Slavery was the first organized system of alienated labor; wage labor will be the last."

Division of labour, in a broad sense, already characterized pre-capitalist societies wherein the dominant class secured itself hierarchical privileges in a self-legalized framework. But in feudal societies men were tied to the land and although they were not free men, they had access to the land, could produce their own means of subsistence and keep part of it for themselves. It is only in capitalist societies that a large part of society was driven off the land and therefore had no longer access to the means of production. In order to survive, men were then forced to sell their labor power on the market. Thus the first precondition for the alienation of labor occurs when labor becomes separated from the basic means of production and the second, and interrelated one, where, in order to survive, man had to sell his labor.

As such, the historical groundwork for the alienation of the working class can be said to be the private property in the means of production and the institution of wage labor, i.e., the market in labor, by which men are forced to sell their labor power to another person, the capitalist. This, however, can only come into existence on a large scale when and if the free access to the means of production and subsistence is denied to an important part of society.
Marx writes in the Capital:

"(The feudal social organization's) annihilation, the transformation of the individualized and scattered means of production into socially concentrated ones, of the pigmy property of the many into the huge property of the few, the expropriation of the great mass of the people from the soil, from the means of subsistence, and from the means of labour, this fearful and painful expropriation of the mass of the people forms the prelude to the history of the capital." 6/

Capitalism has emerged as an economic system which was to establish human freedom and emancipation by liberating peasants and serfs from previous "unhuman" conditions of production. I will certainly not argue that the feudal mode of production was indeed "humane", because it certainly was not, but my main argument will be that although less brutal, or unhealthy, the capitalist mode of production is certainly less than truly human and far from having liquidated the phenomena of alienated of man has maintained and institutionalized it.

How does the alienation of man take place in the capitalist mode of production? In order to explain this phenomenon I will analyze three characteristics of the capitalist mode of production, namely its division of labor, its wage system, and its orientation towards the production of commodities.

III. 1.b. The division of labor

The actual minute division of labor was already prescribed by the early proponents of capitalism. Adam Smith's defense of it, is well known:

"(This) great increase of the quantity of work, which, in consequence of the division of labor, the same number of people are capable of performing, is owing to three different
circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate labor and abridge labor, and enable one man to do the work of many. 7/

The division of labor can be seen to contribute to the individual's alienation (as we have defined it above), in the following way. The worker, in a capitalist society, is powerless to control his immediate work. He has to abide to detailed job specifications which are elaborated on the top and hierarchically transmitted. These specifications include everything from the way of performing the task to the pace of production. Furthermore, the division of labor renders the worker's task meaningless for him. Production is fragmented into so many tasks, that not only does each single individual experience his work as being impersonal and standardized but also he feels his incapacity to act on the basis of his own insight. When this feeling is present, sociologists have argued, that the individual's capacity to participate effectively in the social life of his/her community is notably reduced. Job powerlessness and meaninglessness is transferred to the larger socio-political setting. 8/

Furthermore, fragmented tasks preclude work solidarity and cooperation. Workers can not determine their social interaction in the work place. This interaction is indeed directly determined by the hierarchical division of labor. As such the worker feels isolated in his work-situation.

If work is socially considered to be the major possible outlet for human initiative, creativity and craft, then the personal
experiences of the auto workers on the assembly line can certainly not be considered to fulfil these social beliefs about what work-processes should be like. During the productive process by virtue of the division of labor existing in capitalist enterprise, all the knowledge, direction and creativity is concentrated in the hands of the owners/controllers of capital and the workers are converted into mere adjuncts to the machine.

If so alienating for the workers, why is then this minute division of labor conserved?

We have seen, that bureaucratic organization and hierarchical control are the concrete modern manifestations of the worker's alienation from his work-activities, but why was this organization in production implemented? H. Gintis writes on this subject:

"...In firms of greater complexity, the requirements of secure control from the top dictates an increasing number of levels in the hierarchical ladder of authority. Thus the modern form of bureaucratic order in production is born. Bureaucratic order protects the firm against decentralized, participatory, and "bottom-up" decision-making, all of which threaten the determination of technologies and work-roles according to profit criteria. Because of its flexibility in promoting control from the top, this form of work organization has been taken over intact by most of the state-socialist countries in the Soviet Union and Eastern Europe."

Most of the neo-classical economists have argued that bureaucratic organization and hierarchical control are immutable aspects of "industrial technology" and should be defended on grounds of greater efficiency and productivity.

We have seen however, in Section I of this paper, that the fact that capitalists choose a hierarchical division of labor as a means to both maximize profits and control does not necessarily imply that the bureaucratic order in production is itself technically
efficient. This has indeed been proven both historically and empirically. 

If workers could indeed perform all tasks and coordinate the activities among them, then the role of the capitalists/managers would become odd. A system of worker control, job rotation, equal participation is certainly not advantageous for the bosses insofar as their existence becomes less justifiable. This does not mean however, that the division of labor is neither necessary nor efficient. Since the Industrial Revolution, innovations have always been directed towards the hierarchical, fragmented capitalist firm. But based on a study by V.H. Vroom, "Industrial Social Psychology," H. Gintis writes:

"First, bureaucratized and routinized tasks do not flow from the nature of "technology" but from the needs of centralized control... That is, given that the corporate unit is based on centralized control, the most efficient technologies will be those involving routinized, dull, and repetitive tasks. In a decentralized environment, the exact reverse would be true.

Second, workers do not like fragmented jobs. The experimental literature shows that job enlargement and decision-making control on the part of workers increases their satisfaction, while lowering absenteeism and turnover (Vroom, pp. 199-201). Nevertheless, managers have organized the normal bureaucratic division of tasks so that actual worker performance is substantially independent of the worker's attitudes and satisfactions. This startling, counter-intuitive fact is one of the major results of fifty years of investigation by industrial psychologists (Vroom, p. 199).

Third, bureaucratic organization of production, while insuring managerial control and corporate security against the vagaries of workers morale, is by no means efficient in the wider sense. For even moderate worker participation in decisions and goal-setting increases productivity (Vroom, p. 228). The mean quality of decisions made by a group is moreover greater than the mean quality of individual decisions (Vroom, p. 230), and the best results are obtained when individuals think up solutions individually, and evaluate and choose among them as a solidarity team (Vroom, p. 232-3)...
...when workers are given control over decisions and goal-setting, productivity rises dramatically (Vroom, pp. 234-6).

As P. Blumberg (Industrial Democracy, Constable, 1969) concludes:

"There is scarcely a study in the entire literature which fails to demonstrate that satisfaction in work is enhanced or... productivity increases accrue from a genuine increase in worker's decision-making power. Findings of such consistency, I submit, are rare in social research... the participative worker is an involved worker, for his job becomes an extension of himself and by his decisions he is creating his work, modifying and regulating it."

But such instances of even moderate worker control are instituted only in marginal areas and in isolated firms fighting for survival. When the crisis is over, there is a return to "normal operating procedure." The threat of workers escalating their demand for control is simply too great, and the usurpation of the prerogatives of hierarchical authority is quickly quashed. Hence, efficiency in the broader sense is subordinated to the needs of bureaucratic control. 

But if not more efficient what accounts historically for the displacement of the worker-controlled systems of production by the capitalist factory system? H. Gintis argues that the answer seems to lie in the system of hierarchical control according to which the supervision in the factory allowed the capitalist to increase the pace of work and the exertion of the worker. And as such the capitalist firm was able to reduce drastically labor costs and increase profits. In a later stage, the possibility of greater capital accumulation allowed the capitalist to invest in new machinery which indeed increased the productivity of the factory system; it allowed him also to acquire considerable patent rights, to advertise and enlarge his markets, to obtain economies of scale, to benefit more and more from an initial positive condition, this initial condition was the exertion of the worker.
This is also to say that we are not arguing against division of labor per se but against the division of labor which takes in the capitalist mode of production and which results in the alienation and exertion of the worker through its minute specialization of tasks and functions, its hierarchical organization and its system of bureaucratic control. As such we have to understand the difference between this division of labor and a social division of labor which is communally determined and emerges from a dialectic of technical development and the specific requirements of allocations of tasks (as opposed to the requirements of control and exertion) and takes into account the non-fragmental characteristics of work and the need for job rotations.

This social division of labor is certainly incompatible with the phenomenon of wage labor and it is to the analysis of this phenomenon that I turn now.
The Wage System

A significant step in the explanation of the phenomenon of alienation has been taken by Marx in his analysis of the institution of wage labor.

First of all, the workers obviously do not exercise the slightest control over the condition of their employment. Indeed they can be hired and fired at will and obviously the greater the labor supply, the lower the incentive of the employer to increase the rewards, the job desirability, the working conditions. The lower the worker skills, the smaller his choice over different positions with variable degrees of desirability. It follows that Marx was at least partially justified in contending that the employee's labor is "not voluntary, but coerced; it is forced labor". 12/

But even more important for the worker's alienation is the authority relation built in between the worker and his employer through the working contract. According to this contract, for an established wage, the worker is obliged to accept all the orders supplied to him by his employer. Even before he engages in the production process, the wage-earner gives away his labor. The worker agrees to hand over his labor power to the capitalist in return for the payment of the prevailing wage. The employer is then free to use and exert this labor according to his own will. But the more the productivity of labor increases i.e., the more efficient the workers are; the shorter the work-time
needed will be and the lower the direct benefits for the worker himself. Hence his feeling of powerlessness which adds to his feeling of meaninglessness when, incapable of understanding the capitalists' decision-making process which results in the commands he receives, he must still abide to them in order not to lose the job.

But the worker is not only in antagonism with his employer, he is also in competition with his fellow workers: the workers who enter the market in labor are necessarily compelled to buck one another for available jobs. Hence their feeling of isolation, individualism and competitiveness. Furthermore at the end of the production process, the product which the worker has produced does not belong to him but to the capitalist who has hired him. Therefore the worker is not only alienated from the process of his work but also from its product. This product does not reflect the workers' personal contribution to the production process nor does this product ultimately contribute to the workers' welfare. The worker has no control over the attributes, or the distribution and use of the product of his activities. Rather their determination lies in the hands of the owners/controlers of means of production who relate the development of products to the rationale of profit and saleability. Work appears no longer as a means of self-expression for anybody who sells his labor; work is just a mean to attain a goal and that goal is to earn some income and have some free time. Money is expected to buy the consumer goods necessary
for the satisfaction of human needs and leisure-time is supposed
to allow for human development outside the sphere of production.

In the next sub-section I will argue that in a class society
geared towards the production of commodities neither the satis-
faction of the consumer, nor the development of individuals in
their leisure-time can occur.

The Consumer Society

Most of the arguments of this subsection have already been
treated in greater detail in previous pages but they will be
repeated here very briefly, for the clarification of the thesis
I want to develop.

For most workers, their work activities represent indeed the
least preferred activities they habitually undertake. As such
they are not motivated by the process of production itself, nor do
they identify with the work-product as they have no say as to what
is to be produced, how it should be used and who should use it.

This alienation of the worker from both his work and his
product requires that the motivation to adequate job performance
should be through an external reward which in capitalist societies
take the form of money and status. Work is thought to have no
value in itself. It is simply a "pain" which one has to put up
with, in order to have the pleasures of consumption.

We have seen before that the capitalist's control of production
take two basic dimensions: the control over the mode of production
and the control over the orientation of production. The latter
dimension explains why the capitalist economy functions in a way in which only commodities which respond to the criterion of "economic rationality" are produced, i.e., the criterion of profit and control maximization govern not only the production process but also the products it outputs. In short production, which is controlled by the owners of the means of production, control the human needs themselves.

In writing about the mode of production in advanced industrial society, H. Marcuse says:

"(Technology has become) totalitarian to the extent to which it determines not only the socially needed occupations, skills, and attitudes, but also individual needs and aspirations." 13/

The choice of individual and social means and ends become manipulated by the internal "rationale" of an economic-technological system which responds to a given structure of ownership/control of means of production. The organization of production will be geared towards the maximization of output i.e., the generation of ever more vast amounts of marketable goods and services, independently of the social value of these goods and services. The criterion for the production of commodities is not their intrinsic social usefulness but its saleability on the market. Thus while capitalist economies tend to produce more and more, there is an ever growing tendency for this production to take the form of irrational, non-welfare-producing output. 14/

For Marx, the understanding of the commodity form and the fetishism of commodities is crucial to the analysis of the
capitalist system.

In interpreting Marx's theory of alienation T.O. Schroyer writes:

"This central disruption (fetishism) alienates all practical activity because the commodity form dominates all productive activity. The commodity is the grotesque created by the Capitalist mode of production; it is the unit-cell of alienation. In the commodity form is found the record of the alienated work process and the immanent contradictions of Capitalist society. The commodity form is a duality: it has both a use-value, which is derived from "real" labor value, and a "Schein", or "show" value, which is exchange-value, and is but a refraction from the Capitalist mode of production." 15/

It is clear, Marx argues, in the Capital, that man changes nature/materials in such a way as to make them useful to him. But while for the worker, the object of his work has an intrinsic value (if produced for his own consumption and enjoyment); within society work and commodities make sense only in relation to other commodities. Commodities are valued in relation to how they exchange for other commodities, in terms of the general value form: money. As such the capitalist production is only valued in relation to its products' exchange value.

"In the end, it is money relations between things that help us objectify the 'meaning' of our actions. This is the language of commodities, which we must superimpose on life activity. Abstract relations between things become the standard of "meaning" for relations between people, their work, and products." 16/

For Marx, the fetishism of commodities has resulted in the transformation of human production into forms of human relations based on money, exchange and trade. Relations between men become
relations between things and as such, the entire institutional framework of the market-oriented society does not only create and legitimize alienated labor but also legitimizes the general system of human relations in capitalist society as exchange relations.

"The Fetishism of commodities has its origin...in the peculiar social character of the labor that produces them.

As a general rule, articles of utility become commodities, only because they are products of the labor of private individuals or groups of individuals who carry on their work independently of each other. The sum-total of the labor of all these private individuals forms the aggregate labor of society (gesellschaftliche Gesamtarbeit). Since the producers do not come into contact with each other until they exchange their products, the specific social character of each producer's labor does not show itself except in the act of exchange. In other words, the labor of the individual asserts itself as a part of the labor of society, only by means of the relations which the act of exchange establishes directly between the products, and indirectly, through them, between the producers. To the latter, therefore, the relations connecting the labor of one individual with that of the rest appear, not as direct social relations between individuals at work, but as what they really are, material relations between persons (sachliche Verhältnisse von Personem) and social relations between things." 17/

In market-oriented societies it is clear that the form of economic interactions also regulates and determines the variations of non-economic institutions: i.e., the family, the community, the environment, the cultural system. The basic economic institutions of the capitalist system--the capitalist control of the productive process with its correlated free market in labor and its supporting legal relations of property ownership--, do not only conflict with the interests of the workers, alienating their work and converting them into commodities, but also by removing any economic activity from the basic consumption unit/family/
community, obliges these non-economic institutions to make individuals compatible with the economic roles they have to perform in order to survive and as such lose their social/humane characteristics.

The phenomenon of functional reduction of all social institutions to the criterion of economic rationality governs the development of society as a whole, alienating man not only from his work, but also from this species-being, his culture, his environment. Alienation, as such is extended from the employment situation into the leisure hours. Individuals appear as alienated from the products they produce as they are vis-a-vis the objects they consume. Instead of defining themselves in terms of what they are able to create, "people recognize themselves in their commodities, they find soul in their automobile, hi-fi set, split-level home, kitchen equipment". 18/

Various explanations have been forwarded for the extension of the alienation syndrome from the act of production to the act of consumption. The neo-classical view rejects altogether this alienation in consumption and claims that individuals prefer higher levels of consumption to creative work. But more realistic, some other writers—Galbraith for example—accept the phenomenon of consumer alienation and attribute it to the manipulations of "Madison Avenue" which create "artificial wants" in order to increase the benefits of the corporate sector. (It is the producer's sovereignty.) In contrast with these two positions, the radical literature, as we have seen before, attributes alienation to the normal development of capitalism.
The operation of its basic institutions reduces all aspects of social life to their instrumental role of maximizing individual commodity production and consumption and as such eliminates all meaning for human life, alienating individuals from themselves, from their communities and their environment. But how does indeed the alienated man relate to his community and environment? So far I have described the Marxian view of the alienation of man in capitalist society; I will proceed now to explore, how Marx defines and analyzes the phenomenon of alienation from community and culture.

Marx argues, that in a class-based society, where the worker is separated from the means of production, work instead of being the embodiment of human potential and creativity becomes the annihilation of the active powers of man. Insofar as we see human work as the externalization of human potential in a "dialectical interaction between man and nature" we can view human work/products as sources of human development and enrichment. But under capitalism work is its own negation, and as such destroys man's possibility of self-realization.

Marcuse describing the Marxian view of alienated labor writes:

"Labor in its true form is a medium for man's true self-fulfillment, for the full development of his potentialities, the conscious utilization of the forces of nature should take place for his satisfaction and enjoyment. In its current form, however, it cripples all human faculties and enjoins satisfaction. The worker 'does not affirm but contradicts his essence.' Instead of developing his free physical and mental energies, he mortifies his body and ruins his mind."19/
Because of his alienation in work, Marx argues, man is also estranged from his "species-being". Unfettered self-realization through unalienated labour would lead to the fulfillment of what Marx called man's species life:

"It is just in his work upon the objective world that man really proves himself as a species-being. This production is his active species-life. By means of it nature appears as his work and reality. The object of labor is, therefore, the objectification of man's species-life; for he no longer reproduces himself merely intellectually as in consciousness, but actively and in a real sense, and sees his own reflection in a world which he has constructed. While, therefore, alienated labour takes away the object of production form man, it also takes away his species life, his real objectivity as a species-being, and changes his advantages over animals into a disadvantage in so far as his organic body, nature is taken from him. Just as alienated labour transforms free and self-directed activity into a means, so it transforms the species life of man into a means of physical existence." 20/

Each individual, according to Marx, potentially represents humanity as a whole and his development leads to that of the universality of man. The true history of mankind is, for Marx, the history of free individuals. Under the conditions of capitalist production man by being separated from his means of production and from his creative power becomes "unfree" and so does then humanity as a whole.

As such, man can only overcome his alienation/unfreedom through a practical transcendence as the fundamental characteristic of man is his capacity of self-actualization through work. But Marx's concept of "work" is quite distinct from that of "labor". And this appears clearly in Chapter VII of Capital entitled "The Work Process".
Work, in the Marxian sense is both a world-building and a self-realizing activity. Work has a unique dialectic:

"The work dialectic is that rationally conceived purposive action which, step by step tries to achieve the changes desired, and is characterized by an open reciprocity of ends and means as the work proceeds...

Work is "making" which also reflexively "forms" men...

Work then, applies to politics, as well as to producing and distributing goods and services. The highest form of work is (for Marx) the revolutionary praxis, that guided by a critical dialectic 'makes' the revolution." 21/

For Marx, de-alienation alone is not enough; "men must change the world and not interpret it." But men cannot change the world given their false-consciousness (which they develop through the total alienation of work which produces an inversion of human understanding, in that relations between men are seen as relations between things). According to Marx, the fetishism of commodities (as described in the earlier subsection) results in a "political economy which find the phenomenal forms of exchange, trade and money, as the "real" categories of human production, and, as such, have mystified and thus ideologically legitimated alienation." 22/

Hence, the false-consciousness of the alienation worker who accepts as true all the values, norms, ideologies which legitimate the alienated work-activity, with all its corollary of alienation from self, from community, from culture, from environment. Capitalism "develops a working-class which by education, tradition and habit looks upon the conditions of that mode of production as self-evident laws of nature".
False-consciousness has permeated the entire institutional framework of the market society, creating not only a legitimation for alienated labor but also a legitimation of "reified mutual recognition systems" by which individuals relate to each other as "things".

The development of dominant ideas always keeps step with increasing social and economic integration but this process is to stop in a classless society as "it is no longer necessary to represent a particular interest as general or the general interest as ruling" 23/ and man reappropriates his true essence as a human being. As such, for Marx, the development of a critical theory of false-consciousness is just of secondary importance, his basic concern being the theoretical understanding of the "economic laws of motion" of capitalist society geared towards concrete revolutionary practice.

In this section we have shown how man in capitalist society gets alienated in his everyday life from both his work-activities and his work-products, hence from his self and his community. It is clear however, that basically different relations in production and relations to products require alternative socio-economic institutions to the ones actually existing in market-oriented societies. Clearly alternative work-activities require the elimination of the market in labor and the possibility of the workers' control of production, and the attachment to product requires the integration of the community and the destruction of the institutionalized markets in the factors of production.
Clearly, too, the elimination of hierarchy in production implies income equality, hence the destruction of a market-determined income distribution and the destruction of a bureaucratic organization will bring along the development of technologies responsive to the needs of the workers and not to the logic of profit and control. Commodities will be produced according to needs and not on the basis of their saleability on the market.

As such, the Marxian view is correct when ascertaining that the alienation of man relates to the organization of society and is not intrinsic to the "nature of work", in the abstract. Hence the theory of alienation is useful in showing us that unless basic socio-economic institutions are changed, humanity will not be able to overpass its present crisis and achieve its full historical development. Our interest is however, more concrete. How can we turn this theory of alienation into a theory with concrete/practical implications for social change? It is to the understanding of these implications that I turn now.

III.c. Alienation, Consciousness and Social Change

The theory of alienation was crucial to Marx to examine the structure of capitalist economic relations, occurring in the society of the XIXth century, which he was analyzing, from the vantage point of their contradictions. (The essence of man, community, culture... is negated by the capitalist mode of production.) This concept of contradiction is at the base of the materialist dialectic of Marx (and is present also in the Hegelian idealist dialectic); and the
main function of any science, according to Marx, in particular that of Political Economy, is then to reveal these contradictions. Indeed, this belief is motivated by the "conviction that the given facts that appear to common sense as the positive index of truth are in reality the negation of truth, so that truth can only be established by their destruction." 24/

The analysis of these contradictions is at the basis of understanding of the operation of the socio-economic institutions which govern society and as such at the root of any possibility of real ("true") social change.

The emphasis on the economic institutions which govern society is however even more important in advanced industrial societies than it was in the society of the XXth century as centralized productive forces have become increasingly powerful. We have seen that this increase of power has been possible through the development of technology and the further functional rationalization of institutions; and it is precisely this greater technological and organizational rationality which hides even more the basic contradictions of the capitalist system and mystifies its problems.

"Social conflicts are social problems to be dealt with by instrumental techniques; administrative pluralism functions in a co-operative rational manner which acts jointly against those who reject the logic of domination which is inherent in the whole. The contradictions of a capitalist society can not develop in a society which has the technological capacity to contain them and negate the oppositional dynamic which could be mounted on them."
Marx's theory of development of internal agencies of social resolution is therefore contradicted by the capacity of the system to "deliver the goods". All potential opponents, or agents of social change, are absorbed by the 'Schein' of rationality".25/

Human consciousness becomes reified into an acceptance of the "rationality" of society. Capitalism society is indeed not failing in its own terms; it is still delivering abundantly goods and services, but this certainly does not mean that the capitalist system is satisfying basic human needs. It supplies however what it claims to the source of need satisfaction but "the crucial observation is that this claim is open to the everyday, phenomenal, critical testing by worker and citizen. The dialectic of consciousness thus lies in the phenomenology of everyday life, and revolutionary struggle must make this its organizational principle."26/

This objective lack of need-satisfaction will lead to the increasing deviancy of social groups and it will certainly be these "less socialized groups" of society which will initiate the political struggle against the existing order.

But how can this dissatisfaction be translated into basic social change which involves the destruction/modification of the socio-economic institutions which govern society and create the basic alienation of man from his self, his culture and his environment? I argue that this "goal" can indeed only happen if a comprehensive counter-culture based on a socialist ideology is developed. This implies the development of a socialist consciousness that can only be built through the union of two
interrelated tasks, namely the discovery of "true consciousness" by a return to the phenomenology of everyday life and the practical struggle to change our basic socio-economic institutions.

Indeed, this counter-movement/struggle should be regarded as a social movement because what is at play is society as a whole. As such it should go into precisely the phenomenology of our everyday lives for a correct perception of the source of the problem and the potential for solution. Consciousness of our everyday alienation derived from the critical analysis of self, society and its "natural" socio-economic institutions, and the constant struggle to change the basic institutions which had originated this alienation emerge therefore as two distinct but interrelated and complementary moments for the creation of any emancipation of society.

In this section, I have showed how the theory of alienation is useful in explaining the underlying causes of the present crisis in capitalist society. In particular, it convinces us that the operation of its basic institutions converts "man" into "objects", by reducing all aspects of individual and social life to their instrumental role in assuring the perpetuation of the actual social system. We have also explained and argued for the need to "demystify" the rationality" of the system through a shift in our consciousness.

This analysis, together with the ones undertaken in the previous two sections permit us to derive concluding remarks to which I now turn.
FOOTNOTES: CHAPTER 4


* As such when we talk of organization in production in capitalist society we can also make the arguments extensive with some reservation and/or alteration to the state socialist countries as we know them today in the Soviet Union and Eastern Europe.
(Footnotes: Chapter 4, Continued)


In the introduction I proposed to investigate the problems of unemployment, inequality and social alienation in market-oriented developing societies. I suggested that these problems are neither aberrations nor temporary dysfunctionalities, but are by and large the logical and historical outcomes of the normal functioning of the basic socio-economic institutions actually existing in these societies. I developed this argument in two parts.

The first part, which is developed in the first chapter, takes a concrete socio-economic development, the one of Argentina during the last two decades and proceeds to analyze the particular dimensions and characteristics that these problems take in this society. In this section, I focused on the analysis of the theories/policies used to explain/solve the problems of unemployment, inequity and social welfare in Argentina and realized how the stated objectives of solving these problems failed to become a reality. I then asked myself the question of whether this impossibility/incapacity of achieving these stated objectives is specific to the Argentinian context or if the failures are rather inherent to the normal functioning of the institutions which characterize market-oriented developing societies.

The second part of the thesis (Chapter II through IV) intends to investigate this question. Indeed, the next three chapters try to relate the problem of unemployment (Chapter II), the problem of distributional equity (Chapter III) and the problem of social alienation (Chapter IV) to the normal functioning of the basic socio-economic institutions of market-oriented societies.
In Chapter II, I analyze the factors which determine the rate and the direction of economic growth in these societies, and proceed to consider whether this rate and direction lead towards the absorption of the labor force in "productive employment."

I argued that the process of economic growth in a developing economy is mainly dependent on the rate of capital accumulation of that economy and on the productivity of capital. I proceeded to explain how the consumption/saving ratio depends on the prevailing class structure and as such how it reflects the social relations in production. I also discussed the characteristics of the production process in market-oriented societies, and established that the use of factors of production (Capital, Labor) is determined in and by the market. Products are only produced insofar as they can be sold on the market (market in commodities) and the use/productivity of the factors of production abides to the criteria of profitability which reflects the conditions of the markets in factors of production and essential commodities.

I argued that if indeed, the incentives to produce, the use of technologies and the organization in production are determined in and by the functioning of these markets, then production processes will take a labor-saving character. This will create problems of unemployment and serious imbalances in the labor force between the required and available skills.

In Chapter III, I discussed the problem of distributional equity and argued that despite changes in the productivity of labor, its share of the national income has remained constant through time.
I explained this constancy by showing that shares can not be determined by possibilities of technological substitution in production and the supply of factors of production, alone and that indeed the distribution of income reflects the social relations of production. I explained why income distribution should not be understood as an "exchange of equivalents" on the market, but rather as a market return to owned, or controlled means of production. The non-communal ownership/control of factors of production is responsible for the struggle between the wage-earners and the owners of means of production for a greater share of the national income. I described the characteristics of such a struggle and concluded that the possibilities of the wage-earners to increase their shares over time are extremely limited by the need of the wage-earner to sell his labor in order to survive, (even under unfavorable working conditions) and by the large pool of labor that is willing to abide to these unfavorable conditions. In Chapter IV I discussed the problem of social alienation and argued that in market-oriented societies all social relations are governed by the criteria of economic rationality. As such, all relations between individuals are transformed into exchange relations between things, and man is converted into a "commodity" which is used to produce/consume other commodities.

I argued that these "exchange relations" are institutionalized through the market in labor which converts the worker into a wage-earner who relinquishes control over both his labor and the product of his labor and through the market in commodities which operates
as a "material incentive" to man to trade his leisure time for consumer goods (in the general framework of the "more you have, the better you are").

I argued that unless we transform our basic socio-economic institutions, man will continue to be alienated from himself, from his community and his environment and I stressed the need to "demystify" the rationality of the "System" through a shift in our consciousness, as a necessary task in the practical/concrete attempt to change the basic institutions.

In Chapter II through IV, I established the relationship between the problems of unemployment, distributional equity, and social alienation and the normal functioning of the basic socio-economic institutions which actually exist in market-oriented societies. I showed how these institutions provide the structured environment within which decisions (political, economic, social) are made and how they affect (if not determine) the actual decisions taken, concerning the conditions, characteristics, and distribution of essential roles and resources in society.

The problems of unemployment, inequity and alienation do not appear any longer as dysfunctionalities of specific societies but as the necessary consequences of the normal operation of these institutions which shape our social roles and determine the allocation of our resources.

Individuals/firms' decisions determine only in the most immediate sense the shape of social roles and the allocation of resources. Indeed, the owners/managers of a firm decide what is to be produced, under what conditions it should be produced, how
production should be organized, but these decisions are circumscribed by the institutional environment. The prices of factors of production, the prices of products, the technology available are determined by the market. Producers will employ resources and organize production to minimize their costs and maximize their profits (or those of the owners or stockholders of the oligopolistic firm).

We saw too, that workers can only "bargain" over "excess" profits, profits which are left over after costs of production, dividends, interests, etc... are deducted from total revenue.

Thus, the distribution of income, the organization of production, the development of technology, the development of communities, the destruction of the environment are all basically directed through the operation of market institutions, with some modifications introduced by the decisions of the private sector.

Institutional power shape and govern our everyday life and social development, with restricted possibilities for individuals or groups in society to fight politically over specific level of wages, welfare programs, income redistribution systems, conditions of work, etc. (within the general outcomes already established by the markets).

Thus to change the course of historical development requires a change in economic institutions and any social movement oriented towards the achievement of goals of equity, equality, responsiveness of institutions, integration of community necessarily leads towards the replacement/modification/adaptation of the core institutions governing our societies.
The most important institutions, that I have been referring to, throughout this thesis, have been the institutions of: 1) non-communal ownership/control of factors of production (capital, land and labor) according to which the owner has full control over their use and development; 2) a market-determined income distribution; 3) a market in labor, with specific characteristics of workers' control over their labor and the products of their labor; 4) a market in commodities including food, shelter, medical care, etc.; 5) the owner/managers' control of the production process; 6) and the State as a class mediator, invoked to correct the dysfunctionalities of the other markets, but not intended to question them.

Hence a viable and desirable alternative set of institutions must be developed as a critical element of a strategy of social change. In an alternative institutional set-up the problems of unemployment, distributional equity and social alienation would not arise (others would certainly appear). This alternative should include 1) the separation of income from ownership of factors of production (including labor); 2) the community control of resources and production; 3) the elimination of the actual hierarchical division of labor and bureaucratic organization in production (where possible, sharing of necessary alienating work should be pursued); 4) basic consumption goods should be available to all on a non-market basis, and irrational production should be eliminated.

This alternative can not be materialized in one year, nor in ten, nor probably in a generation, but the first step towards it can be and should be done now.
"The philosophers have only interpreted the world in various ways; the point, however, is to change it."

Marx: Theses on Feuerbach