
'Monetarism' in the UK and the Southern Cone: an overview

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Chile, Uruguay¹, Argentina and the UK, bound closely together in the nineteenth century by trade and investment flows, once again share a common fate: they are the social laboratories for a series of experiments in economic and social policy. While the economic policy regimes of these countries have generally been dubbed 'monetarist', the use of financial controls to stabilise the price level is merely one instrument (and by no means the most successfully implemented) in a set of radical responses to the chronic obstacles to successful capitalist development in these societies. This radical response aims to achieve a major change in the balance of power in these societies and a restructuring of their systems of production, in order to lay the basis for a period of more successful capitalist development than has been possible in their recent history. It is, of course, true that, since the war, all four national economies have periodically experienced the implementation of stabilisation programmes, designed to counter inflationary pressures and correct external disequilibria; furthermore, contractionary fiscal and monetary policies have been the main response in most countries to the prolonged crisis of world capitalist development in the 1970s. Nevertheless, the recent experience of the Southern Cone of South America and of the UK is distinct: the duration and intensity with which harsh, anti-social economic and social policies have been applied, the explicit desire by governments to introduce radical transformations of an enduring character in structures of production, in attitudes, in behaviour and in social relationships, and the ruthlessly authoritarian character of the political regimes in the Southern Cone have few parallels in modern history.

It would, of course, be wrong to press the individual national experiences of this counter-revolution in economic and social policy into too uniform a mould: differences in initial conditions, due to substantial differences in historical development, must not be ignored, while differences between countries in the relative strength of social groups opposed to government policy have crucially affected the ability of governments to press ahead with certain elements in their 'ideal' set of policy prescriptions.²

¹The case of Uruguay is not treated in detail in this article.

²Similar caution is needed in treating different policy elements as entirely coherent one with another, and in accepting them uncritically as appropriate to the obstacles to successful capitalist development to which they are addressed: but it would be equally wrong to condemn the 'new orthodoxy' (as do some Keynesians) as merely a demented, half-baked product from the pre-history of the social sciences.

Nevertheless, the similarities in strategy, ideology and in policy instruments are striking. Conceptually, it is possible to distinguish between short-run stabilisation measures and long-term 'structural' reforms, though policy-makers frequently treat them as part of a seamless whole; certainly any distinction is more valid for the Southern Cone countries, where the military took power in Argentina in 1976 and in Chile in 1973 in conditions of hyper-inflation, acute external disequilibrium and extreme social tension. The short-run stabilisation measures are familiar enough:

- i) substantial real wage cuts for those in employment, applied to institutionally-determined wage rates and thence impinging on the overall wage structure;
- ii) reductions in the fiscal deficit via expenditure cuts, principally in subsidies to consumption, in the public sector wage-bill and in government and public enterprise investment, and increases in taxation: inducements to the financial sector ensure that a higher proportion of the deficit is financed by bond sales, thereby diminishing the public sector's direct contribution to monetary expansion;
- iii) attempts to control both the demand for and the supply of credit and attempts from time to time to make the exchange rate more 'realistic' (although both in the UK and the Southern Cone exchange rate policy has also followed the opposite course).

These measures can have rapid, dramatic effects on the balance of payments: an improvement in 'confidence' in international financial circles, increased domestic rates of interest and the unwinding of speculative positions bring an especially large improvement on the capital account, while reductions in aggregate demand (due to wage and fiscal policy) depress domestic output and the volume of imports. The rate of inflation remains much less responsive.

The long-term 'structural' reforms centre, firstly, on the transformation of one of the principal activities performed by the modern state in the recent history of these and other industrialised and semi-industrialised capitalist economies, namely, the support and guidance given to private sector industrial development. The pruning of direct and indirect subsidies to the private sector via cuts in government aid and in subsidised credit, vigorous disposals of state shareholdings in private enterprise and the injunction to public enterprises to charge 'realistic' prices are part of this; the privatisation of publicly-owned enterprises (in Chile, accompanied

by acute under-valuation of assets) complement this retrenchment of the state in directly productive activities.

Correspondingly, the role of market forces is enhanced as the principal determinant of overall resource allocation. The aim is to make international relative prices the standard of reference in resource allocation and to re-structure the domestic economy in line with the changing requirements of the international division of labour. In the Southern Cone, attempts are made progressively to dismantle industrial tariff protection, and reform of the foreign exchange regime eliminates the industrial sector's access to underpriced foreign exchange (in the UK, the post-war commitment to increasingly unfettered trade in manufactured goods—especially within the EEC—is only modified in the case of manufactured imports from Japan and the NICs). However, the use of international relative prices as the principal standard of reference for resource allocation is somewhat incomplete: in Chile, due to export subsidies, in Argentina due to delays in reducing industrial tariff protection and in the UK because of the effect of the Common Agricultural Policy on agricultural trade.³ In the Southern Cone, financial market 'reform' and de-control of interest rates are designed to reduce financial market segmentation and ensure that real interest rates reflect the true scarcity of savings: interest rate liberalisation, together with the credit squeeze, raise the real cost of borrowing to the industrial sector and dramatically improve the profitability of the financial sector (both in the UK and the Southern Cone). Price de-control, the removal of consumption subsidies and of export taxes on agriculture (of great significance in Argentina) complement these measures designed to strengthen the role played by market forces in resource allocation, though wage policy (discussed below) is an obvious departure from this principle.

In theory, short- and long-term measures should complement each other: both the anticipated reduction in inflation resulting from fiscal and monetary deflation and the promotion of efficiency and competition

³The principal deviation from the use of current international relative prices as the principal resource allocator concerns the foreign exchange market, where the real exchange rate in all countries has been subject to wide variation and for long periods has settled at levels considerably above what would be consistent with achieving external equilibrium at full employment (either of labour or capital) levels of output. Exchange rate over-valuation has resulted principally from the progressive integration of domestic and international capital markets, high domestic interest rates and a relative absence of government controls over inflows: speculative inflows have been continually rewarded by exchange revaluation, and governments have welcomed and, by their inaction, sustained over-valuation—despite widespread excess capacity—as an additional spur to competition and disinflationary pressure. In the whole battery of measures, exchange rate policy seems to be the least coherent with the other instruments. Further, where intervention to prevent further appreciation of the exchange rate is accompanied by persistent interest rate differentials, continuing inflows undermine the capacity of the authorities to control the money supply.

(resulting from the pursuit of *laissez-faire*) are expected to achieve the spontaneous re-generation of a vigorous competitive economy which has been 'suffocated by all-pervasive state intervention'. Much criticism of these strategies has focused on the potential contradictions between short- and long-term strategies: stringent disinflationary measures in an imperfectly competitive economy produce such large losses in effective demand, output and profits that spontaneous private sector recovery is thwarted [Stafford 1981:107-11]; an alternative formulation is that the social costs incurred by orthodox, counter-inflationary policies have been unnecessarily high and result from an incorrect diagnosis of the inflationary process and a misunderstanding of the process of adjustment to lower levels of demand in a modern economy [Diaz-Alejandro 1980]. Such critiques ignore the fact that apologists for the 'new orthodoxy' see positive virtue in the costs of deflationary policies: shock treatment reduces 'organisational slack' in the enterprise sector, summons up hitherto untapped reserves of increased productivity and accelerates the death of inefficient production organisms. Such self-inflicted economic masochism is lauded as a means to self-rejuvenation of the private sector.

Deflation and the attempted emasculation of the role played by the state in contemporary capitalist economic development (especially industrial development) pose some of the most difficult questions concerning the 'new orthodoxy'. What are the origins of this shift to *laissez-faire* policies? In what ways can this shift to reliance on market forces be said to address itself to the problems of the productive sector and lay the basis for a sustained recovery in capital accumulation? What evidence is there to suggest that this shift from interventionist policies is producing structural change in the right direction? Given the collapse of industrial profitability (though not in Chile), the bankruptcies of many industrial enterprises and the elimination of whole branches of industrial production, who are the beneficiaries of this strategy?

It is easier to understand the other main thrust of the 'new orthodoxy': its anti-labour bias. The aim of government policy in these countries is to shift the balance of power between social forces by fundamentally weakening the bargaining position of the organised working-class. State policy aims to weaken the ability of the working-class to pursue and defend its economic interests, to strengthen the exercise of managerial authority over the labour process at the work-place, as well as to curtail the political activities of collective institutions devoted to the pursuit of the general interests of the working-class. The disciplinary methods used are easy to appreciate. Historically high levels of open unemployment (in Chile peaking at 20 per cent of the work-force; in the UK and Argentina rising to

12 per cent and 10 per cent respectively), resulting from monetary, fiscal and exchange rate policies, have produced catastrophic declines in industrial employment. The resulting demoralisation of the workforce and the weakening of labour resistance to the rationalisation of production have permitted firms to prune their work-forces drastically. In the UK, the prospect of continuing rises in unemployment has been virtually the only mechanism for inhibiting money wage increases, and is finally taking its toll on the real take-home pay of those in employment; by contrast, in the Southern Cone, government intervention in wage-setting produced more rapid and dramatic cuts in real wages. In the Southern Cone, outright repression of working-class trade union and political leadership, and revisions in labour legislation designed to depoliticise trade unions and strip them of traditional functions, have weakened the leadership of the working-class movement. In the UK, the trade union leadership has been weakened politically by being marginalised from the process of consultation and involvement in government policy-making, and by incessant political attacks, although due to divisions in the government heretofore, it has been deemed unnecessary to make more than modest changes in trade union legislation. A chorus of attacks from the mass media and the effect of falling employment on membership levels and hence on the financial position of the trade unions have further weakened them politically.

Common Characteristics

What are the common developments in the Southern Cone countries and in the UK which could lead influential sections of the domestic elites in those countries to support measures which bring about such a radical change in the role of the state and involve a major assault on working-class power? Our commentary considers each country separately, but some striking similarities are easy to discern.

United Kingdom

The reader hardly needs to be reminded that the decline in the economic and political power of the British nation-state has been virtually continuous since the end of the nineteenth century [Gamble 1981]. Nevertheless, in the post-war years, the economy's failure to deal with the re-emergence of strong competitive pressures from other advanced capitalist countries was somewhat masked because, despite experiencing relatively lower rates of GDP and productivity growth compared with other OECD countries, economic performance was favourable relative to the country's own past. Such success as was achieved must be ascribed to the rapid expansion of the world economy and to the beneficial features of the post-war political settlement. Economic growth was, however, subject to a stop-go cycle, attempts to accelerate the rate of national economic growth being abandoned

due to growing external disequilibrium in the upswing of the cycle and the accompanying international financial crises of sterling.

Britain's lingering world-wide military role undoubtedly weakened the external payments position. More importantly, the most influential sectors of British capital—namely finance capital and multinational industrial capital—were committed to increasing liberalisation of controls on trade and finance, to which the goal of rapid, domestic growth was subordinated by governments of both leading parties. The growing external constraint on growth gradually gave rise to a situation of virtual economic stagnation between 1970-79, with only one, short-lived, attempt to accelerate growth (in 1972-73); with output growing considerably below potential product, there was a trend rise in unemployment from 1966 onwards.

While oil wealth has protected the country from the full consequences of this weak national economic performance, the UK is now experiencing absolute economic decline, some of whose consequences in terms of social and political turmoil have already been felt. The cause of the unfavourable trend in the



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Demonstration against unemployment held in Liverpool, November 1980.

current account of the balance of payments lies in the poor competitive performance of certain sectors of manufacturing industry, both in the UK's domestic market and in international markets. The causes of this weak performance are a matter of considerable controversy, but, up until the mid-1970s, non-price factors were of much greater importance than any fundamental loss of price competitiveness. The low rate of manufacturing investment was undoubtedly important in certain sectors, but this has been compounded by the low productivity of new investment and the excessive concentration of investment in certain sectors.

Part of the responsibility for the low productivity of new investment must lie in the attitudes of both managers and workers to technical change and the relative balance of power between them [Kilpatrick and Lawson 1980]. The defensive strength of the British trade union movement has rested on its powerful shop-floor organisation, which was well-suited to exploit the benefits of the era of full employment [Winchester 1981]. Despite enormous shifts in the sectoral distribution of the labour-force, this defensive strength has expressed itself in a cautious and often obstructive approach to technical change, labour re-deployment and the tempo of work. Managerial accommodation has undoubtedly been one reaction to this defensive strength: nor can managerial incompetence, resulting from the persistence of a highly-stratified social structure and an inappropriate educational system, be dismissed as a contributory factor in slow adaptation to technical change.

In an economy suffering from relatively slower growth, distributional conflict was bound to result in relatively higher rates of inflation than elsewhere, and the working-class was well enough organised to resist any prolonged attempts to cut real wages. Demands for steady (though comparatively small) increases in private consumption and the commitment of both main political parties to increases in the social wage contributed to a tax-wage spiral and seem to have produced a sharp decline in profitability in sectors exposed to international competition [Glyn and Sutcliffe 1972].

The domestic base of British capital was becoming so seriously weakened that, in the 1960s, both Labour and Tory governments attempted to address the problems of competitiveness and inflationary pressure by government intervention in industry and the adoption of wage and price policies. At the political level, attempts were made to incorporate representatives of business and labour into the formation of national economic and social policy.

In the 1960s, measures of industrial intervention included the promotion of the concentration and rationalisation of private firms, investment subsidies, and development of the country's human and physical infrastructure. But, there were definite limits to state intervention. For example, measures proposed by the Labour Party in the mid-1970s, which would have impinged more seriously on private sector decision-making, such as Planning Agreements and selective share ownership, were fiercely resisted, as was the fuller development of the National Enterprise Board as an instrument for renovating British manufacturing [see Hodgson 1981 and Coates 1980].

Such measures of industrial intervention as were undertaken were extremely half-hearted and indirect, compared with the kind of relationship between the

state and private capital developed in eg France, Japan and Sweden and numerous underdeveloped countries. It must be concluded that, while there is a certain degree of political support for modernising, interventionist measures in some sectors of British industry, the politically dominant and more vocal sectors of British capital resist any significant incursions by the state into private sector decision-making. This ideological and political assertion of a hands-off role for the state is a legacy of the outward-oriented form of development of British industrial, commercial and financial capital over the last 200 years and reflects the contemporary hegemony of the transnational sector of the economy.

Attempts to moderate money wage increases have taken both compulsory and voluntary forms. The most highly developed expression of the latter was the Social Contract between the trade union leadership and the 1974-79 Labour government, in which trade union leaders were responsible for attempts to moderate pay settlements and, in return, were offered consultation over many aspects of government policy, certain extensions of the social wage, legislation extending the legal immunity of trade unions and government promises to guide the private sector to utilise the benefits from pay moderation to modernise British industry [Tarling and Wilkinson 1978]. This accommodating attitude of the state to British labour has been the dominant (though not the exclusive) strand of elite behaviour in the twentieth century, and has generally been reciprocated by the co-operative attitude of the trade union leadership. In retrospect, British 'corporatism' can be interpreted mainly as a strategy for moderating money wage demands: it was singularly unsuccessful at ensuring that the benefits of wage restraint were transformed into higher investment and has ultimately proved highly unstable, because of shop-floor rebellion over wage restraint.

Such state intervention as occurred and the social contract have been singularly unsuccessful at resolving the competitiveness-cum-inflation conundrum. Certainly, in the UK, state intervention has not really been tried on a sufficiently adequate or imaginative scale, but this reflects the strength of political opposition to anything more than the mildest form of indicative planning. Meanwhile, the net effect of incomes and prices policies and of the Social Contract was hardly satisfactory to British capital: the latter served to strengthen the national political status of the trade union leadership, brought about further advances in the 'social wage', did little to reduce the defensive strength of shop stewards, little to halt the erosion in profitability and increased the degree of acceptance of collectivist solutions to social problems. By the late 1970s, Britain's social and political stalemate was

complete: capital was able to resist further state intervention, while labour was able to defend its short-term economic position, without possessing the political strength to secure industrial modernisation and employment in the long-run.

The New Orthodoxy

The growing polarisation of political forces and ideas, in response to the repeated failures of these policies should come as no surprise to students of Latin American societies. In the late 1960s, a group within the Conservative Party began to espouse liberal political economy, as a conscious break with the consensus on economic and social policy [Gamble 1974]. Partly, this was for electoral reasons—the need to differentiate the product. Partly, it was ideological, in the sense of a genuine belief in the recuperative powers of market forces, and it was congruent with the historical stance of important segments of British capital, not just of the petty bourgeoisie. In part, it reflected the view that state intervention was delaying rather than accelerating processes of adjustment and laying the basis for 'creeping socialism', while further failure along these lines brought forth increasingly radical demands for transformation of the system. Accommodation with the trade union leadership had been bought at too high a price and had even been counter-productive. A retrenchment of the role of the state in social welfare provision would be an integral aspect of an attempt to free resources and new areas of activity for private accumulation, as well as reduce the tax burden and inflationary pressure.

The whole analysis required that the re-generation of British capitalism must perforce rely on private enterprise's own recuperative powers, while the state tried to reduce the power of the organised working-class, rather than adjust to it.

The 'new orthodoxy' was first tried briefly under Heath [1970-72] and was abandoned as a result of well-organised trade union opposition. The main lesson learned by the Right was that, in addition to political pressure, economic pressure on the organised labour movement had to be intensified, but open clashes on pay policy and on labour legislation were to be avoided. 'Monetarism', public expenditure cuts and de-industrialisation are designed to outflank rather than confront trade unions, by creating slow demoralisation, defeatism and division. Further, a vigorous attempt is made to alter the criteria by which the electorate has measured government performance in the past (eg the government cannot provide full employment etc etc).

The programme's electoral success can be ascribed to many factors, including the electorate's ignorance of the likely consequences of Mrs Thatcher. Also, amongst working-class electors, at the ideological level the ground was prepared by the 'soft monetarism' of the Callaghan-Healey government and the collapse of accommodation politics. Thatcher also managed to

exploit resentments over the growing permissiveness in society in the 1960s and 1970s. At the election, her appeal was skilfully populist, whilst in office she has displayed qualities of strong political leadership.

The 'new orthodoxy' has had its predicted effects on output and unemployment, interest rates and the exchange rate. De-industrialisation has accelerated dramatically, manufacturing output declined by 18.4 per cent in the 18 months following the May 1979 election, and one in six jobs in manufacturing disappeared, while measured unemployment rose to 12.5 per cent of the labour-force by August 1981 and is universally expected to surpass three million by the end of 1981. The principal sources of deflationary pressure have been

- i) fiscal: despite the recession-induced rise in the Public Sector Borrowing Requirement, the fiscal stance of the government is highly deflationary;
- ii) monetary: high interest rates made a large contribution to the recession in 1980 via inventory-reductions, though monetary targets have generally not been met; interest rate policy contributed to exchange over-valuation;
- iii) external trade: the underlying (ie at full employment) trends in imports and exports were exacerbated due to substantial real exchange rate overvaluation, though, due to the effects of recession on import demand and favourable movements in energy trade, import volume has fallen further than export volume. [Coutts, Tarling, Ward and Wilkinson 1981].

As in the Latin American cases, the current account improved dramatically in response to the depressed level of activity; capital account flows made a negative contribution, since a massive influx of short-term capital in response to high interest rates and the expectation of exchange appreciation has been exceeded by a huge outflow of portfolio investment, resulting from the relaxation of controls on outward investment; the resulting deterioration in the term structure of overseas assets and liabilities has made the UK's international financial position more vulnerable than ever. The lesson from the Southern Cone is that orthodox measures fail to make an immediate impact on inflation; in the UK, indirect tax increases, 'realistic' pricing in the public enterprise sector, increases in financial costs, energy price rises, declining productivity and some profit-margin push served initially to increase the rate of inflation, before it began to decline in the mid-1980s. Unlike the Southern Cone, in the absence of pay policy, the real earnings of those in employment have on average increased since May 1979—partly as a response to pay repression inherited from the previous government's pay policy; but labour market conditions and increasing direct taxation are beginning to erode real take-home pay. It is unlikely, even allowing for some real wage cuts, given the inevitable depreciation of sterling and recession-induced cost increases in the public enterprise sector, that it will be possible to achieve a sustained reduction in the rate of inflation.

Who Benefits?

The government's attacks on jobs, living-standards and trade union rights have given rise to relatively little industrial militancy at the workplace. Trade union acquiescence and demoralisation have been the principal response to economic battering and political pressure [Winchester 1981]. Apart from the miners, we are yet to see organised resistance to the huge scale of redundancies. Nevertheless, as the number of industrial bankruptcies spirals and industrial and commercial profits slump, the question inevitably arises: who benefits from the pursuit of these policies? Certainly, the financial sector has benefitted hugely from high interest rates, but though the City is an extremely influential force at the apex of the British power structure, these policies are not designed to benefit any one particular sector of capital exclusively. Despite their tribulations, there does remain considerable support for the general thrust of these policies throughout the boardrooms of British companies, amongst young managers and many sectors of small business. The main criticism is that cuts in social expenditures have been inadequate and that spending on this score has pushed up interest rates. If anything, business groups are pushing for an accentuation of the strategy – but with lower social spending, lower wages and more grants to industry.

The answer to the question, who benefits, must lie in the proposition that the strategy does respond to the interests of British capital as a whole, and that the state is exhibiting genuine autonomy with respect to the needs of specific sectors. It must be realised that if unemployment is used to discipline the work-force, then industrial and commercial profits are bound to suffer in the short-term: also, deflation is directed equally against inefficient companies and their managers. Certainly, the policy must be eliminating a lot of inefficient firms, although in bankrupting firms which are probably efficient in the long-run, the policy lacks discrimination. Pressures on profit margins due to cost increases and shrinking markets must have been a stimulus to greater managerial efficiency, while there is growing evidence that worker resistance to new work practices has been weakened by labour market conditions, the threat of enterprise bankruptcy and by redundancy payments. Any improvements in efficiency have not so far been recorded by the standard measures of labour productivity (output per person employed in manufacturing fell by 7.7 per cent between the last quarters of 1979 and 1980), but these statistics may conceal an underlying improvement in productivity which will only become apparent when output returns nearer to full capacity. Equally, there has been a dramatic decline in investment in plant and machinery in manufacturing industry (–20 per cent between the first quarters of 1980 and 1981). But not all sectors are affected equally by the general contraction in activity:

new and expanding sectors will find conditions on the supply side more favourable during the recession.

The Future

Traditional working-class institutions have *so far* failed to block these policies. The sectional, shop-floor strength of British trade unionism has proved a severe weakness under these conditions, and the government has been able to ignore demonstrations and campaigns mounted against it by trade unions. Following the radicalisation of the Left, the Labour Party's opposition to these policies has been weakened by internal strife, compounded by the emergence of the Social Democratic Party. While there are expressions of discontent from within the business community, pressure from this direction actually seems likely to push the government into tougher measures: a more concerted attack on the legal position of the trade unions, and further curbs in the welfare state to make room for an 'incentive budget' for big business.

Will 'Thatcherism' Succeed?

One criticism of these policies of massive deflation is that they run the risk of throwing the baby (of economic regeneration) out with the bath-water (of working-class power). But there are certainly political and economic limits to the relentless pursuit of deflationary policies. This strategy for capitalist renewal is probably a two-stage process. Thatcherism will almost certainly be a prelude to a more expansionary phase; there will be no spontaneous revival, as apologists for Thatcherism insist, but one induced by conventional macro-economic policy instruments. But if the analysis of low productivity presented above is correct, we cannot reject out of hand the possibility that this assault on the British working-class may succeed in raising productivity and profitability and inducing more rapid adjustment to the changing international division of labour. While this may be termed a 'success' for British capital, these policies hold out no prospect of achieving full employment, of expanding the public sector and of returning to social peace, in the near future.

Argentina

The similarities in post-war developments between Argentina and Britain are too striking to ignore.⁴ On the one hand, within Argentine society, there is a deep-seated dissatisfaction with the course of national history over the last few decades. Argentinians can look back to a 'golden age' of economic development before 1930, in which expanding exports of temperate foodstuffs within a framework of close integration with international flows of trade and capital generated one of the higher standards-of-living in Latin America;

⁴This discussion draws heavily on the work of Rock [1975] and Canitrot [1980].

despite reasonably successful industrialisation since 1930, Argentina has clearly fallen behind other Latin American countries in terms of economic power. Limits to further import-substitution and unfavourable movements in the country's external terms of trade (especially during the 1950s) made Argentina, like the UK, a striking example of balance of payments constrained economic growth, with growth subject to a stop-go cycle.

Since the early 1950s, the trade-off in Argentina between growth, accompanied by an expansion of working-class consumption, and the balance of payments has been extremely acute, since wage goods and agricultural exports are perfect substitutes, while manufacturing output continues to have a non-negligible import-content. This trade-off was not so acute under the favourable external conditions of the immediate post-war period, rapid economic growth created the material conditions for a harmonious political alliance between a local industrial bourgeoisie, benefitting from tariff protection and the leaders of the organised working-class, directed against the economic and political interests of traditional groups linked to the agrarian-export sector. However, large terms of trade losses in the early 1950s removed the favourable material basis for this cross-class alliance and gave rise to prolonged and intense distributional conflict. Early attempts (1956-57) to solve the problem at the expense of the working-class foundered on the resistance of what is the most homogeneous and highly-organised working-class in the Third World.⁵ Hence, prior to 1976, further attempts to squeeze working-class consumption were generally of short duration and were rapidly reversed by policies aimed at conciliation; these provided but a short-lived spurt to economic growth, giving way to the well-known IMF stabilisation programmes, amid mounting inflationary pressure and external disequilibrium.

Disunity within the Argentine bourgeoisie must also be considered. The populist alliance foundered in the 1950s, giving way to an agrarian-industrial alliance, which sought to resolve the external constraint by shifting resources to export agriculture at the expense of the working-class; the failure of the stimulus provided to agrarian exports, compounded by the destructive effects of the stabilisation programmes and the rapid 'internationalisation' of the industrial structure split the Argentine bourgeoisie. This resulted in the increasingly atomized and fragmented character of Argentine politics.

⁵The high degree of organisation of the working-class in Argentina was due to recognition by Peron of the desire amongst union leaders for recognition by the state and for political participation, and mass politicisation resulted from the competition between traditional groups and the emergent industrial bourgeoisie for political hegemony.

Even the united and purposeful dictatorship of Onganía (1966-70) disintegrated under the impact of urban insurrection, since the government's economic policies succeeded once again in uniting the organised working-class, the 'national bourgeoisie' and the middle-classes. The initial phase of the short-lived Peronist regime (1973-75) represented merely the most recent attempt at social conciliation, in order to isolate the extreme Left; despite favourable external conditions and wide-ranging domestic political support, incompetent economic management generated conditions of hyperinflation, acute external disequilibrium and social chaos, in which military intervention was welcomed by all sectors of the bourgeoisie [di Tella 1979].

The 'New Orthodoxy' in Argentina

The principal aim of Argentina's authoritarian military regime, installed in 1976, has been to bring about a major transformation in the economic structure of the country, with the no less important corollary of destroying the economic bases of those social groups (namely the organised working-class and elements of the national bourgeoisie) hindering this transformation and responsible for the national populist alliance, which by the mid-1970s threatened to destroy the prevailing social system. Thus, long-term economic restructuring and the attempt, by authoritarian means, to break out of decades of social stalemate are closely allied goals. Economic re-structuring involves an attempt to return Argentina to the role it played in the international division of labour before 1930. This involves a shift in income and economic power to the agrarian bourgeoisie; it also involves partial de-industrialisation via a reduction in tariff protection, involving a direct assault on the economic instrument which served as the basis for the association of interests in the industrial sector between managers and workers.

The transparently class-based nature of state policies is clear from the main lines of the 1976 economic programme: real wage cuts of 40 per cent, devaluation, the abolition of export taxes on agriculture, the repression of the labour unions, the purge of labour leaders and the commitment to tariff liberalisation. Monetarism in Argentina is, therefore, merely a veil for a major restructuring of Argentine capitalism and society, something which previous experience had established could only be accomplished under an authoritarian regime.

The implementation of this model has been nothing like as thorough-going as in Chile. There have been notable policy changes [see Ferrer 1981, and Beccaria and Carcioli in this *Bulletin*] and demonstrable inconsistencies between instruments and policy goals. Since 1976, there has been no dramatic change in public expenditure in real terms or in the fiscal burden,

and, at least up to 1978, public enterprise investment accelerated sharply—partly due to the commitment of the military to certain key programmes. Tariff reform has so far mainly affected redundancy in the tariff, while the planned, final (by 1984) level of nominal protection is higher than currently is the case for Chile; meanwhile, the abolition of various stimuli given to non-traditional manufactured exports, as well as exchange rate overvaluation have virtually eliminated non-traditional exports (50 per cent of exports in 1974). Following a large devaluation, the real exchange rate held roughly constant via a crawling-peg until June 1978, whereupon a sharp real revaluation (by roughly 60 per cent between June 1978 and 1980) was consciously used as an anti-inflationary device. The net result of these policies and of income adjustment has left export and import shares in GDP relatively unchanged; the composition has changed, however, with exports of agricultural products benefitting from favourable harvests and cuts in domestic consumption, and final manufactures increasing as a proportion of imports. Monetary policy has been relatively passive, with the growth of the money supply considerably in excess of GDP at current prices; the monetary authorities, by minimising controls on foreign financial inflow and raising the dollar return to placements on Argentine financial markets by currency revaluation, have succeeded in controlling only the domestic contribution to monetary expansion, and between 1976-79, 72 per cent of monetary expansion was due to the surplus on the balance of payments. Certainly, by comparison with Chile, any financial squeeze was less pronounced; despite de-control of interest rates, real rates in domestic currency remained negative for most of the period since 1976.

As in both Chile and the UK, an examination of the macro-economic effects of these policy-measures demonstrates that economic growth has been abandoned and subordinated to structural reforms. Per capita GDP has stagnated, and manufacturing output by 1979 was below the level of 1974. Nevertheless, the investment: GDP ratio rose somewhat, due to the rapid expansion of public investment.⁶ Until 1980, measured rates of open unemployment remained very low (despite the very substantial contraction of wage employment in manufacturing and construction), which can be explained partly by migration and partly by a rapid growth in self-employment. The principal source of deflationary pressure has been a cut in private consumption, due to wage policy, and, more recently, the effect of currency over-valuation on demand for home-produced manufactures. Between 1976-78, inflation control was to some extent subordinated to the more long-run aim of changing the structure of

⁶Despite more favourable legislation, foreign direct investment has stagnated, due to widespread spare capacity in the industrial sector and economic and political uncertainty.

relative prices, though the use of the exchange rate after 1978 to dampen inflation was a reversal of this priority. While the rate of inflation fell from hyper-inflationary levels (3000 per cent in early 1976), by 1980-81 it remained at about 100 per cent per annum. Real wage cuts, exchange rate overvaluation and tariff cuts played the principal roles in this, but if old patterns of income distribution and resource allocation re-assert themselves, there is likely to be a re-crudescence of inflationary pressure [Malan and Wells 1981]. Certainly, the deterioration since 1979 in the current account of the balance of payments indicates that substantial overvaluation of the exchange rate cannot persist for long.

'The Future is the Past'

The question presents itself: could the primary export model be socially viable in the long-run, in the sense of being able to provide employment and rising levels of consumption for the mass of the Argentine people? Most critics of the regime have answered unequivocally in the negative, arguing, for example, that the primary sector makes an entirely marginal contribution to total employment (15 per cent) [Ferrer 1981]. But this issue is far from clear. In the medium- to long-run (policy-makers in the Southern Cone appear to have their eyes on the twenty-first century), the prospects for an exporter of temperate foodstuffs, such as Argentina, must be considered extremely promising. Income-elasticities for grains and beef are almost certain to be favourable, and current yields in Argentina's land-extensive agriculture are considerably below those of the US—let alone Western Europe. Furthermore, Argentina is virtually self-sufficient in oil and possesses considerable unexploited reserves. The *direct* employment generated by such agrarian export-led growth would probably be negligible; however, export growth on a sufficient scale to reduce the trade constraint on growth and permit a higher rate of GDP growth would thereby generate considerable indirect employment growth; the magnitude of this would depend of course on the degree of import-penetration in manufactured goods which accompanied this process. Under such a strategy, Argentina would benefit from the possibility of a persistent improvement in primary prices relative to those of manufactures. For the full benefits of such a strategy to be reaped, however, strong measures of government intervention would be required to develop the agro-industrial and infrastructural base of the agrarian economy (as in Canada and the United States earlier in the century).

The crucial point about the 'new orthodoxy' in Argentina is that, many contradictory policies notwithstanding, it is shifting the focus of activity towards the primary export sector, in a manner which seems consistent with the likely evolution of the international division of labour. The domestic restructuring of Argentine



Motor car industry in Rio de Janeiro.

capitalism will be so fraught with social tension that it can probably only be accomplished through intermittent authoritarian political regimes, but, in retrospect, the highly-diversified industrial base established in recent decades may well appear to have been an entirely defensible, though perhaps rather short-lived, response to the historically-specific, unfavourable world economic conditions of 1930-50.

Complete specialisation in primary commodity production seems, however, unlikely. Currently, the viability of this model rests on the ability of the state to insulate itself, via authoritarian political forms, from the pressures of the losers in this process of transformation especially in the urban-industrial sector. It is, however, already clear that, however complete has been the exclusion of the industrial working-class from the political process in recent years, the thoroughgoing pursuit of a pure *laissez-faire* model, as in Chile, has been constrained in Argentina by pressures from still powerful business groups based on the industrial sector. Keen as they were to see order restored from chaos, these groups are probably unwilling to concur in their own liquidation. Further, however repressive the authoritarian regime, the past history of both Argentina and Brazil would indicate that its permanence

cannot be assured—if only because of tensions within a military which eventually does not wish to assume responsibility for all the social costs of domestic restructuring. In the Argentine case, the harshness of the current policy regime may be modified and give way to a second stage, in which de-industrialisation is less intense, or even reversed.

The Brazilian experience may be instructive in this respect. Brazilian 'orthodoxy' in the period 1964-67 was similarly aimed at weakening the economic and political position of the working-class and of traditional, national industrial groups, and was predicted by certain critical social scientists to aim at the 're-pastoralisation' of Brazilian economy and society. However, with political opposition crushed, the new hegemonic groups aimed at turning Brazil into a great industrial power, dominated by multinational and state capital, and complemented by a rich and diversified agricultural sector.

It is frequently argued that there are alternative, milder means of achieving the necessary degree of domestic restructuring, with lower social costs and less political resistance. But in all three cases, the crisis of capitalist development is so chronic that shock

treatment appears necessary to overcome the social stalemate and the resistance of those sectors of society standing in the way of this process.

The Case of Chile

Of the three countries considered, Chile experienced the most savage degree of economic and social restructuring, but it is a case, which, using the criteria of success of the 'new orthodoxy', is thought to have begun to yield positive results. While the magnitude of the economic disruption apparent even before the September 1973 coup would have necessitated harsh stabilisation measures from any political regime, how is one to account for the simultaneous adoption of an economic model, which attempts to force the country back into the role it played in the international division of labour before 1930, thereby deliberately breaking with the economic model of the past few decades?

There is widespread agreement that, by the late 1950s, the attempt to base capitalist development on an expanding industrial sector had lost much of its earlier potency for imparting dynamic economic growth. Even contemporary, 'liberal' policy-makers [Mendez 1979:77] accept, albeit grudgingly, that import-substituting industrialisation was a legitimate response to the unfavourable international conditions of the 1930s. However, limits on further reductions in the import coefficient for manufactures, and sluggish growth in the import-capacity imposed a severe external constraint on the feasible rate of growth. The inevitable economic inefficiencies due to the relatively small scale of the effective domestic market⁷ and the high degree of monopoly in the manufacturing sector, tended to draw resources from agriculture. Together with tenurial problems, this created an acute food supply problem. Inflation was the inevitable concomitant. The consequence of these 'structural' problems was that this path of capitalist development lost its capacity for dynamism and for meeting, at a satisfactory speed, a rising level of social needs. The tremendous strength of working-class political and trade union organisation in Chile meant that these problems were tackled initially by reformist measures, which respected and even accentuated the main lines of the economic model. The reformism of Frei between 1964-70 focused on agrarian reform, on an extension of state intervention, on deepening the process of import-substitution and selective export-promotion and on reducing the drain to the balance of payments of repatriated profits from the mining sector. At the political level, reformism attempted to build-up a constituency around a self-help strategy amongst groups previously marginal to

⁷Without subscribing to the 'liberal' critique of tariff-supported industrialisation, it must be said that an industrial sector which fails to escape from infancy is a tremendous drag on income growth—especially if the international market provides alternative options.

the political process. However, not only did the economic programme succeed only partially (culminating in slow growth and spiralling external indebtedness by the late 1960s), but political mobilisation got out of control and gave way to growing social unrest. Since Chilean capitalism failed to respond to reformist proposals, these in a sense prepared the ground for more radical solutions. Indeed, the 'structural' problems of this model were so chronic, that they eventually risked the demise of the bourgeois social order itself. After the coup against Allende, something considerably more radical than minor surgery was perceived as necessary to make possible the resumption of successful capitalist development in Chile. Having accepted the 'structuralist' critique for so long offered by the Left, the Right attempted an anti-democratic solution.

Was it necessary for the regime to incur such huge social costs (including the scale of political repression involved) to accomplish this restructuring? In this, the Chilean military and their economic technocrats may have learned from the United Party's failure⁸ [de Vylder 1976]. Gradual social and economic transformation appears impossible, since time is thereby granted to its opponents to mobilise and eventually thwart the process. In the initial years of the regime (1973-75), the prime concern was to eliminate physically the opponents of the bourgeois social order, and relatively mild stabilisation policies were used to consolidate the regime's support amongst the middle-class [Whitehead 1979]. The draconian nature of subsequent, shock measures (GDP fell by 14.3 per cent in 1975), which were considerably in excess of the adjustment required by the international crisis of 1974-75 [Foxley 1981] can mainly be explained by the need to debilitate those social groups (including groups within the bourgeoisie), which stood in the way of the new model.

Policy Measures and Their Outcomes

Chile exhibits in an exaggerated form both the failures of the monetarist policy regime as short-term stabilisation programme and some of the inconsistencies between instruments and objectives, seen elsewhere in the UK and Argentina. For example, despite massive deflation (due to cuts in public current and capital spending and real wage cuts—by as much as 50 per cent comparing 1971/72 with 1975), inflation was very slow to react,

⁸It is chilling to observe the similarities between the economic diagnosis and policies and the political strategy of the UP and those of the Alternative Economic Strategy of the Labour Left. The UP also located the source of Chile's problems in the nature of the country's relations with the international capitalist system; the political strategy was based on gradually consolidating and expanding popular support via increasing the degree of resource utilisation in the economy and expanding public service; the economic strategy also involved a major expansion of public ownership. It must be feared that the same combination of powerful forces both within and external to the country would destroy the strategy of the Labour Left. [See Griffith-Jones 1981 on the dangers of 'financial irresponsibility' to which socialist governments are prone.]

taking five years (1973-78) to decline from 606 per cent to 30 per cent. This reflected declining productivity, strong pressure from financial costs (including positive real rates of interest), price 'realism' in the public sector, exchange depreciation and inflationary expectations. However, unlike the UK, public spending cuts were so savage that the fiscal deficit declined rapidly as a share of GDP (1973-75), despite acutely depressed levels of activity in the mid-1970s; also the real wage cut was so considerable, that despite the recession, the profit share in value added increased. Despite successfully controlling the public sector's contribution to credit expansion and attempting to control the demand for credit, the money supply became increasingly endogenous as a result of large additions to the foreign exchange reserves [Zahler 1980]. Finally, the attempt consciously to use exchange rate over-valuation to counter inflation, though successful in that respect, had very perverse side-effects: pre-announced currency over-valuation gave an additional impulse to capital inflow (over and above that provided by domestic-foreign interest rate differentials), which had an expansionary effect on the money supply; it also tended to thwart the very process of restructuring aimed at by the model.

However, in an authoritarian regime, it is possible to ignore the cumulative losses in output, which an incorrect diagnosis of inflation implies. On the whole, the inconsistencies reflect changes in the ranking of policy objectives: there is also some truth in the assertion that short-term results are unimportant; it is the general direction of policies which counts (given the political framework, of course).

Successful Restructuring?

Orthodox observers proclaim the arrival of a Chilean 'economic miracle' as the fruit of this strategy. Manufacturing output is now at least 50 per cent above its 1975 level (though not much higher than under Allende), real wages of those in employment appear also to have recovered to the level of 1971 and open unemployment has fallen since 1975 (though it stands at twice its historic level). Between 1977-80, GDP growth averaged eight per cent p.a., although it was only from 1978 onwards that GDP exceeded its previous peak 1972 level. Recovery has been based on conventional instruments: relative to the exceptionally depressed year of 1975, an expansion in fiscal spending, a rise in real wages (due to a modification of the wage regime) and a fall in real rates of interest. This two-stage sequence of deflation-reflation parallels the rapid Brazilian recovery in 1967-68 from orthodox stabilisation and stagflation (even in the fact that expansion was begun, while inflation was still at relatively high levels); but such 'economic miracles' are *easy to achieve against a background of huge cumulative losses in output and widespread spare capacity*. Growth can

only be sustained if there is a recovery in investment — and in Chile gross fixed investment averaged only 10.5 per cent of GDP between 1975-79, barely covering replacement requirements.

It is extremely dubious whether restructuring in line with Chile's current international comparative advantage in natural resource-based sectors is proceeding sufficiently rapidly. The net effect of drastic tariff liberalisation and real exchange depreciation (up to 1978) on domestic manufacturing output was negative [Vergara 1981]; exports of manufactures have however grown faster than imports. The negative effect of depressed home demand on domestic manufacturing was anyway more important than changes in net trade. As in Brazil at a similar stage in export-promotion, the new manufactured exports are heavily resource-based and responded sharply to cuts in domestic demand and real exchange devaluation before 1977; but they have since stagnated and even diminished in real terms due to real exchange appreciation [Ffrench-Davies 1979].

While exports from the primary sector (timber, fruit and wood pulp) have grown rapidly, this expansion is the product of investments undertaken in the 1960s, with a long gestation period, and not of recent policy measures. Thus, while Chile's export earnings are now much less dependent on copper, the danger exists that due to inadequate investment, export expansion may run out of steam [Ffrench-Davies 1979]. In any case, the current account of the balance of payments is very precarious; due to import-liberalisation, the current account deficit relative to GDP in 1978 (6.4 per cent) was at its highest level in recent history, and has continued to grow. Any recovery in investment seems likely to exacerbate this situation, and growth under the present trade and foreign exchange regime can only be accomplished by resorting to increasing indebtedness with the international private capital market.

Some Conclusions

The 'new orthodoxy' is best interpreted as a conscious attempt to break out of the previous pattern of capitalist development in these three countries and the political and social framework which sustained it. Reformist attempts to improve the performance of these national economies foundered on a persistent social stalemate, while failure gives rise to increasing social tension, which may ultimately threaten the entire capitalist social order. Hence, economic restructuring requires a break with the previous alignment of social forces. The broad social objectives of the 'new orthodoxy' — namely the need to destroy the economic basis and thereby weaken the political strength of sectors which must lose out in the process of restructuring — is as important as optimising economic management. This

over-riding social objective accounts for the huge and, in purely technical, economic terms, seemingly unnecessary scale of the social costs of economic restructuring.

But the use of draconian measures of economic deflation and the withdrawal of the state from the stance adopted in the previous stage of capitalist development seem likely to be merely the *first* stage in this process of economic and social restructuring. Under both democratic and authoritarian regimes, pressures from influential economic groups for reflation become irresistible past a certain point; but, given the changed balance of social forces, reflected in the political and economic weakening of the organised working-class, and some restructuring within the productive system, the ground is prepared for what may prove to be a reasonably successful period of capital accumulation. State intervention of a kind which is *politically acceptable* to the business community can also be resumed. Brazil followed this two-stage process in 1964-74, economic expansion has been attempted in Chile and reflation in Argentina may perhaps not be too far off. Thatcherism, in the UK, has yet to run its full course however—requiring a further attack on trade union rights and on the 'social wage' before the first stage is completed. The question arises: once capital accumulation is resumed, can the new model be sufficiently successful to acquire widespread political legitimisation? One answer is provided by Brazil's experience: however successful such policies may be in delivering rapid economic growth in a subsequent phase, the anti-social policies described in this article leave an enduring heritage of anger and frustration.

Finally, a brief comment on the lessons to be derived for the UK from Latin American experience: the political Right recognises the inevitable lack of electoral success of orthodox policies and begins to hanker for a more authoritarian framework; if the deterioration in the underlying economic and social situation under slightly more 'moderate' policies continues, it produces growing support for a radical Left solution; if the Left were ever to gain adequate electoral support for its programmes, their implementation seems likely to produce domestic hardships and domestic and international de-stabilisation sufficient to pave the way for an authoritarian solution. This suggests the need for a future Labour government to demonstrate extreme caution and to engage in only mild reformism, if the huge defeats in terms of employment and living-standards suffered in recent years are to be reversed.

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