X, is positive (in those cases in which it is significant); i.e., the greater the population density (and urbanization) the more unequal the income distribution. In a sense, this would appear to be reasonable in that high population growth rates increase the supply of low-priced labor, thereby maintaining large income differentials.

The negative relationship between the proportion of the labor force employed in manufacturing ($X_2$) and income inequality is not at all surprising. What is interesting is that, under the cross-section results, this relationship is statistically significant only in the case of families, and not for persons. Perhaps this reflects the income-equalizing tendencies of having two (or more) persons in the same family employed. Certainly many women in the Puerto Rican labor force have found employment in manufacturing establishments (especially in light industry, where they are often preferred over males), and the number of families with two or more income-earning members decidedly increased over the 1949-1969 period.

Although variables $X_1$ and $X_2$ do conform to the hypothesized relationship, they are marginal in their explanatory power. However, in conjunction with a different group of variables (tested in other earlier models) they do tend to be more statistically important. That variable $X_1$ is significant in both 1949 and 1969 families is noteworthy, for this variable seems to have been little used in other studies. It does point out the importance of the association between labor mobility and income inequality.

The consistent significance (1949 the exception) of variable $X_2$ serves to emphasize the key role of population involvement in productive activities as a factor associated with income inequality. Finally, with respect to variable $X_1$, it can be noted that the combined effect of the log and log-squared terms on income inequality is negative. This is rather puzzling, for what it seems to mean is that migration out of the agricultural sector has not contributed toward decreasing income inequality. Perhaps one explanation is that those who leave the sector, generally among the labor force's least skilled members, either fall into the ranks of the unemployed or are forced to accept even lower paying (and part-time) jobs.

Summary and Conclusion

By using multiple regression techniques and a consistent body of data pertaining to the developing region over a two decade period, we have attempted to analyze statistically the relationship between income concentration and a number of socio-economic variables. The relationship which we most focused upon was that between income concentration and economic growth, as measured by its proxy real per capita income. We found that a curvilinear regression model in logarithmic form best accounts for Puerto Rican inter-municipal income variations among persons and families over the 1949-1969 time span.

This particular specification of an income distribution model describes a U-shaped relation between income inequality and real per capita income. Thus, at least in the case of one developing area, the expected inverted U-shaped pattern does not emerge.

Free enterprise economies have experienced since World War II a continued rise in the general level of prices, downward rigidity of wages, and, since the late sixties, the strange phenomenon of a rising general price level, accompanied by high and rising levels of unemployment during recessionary phases of the business cycle. These features of modern free enterprise economies are but reflections of what may be described as changes in the outer-level parameters of modern economic systems, and have their sources mainly in the evolution and maturity of big business, big labor, and big government. All three institutions exercise considerable market power, and contribute thereby to the twin problems of inflation and unemployment.

Associated with the development of the three institutions are reciprocal changes in attitudes, expectations, and behavior of the ordinary man in the street operating as a consumer, worker, or investor. For example, the behavioral assumption that the wage earner will make decisions based on changes in his money wage rather than his real wage, has lost much of its validity. The working man as well as the businessman, has come to expect a continuing rise in the general level of prices based on his past experience, and his behavior when renewing contracts, or determining price of output, is designed to protect himself from the anticipated reduction in income. Hence the widening application of escalator clauses to transaction and even to income-transfer-arrangements. This behavior has led to inflationary expectations becoming embedded in the structure of the U.S. economy and other modern economies and complicates the problem of prescribing policy for dealing with high unemployment. There is now widespread belief in modern societies that fiscal and/or monetary policy aimed at reducing unemployment will be inflationary, and that attempts to provide full employment would trigger galloping inflation. A critical aspect of the fight against inflation is that of arresting and reversing the widespread expectation of continuing inflation.

The continued rise in the general level of prices is explained as due to demand-pull and cost-push forces. Both forces might be at work interacting with and reinforcing each other. In its pure form, demand-push inflation exists when there is excess aggregate demand in any economy operating at or close to the full-employment level. This is the familiar brand of inflation for controlling which fiscal and monetary policy instruments have been devised. Cost-push inflation is the stranger which is not susceptible to control by traditional anti-inflationary policy. It persists in the face of high or rising unemployment.
because big business and big labor have the market power to control supply or increase price, in the face of declining demand for output, or of a cut-back in production, or of reduction in employment, and because big government has the power to institute price ceilings and price floors and provide subsidies and support for selected enterprises, and must exercise countercyclical powers without endangering national security.

It should therefore, be no surprise, that policy instruments operative in a more competitive environment become impotent when monopoly institutions dominate the economy. Free enterprise economies will continue to experience rising prices, and this will tend to stall big business and big labor, and big government, which have conflicting allocative interests, and partly because of the inherent conflict between the collective goals of the society as a whole, and that of various highly sensitized interest groups, including the big three. For example, to the extent that environmentalists are effective in achieving their goals, the environment is more private costs into account. These additional costs will be passed on as intermediate product costs and as final product costs. Given the intersection between business and labor, there is the basis for a round of increased prices and wages.

Traditional fiscal and monetary policy can promise only a trade-off between tolerable rates of inflation and reduced levels of unemployment or between intolerable (greater than socially acceptable) levels of unemployment and reduced rates of inflation. Discretionary on-and-off income policy whether in the form of wage and price freezes, or wage and price control phases, serve only to suppress inflation temporarily. They lead to distortions in the price structure. Also because wage and price controls are known to be temporary, they lead to price explosion when removed, and hence aggravate and institutionalize inflation instead of reducing or controlling it.

Since labor unions are not about to disembangle themselves, and big business is not about to disappear, we are left with a situation in which the government is faced with the need to design a price-fixing, countercyclical, and national security spending policy, a new instrument must be created to deal with the reality of the market power, and the institution of inflation expectation, which more and more influences the decisions of consumers, workers, business, and governments. The instrument contemplated would put a ceiling on the amount of inflation to be tolerated and would thereby prevent a galloping inflation. It would weaken the institution of inflation expectation, and change the behavior of workers, consumers, and investors.

The instrument recommended is not wage and price control, which is temporary and discretionary and hence does more harm than good. It is an automatic stabilizer (destagflator) which has not yet been tried in any modern society. It would effectively control domestic inflation in any economy, but would be most powerful if adopted on a global basis, given the interdependence of the modern world economy.


This is how the instrument would work: Let an economy choose some measurement of inflation, say x, which it considers the boundary between what is tolerable, and what is intolerable, and some measurement of unemployment y, which it considers "high" and at the boundary between what is tolerable and what is not. Let the government legislate that whenever the rate of inflation reaches x and is accompanied by "high" and rising unemployment, there shall be no rise in any price -- not interest, or rent, or dividends, or wages, or the price of any commodity or service. As soon as the rate of inflation declines below x, prices are free to move again, but the sanctions will be in effect again whenever the price level and the level of unemployment are at x and y, respectively.

Since the destagflator is based on two criteria -- a maximum rate of inflation, and a maximum level of unemployment, and since the emphasis is on achieving a reduction of the rate of inflation, this could lead to great instability as the level of employment crossed and recrossed the upper limit. This is a serious objection to the usefulness of the destagflator. It could quite probably be overcome by coupling some kind of carrot with the stick. One such incentive would be to grant investment credits for the additional units of labor employed by any firm for the one-year period beginning during the first quarter after the enforcement of the destagflator legislation.

This automatic stabilizer (destagflator) is proposed not as a substitute for discretionary fiscal and monetary policy, but as a supplementary policy. It is to be applied only when the twin problems of rising prices and rising unemployment are recognized and should therefore make the institution of wage and price controls unnecessary. Discretionary fiscal and monetary policy will be necessary during periods of accelerating inflation because while it is conceivable that cost-push inflation might dominate the scene, it is more likely that a period of accelerating inflation might have its source in both demand-pull and cost-push forces. The link between these two broad types of inflation lies in the changed attitudes, expectations, and behavior of modern societies governed by inflation expectation. The destagflator is a tool for thwarting and delimiting inflation expectation. It sets a ceiling for the level to which an economy will allow the general price level to rise when accompanied by a high and rising level of unemployment, and could have a tremendous stabilizing effect on the behavior of consumers, labor, and businessmen.

A significant advantage of the "destagflator" is that it enforces the collective will on the society as an enforcement of the ceiling set on all prices, and hence its enforcement will entail minimal administrative costs. The news media and other mass communication systems could ensure that every consumer, worker and businessman knows that no price can be increased as long as the sanction is in force. The destagflator represents the imposition of the collective will on an economic issue, working through the political process to override the selfish interest of competing groups. It is presumed that given efficient means of communication, the time period necessary to get a decline in the general price level, once the sanction is enforced would be measured in quarters. Hence any disruptive effect on price structures would be minimal.

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The main objection to modifications such as the two listed above is that the objective of arresting and reversing the expectation of a continuing rise in the general level of prices would be weakened. The objective of providing evidence of the possibility of controlling inflation would be pushed further into the future, and hence credibility in the effectiveness of the mechanism would be undermined. The institution of expectation of continuing inflation, needs as dramatic a challenge as is possible to shake its foundations. A society that has experienced over a decade of dramatic rises in the general price level, needs as early a hint as possible of the possibility of arresting the price rise and reducing its rate of increase. The destagflation in its pure form, as originally presented, would satisfy the conditions, if implemented.

Temporal Shifts, Bilateral Reciprocity, Multilateralism, and Diversification in the Structure of World Trade

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1. Introduction

Divergent shifts have recently become evident in the structure of the world trade matrix. The direction of international trade flows seems to have changed substantially and the distribution of their changes has varied significantly. There is a strong movement towards isolationism on the part of some geographic and economic regions of the world and there is evidence of increasing interdependence among others. A general tendency towards bilateral reciprocity for some is also accompanied by growing multilateralism and market diversification. Some developing regions have lost their world market shares of "problem commodities" and others have gone some way to breaking the entry barriers to new markets. Their success in achieving a new level of market diversification is a positive indicator of their trade performance.

The object of the paper is to identify and examine the divergent trends in the structure of world trade through the analysis of market share coefficients. The temporal shifts in market shares and the properties of the distribution of these shares are analysed for each major geographical and economic region of the world. A statistical attempt is made to detect and locate the direction of these shifts, measure their magnitudes, and analyse their distributional properties from the point of view of increasing or decreasing self-reliance, interdependence, multilateralism, and trade diversification. The analysis is confined purely to measuring the manifold changes in implications reducing the export dependence on any single or a few markets by equalising the shares in all.

*These problem commodities basically include food, agricultural raw materials and other primary products which form the major component of total exports of the developing countries. The export of these commodities have been substantially affected by protection measures adopted by industrial countries, by the low elasticity of demand for these commodities and by comparative pressures from synthetic products. The answer to the question as to why these commodities are considered problem commodities is inherent in the central thesis of Dr. Prebisch (1964).