

CEPAL

Review

Executive Secretary
Norberto González

*Deputy Executive Secretary for
Economic and Social Development*
Gert Rosenthal

*Deputy Executive Secretary for
Co-operation and Support Services*
Robert T. Brown

Technical Secretary
Adolfo Gurrieri



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

SANTIAGO, CHILE, APRIL 1987

CEPAL

Review

Santiago, Chile

Number 31

CONTENTS

Note by the Secretariat.	7
International colloquium on new directions for development planning in market economies.	9
Opening addresses.	9
Address by Mr. Norberto González, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC).	9
Address by Mr. César Miguel, Chief, Division for the Regional Programme and the English speaking Caribbean countries United Nations Development Programme (UNDP).	10
Address by Mr. Alfredo Costa-Filho, Director-General, Latin American and Caribbean Institute for Economic and Social Planning (ILPES).	12
Planning for a fresh social and economic dynamic. <i>Latin American and Caribbean Institute for Economic and Social Planning.</i>	19
New directions in planning: an interpretative balance. <i>Eduardo García D'Acuña.</i>	25
A note on new directions in planning. <i>Brian Van Arkadie.</i>	33
The need for multiple perspectives in planning. <i>Harold A. Linstone.</i>	43
Planning in mixed market economies and the paradigms of development: problems and options. <i>Rene Villarreal.</i>	51
Macroeconomic models and planning in the context of an uncertain future: the French experience. <i>Paul Dubois.</i>	59
Long-range development planning. Notes on its substance and methodology. <i>Lars Ingelstam.</i>	69
Beyond indicative planning. <i>Stuart Holland.</i>	75
Planning Today. <i>Yoshihiro Kogane.</i>	91
Governability, participation and social aspects of planning. <i>Yehezkel Dror.</i>	95

Agents of 'development'. <i>Marshall Wolfe.</i>	107
The State, decision-making and planning in Latin America. <i>Carlos A. de Mattos.</i>	115
Decentralization and regional development in Latin America today. <i>Sergio Boisier.</i>	133
Planning and the market during the next ten years in Latin America. <i>Joseph Ramos.</i>	145
Planning and government. <i>Carlos Matus.</i>	153
New technological frontiers of management in Latin America. <i>Bernardo Kliksberg.</i>	171
The validity of the State-as-planner in the current crisis. <i>Adolfo Garrieri.</i>	193
The role of the State in Latin America's strategic options. <i>Christian Anglade and Carlos Fortin.</i>	211
Recent ECLAC publications	

The role of the State in Latin America's strategic options

*Christian Anglade
Carlos Fortin**

The 1980s have witnessed a strong revival of interest in the role of the State in the economic development of the Third World in general. In the case of Latin America, the debate has centered on the question of the role of the State in strategies for overcoming the imbalances and other factors holding back development. In the course of this debate, however, several related but distinct sets of issues have become intermixed in a manner which has proved to be highly unproductive. These issues must therefore be disentangled before sense can be made of the debate.

In undertaking this analysis, the authors start out by clarifying the characteristics of two different development strategies (import substitution and an export orientation) and the role of the State in each. In order to give the analysis a more concrete dimension they compare the experiences of some East Asian countries with those of Latin America. In so doing, they bring out the differences between the contents of these strategies and between the underlying social and political structures which made them possible.

The second half of the article is devoted to a critical assessment of the orthodox prescription of structural adjustment and of the main obstacles it faces and to a presentation of the principal features of an alternative proposal based on the concept of an "inclusionary" (as opposed to "exclusionary") type of development.

*The authors are, respectively, Professor of Government at the University of Essex, United Kingdom, and Professor at the Institute of Development Studies at the University of Sussex, United Kingdom. The article is based on a book by Anglade and Fortin (1985, forthcoming) which presents case studies of ten Latin American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela) which together account for 89% of the population and 94% of the gross domestic product of Latin America.

I

Import-substitution industrialization versus export orientation

In the past few years a persistent controversy has surrounded the relative merits of, and the relations between, two development strategies: the strategy based on import-substitution industrialization (ISI) and the strategy based on an export orientation (EO). For the past decade, international financial institutions as well as international private banks have criticized the debt-ridden Latin American countries for their inadequate export performance. The message is that these countries should embark fully upon an export-oriented model of growth and accumulation, which they have pursued only partially so far. The success of the East Asian newly industrializing countries (NICs), which have geared their whole economies towards exports, is held up as conclusive proof of the advantages of export orientation. To win back their constantly shrinking creditworthiness, the Latin American countries are advised to increase the share of exports in their GNP from their current 10%-20% average to the 30%-35% average of the East Asian NICs. This would require a fundamental shift in government policies away from ISI strategies that impose damaging restrictions on international trade through both tariff and non-tariff barriers and, most particularly, through overvalued exchange rates.

At this point in the debate, however, a different set of issues, having to do with the role of the State in the management of the economy, is introduced. Albeit in varying degrees, defenders of export orientation attribute the failure of the Latin American countries to carry out such a strategy to excessive State intervention in the economy.¹ State interference is accused of being particularly damaging in three areas: 1) international trade, through the introduction of restric-

¹A general statement of this view, which is not restricted to the Latin American case, but which nonetheless recognizes that export orientation is compatible with varying degrees of State intervention, is provided by Krueger (1984). A more uncompromising version, applied to the African case, is contained in Balassa (1984).

tions that tend to "isolate" the economy and "close" it off from the rest of the world; 2) internal pricing, through the introduction of rigidities in factor and product markets and the general disruption of relative prices resulting from high inflation, which is in turn the product of undisciplined fiscal, monetary and wage policies; and 3) direct production, through the establishment of inefficient and subsidized State enterprises, whose own prices are kept artificially low and which thus become a major source of budget deficits. All these factors are said to account for an "inward orientation" in development strategy which is inherently inefficient and detrimental to true development. The policy recommendation is for the State to withdraw from the market, lift all restrictions to international trade, as well as internal rigidities, and use its policy instruments to curb inflation and promote export orientation through the introduction of "realistic" exchange rates, i.e., devaluation.

Based on the preceding summary, several confusions and errors in this analysis of the Latin American crisis can be identified. *Firstly*, while the argument is couched in terms of export orientation in general, it seems clear that it refers basically to the export of manufactured products. This is, of course, the case with the East Asian NICs which are held up as models. In addition, the theoretical rationale that is offered emphasizes the productivity gains stemming from technological progress, in turn a response to higher wages and reduced profits.² While notions such as short-run comparative advantages, international competitiveness, the easing of foreign exchange bottlenecks and an increased ability to attract foreign loans and investment are also present, the theoretical underpinnings of the argument seem to refer more to a dynamic process of industrialization than to an export orientation *per se*.

Secondly, ISI and EO are not necessarily contradictory strategies. Three points are relevant here: i) it is true that a policy of complete ISI raises difficult issues as regards the alternative costs and uses of the surplus in terms of export promotion; if pursued single-mindedly, it would

direct accumulation to the production, in succession, of *all* industrial goods previously imported, therefore precluding accumulation in export industries. However, such an autarkic approach is hard to find in the real world, whereas it is clearly possible to design policies which combine protection for the local market with stimuli for other sectors of industry producing for export;³ ii) certain types of ISI strategies can lay the groundwork for subsequent export drives; thus, the two can be successive *phases* of a policy, as the experience of the East Asian NICs, to be discussed below, clearly shows; iii) ISI does not necessarily entail a reduction of imports. In peripheral capitalist economies, in fact, ISI often leads to an increase in the volume of imports; the difference is that their composition changes from consumer goods to intermediate and capital goods. It is therefore perfectly compatible with an increase in foreign trade, of which export promotion can be another component.

Thirdly, and most important for the purposes of this discussion, export orientation does not appear to be a function of the State's withdrawal from the market. A wide range of contemporary research on the East Asian economies has shown that in these cases the State has been heavily interventionist and has used the full array of measures at its disposal to regulate the market, control imports and organize production.⁴

To understand why the East Asian NICs have been more successful than the Latin American NICs, we must therefore go beyond the current myths and oversimplifications and identify the key policy differences between the two models based on a political economy approach which emphasizes the constantly changing relations between the State and civil society. The argument presented in this article is that State intervention has been a determinant in both the Latin American and the East Asian NICs, but that the scope and impact of this intervention have been different because, following the Second World War, the autonomy of State action *vis-à-vis* civil

³The main objection made to this solution by supporters of export-oriented strategies is not theoretical but practical, and relates to the difficulties of administering a system of differential trade inducements. See Krueger (1984).

⁴See Fajazylyber (1981); Evans and Alizadeh (1984); Schmitz (1984); Hamilton (1983), (1984); Moore (1984); Wade (1984); Westphal (1978); Amsden (1985); Kuznets (1977).

²Little (1982); Balassa (1982). A good discussion of these views is found in Fransman (1984).

society was greater in East Asia than in Latin America. Why that was the case and what the

consequences were is the subject of the brief comparison presented in the next section.

II

Industrialization and the State: A comparison between East Asia and Latin America

The East Asian model of export-oriented development is exemplified by the "gang of four" (South Korea, Taiwan, Hong Kong and Singapore). For the purposes of this article, only the first two cases will be examined, as the city-State nature of the other two does not allow for a meaningful comparison with any Latin American country.

1. Land ownership, income distribution and industrialization

Both South Korea (hereafter Korea) and Taiwan began their industrialization in the postwar period, after the military defeat of Japan made it possible for them to gain independence. As "late-late comers" to industrialization, they should have had a more difficult time than many Latin American countries, whose industrialization process had started considerably earlier. They had, however, a fundamental advantage, in that their distribution of income and composition of demand in the relevant period were considerably less unequal than in Latin America—so much so that they exhibited patterns of household income distribution more in line with the advanced capitalist countries than with the Third World.⁵

As repeatedly noted in the available literature, this was a consequence of the agrarian policies pursued both by the Japanese colonial government in the first part of the twentieth century and by the United States-influenced Korean and Taiwanese governments after 1945.⁶ The result of these policies was first to

weaken and then to eliminate the landowning class and to establish a pattern of peasant ownership of small holdings which was to have a crucial impact on income distribution. In order to make agriculture more productive, the Japanese annexed land on a large scale in Korea; in Taiwan, they expropriated the large holdings of absentee landlords, distributed their land to the holders of secondary titles and abolished subtenancy.⁷

However, the landowning class was not destroyed by Japanese colonial rule, and classical instances of collaboration frequently occurred. This, together with the high rents paid by tenants, explains the strong anti-landlord movements which developed immediately after independence, particularly in Korea.⁸ The United States military government, which started sharing power with the interim nationalist government of Syngman Rhee after the Japanese surrender, soon became so concerned with the growing communist influence in the anti-landlord movement that, after some hesitation, it decided to proceed with land reform; in 1948 it bypassed the veto of the landlord-dominated Interim Assembly and started distributing to tenants' government holdings seized from the Japanese. Over 90% of the land previously owned by the Japanese was distributed among about one-quarter of Korea's farm population.⁹ With the Korean conflict giving renewed influence to the United States, successive land reform acts were implemented which virtually eliminated tenancy, and distributed all landholdings of over three hectares to the former tenants,

⁵See Adelman and Robinson (1978); Fei, Ranis and Kuo (1978); Rao (1978); Kuo (1984); Kuznets (1977); Amsden (1985).

⁶See Koo (1968); Kuznets (1977); Ho (1971); Hamilton (1983); Amsden (1985).

⁷Kuznets (1977), pp. 16-17; Koo (1968), p. 12; Hamilton (1983), p. 38.

⁸Hamilton (1983), p. 42.

⁹Kuznets (1977), p. 31.

while the landlords received nominal compensation in bonds.¹⁰ The impact on land tenure was striking. "Before..., 19% of farmers owned 90% of all land and more than 50% of farmers were landless peasants. Afterwards, 69% of the farmers owned all the land on which they worked, 24% were part-owners and only 7% were tenants."¹¹

The same process could be observed in Taiwan, where land reform was also introduced by stages after 1948. This was done first through a reduction of farm rent and the security of tenancy; then, as in Korea, through the sale of public land that had been taken over from Japanese owners in 1945 and which was then made available in small plots to peasant families, who were granted generous payment facilities. Finally, the 1953 "land-to-the-tiller" act involved the compulsory purchase of all landholdings of over three hectares, with compensation in bonds; the land was then distributed to peasants, who could purchase it by small instalments over a term of ten years.¹² As a result of those reforms, "by 1973, almost 80% of the agricultural population consisted of owner-cultivators and another tenth of part-owners. Only 6% of farm income accrued to landlords and money lenders".¹³ Moreover, by 1956 most peasant families already owned less than three hectares (93%), and there were no landholdings over 10 hectares.¹⁴

Like Japan, Korea and Taiwan thus developed a low land/man ratio. Contrary to the classical assumption that a division of farmland into smaller units causes a decline in productivity, in both countries it led to productivity increases and to annual rates of growth in agricultural output in excess of 4% per year in Korea

in the 1960s and 1970s,¹⁵ and of 5% per year in Taiwan beginning in the early 1950s.¹⁶ This had a favourable effect on accumulation by releasing a labour surplus which was then absorbed by industry, where it kept wages low. At the same time, the benefits of increased productivity were quite equitably spread among rural households. In spite of the fact that income levels remained low in absolute terms,¹⁷ the resulting pattern of income distribution contributed to an increase in consumption among rural households, which in turn led to growth in the demand for labour-intensive wage goods. The expanded market which was thus created also favoured the growth of urban mass demand for similar goods. This phase, which took place in the 1950s, can be accurately described as "primary import-substituting industrialization".¹⁸

The Latin American pattern was entirely different. In the traditional export-oriented societies of Latin America, the very high concentration of income which prevailed before 1930 was a direct consequence of inequality in the distribution of assets (particularly land), coupled with unlimited supplies of labour and a predominant primary export orientation; these last two factors made internal demand basically irrelevant to growth and kept wages low (and often non-existent in the countryside). This also contributed to the imposition, in all areas, of strict forms of labour control, which were essential mechanisms for the political domination of these societies by landed interests.

In the more industrially advanced countries, there was some improvement in wage levels after 1930, when the "spontaneous" and restricted industrialization which had taken place until then gave way to so-called "forced" import substitution, characterized by highly labour-intensive manufacturing. However, this process was constrained by the combination of the unchanged patterns of land ownership with landlessness and unlimited supplies of labour in the countryside. This effectively excluded the vast majority of the labour force from the market, while maintaining wages low in indus-

¹⁰Adelman and Robinson (1978), p. 39.

¹¹World Bank data quoted by Paukert, Skolka and Maton (1981), p. 39.

¹²Koo (1968), p. 38.

¹³Amsden (1985), p. 85.

¹⁴Koo (1968), p. 41, table 11. Although the radical nature of both land reforms was remarkably similar, its implementation was much easier in Taiwan than in Korea. This was because the Kuomintang government which carried it out was non-indigenous and thus entirely cut off from landed interests. The Chinese nationalist government was made up of mainlanders who tended to look down on the Taiwanese and who were, furthermore, keen on agrarian reform "partly because they attributed their defeat on the mainland to the inequality of land ownership and partly because they themselves were no longer tied to the land". Hamilton (1983), p. 50.

¹⁵Ro, Adams and Hushak (1981), p. 184.

¹⁶Ong, Adams and Singh (1976), p. 578.

¹⁷Ro, Adams and Hushak (1981), p. 183; Hyun, Adams and Hushak (1979), p. 449; Amsden (1985), p. 95, table 3.3.

¹⁸On the concepts of primary and secondary ISI, see Ranis and Orrock (1985).

try as well. As the distribution of income remained very unequal, the growth of mass demand for basic consumer goods was limited; the resulting supply pattern became more and more oriented towards the satisfaction of high-income demand and exhibited growing levels of product differentiation.

An increasingly unequal distribution of income thus came to be a condition, as well as a consequence, of a skewed pattern of industrial supply. To refer to this period of Latin American industrialization also as "primary import substitution", and so to imply that fundamental similarities existed between the two models until the early 1960s, is thus to a large extent misleading. By the second half of the 1950s, the distribution of income was already sufficiently skewed in the more industrialized Latin American countries so that demand for locally-produced consumer goods was not expanding "horizontally" (i.e., through a further social widening of popular demand for basic manufactured goods) but rather "vertically" (i.e., through a constant diversification of the higher-income strata of market demand). Accordingly, assembly plants multiplied to provide a correspondingly differentiated supply of consumer durables. As early as the mid-1950s, the highest rates of industrial growth in these countries were already in electrical and transport equipment, following the move of the upper strata of market demand into household appliances and private automobiles.¹⁹

2. *Land ownership and the sources of surpluses for accumulation*

In addition to affecting the composition of demand and the structure of industrial supply differently, the structure of ownership and control in the countryside produced yet another important difference between the two experiences of import-substitution industrialization. This involved the pattern of industrial invest-

ment and, more precisely, the way in which domestic savings contributed to industrial investment. Here again, classical theory is unfavourable to small holdings; they are supposed to lead to increases in consumption and to generate a smaller surplus for investment. It is thus interesting to examine the available evidence from both experiences pertaining to this issue; according to the above theory, the East Asian countries should have exhibited lower domestic rates of savings and investment among rural households than those of Latin America.

In fact, agriculture contributed to manufacturing investment in two ways in East Asia. The first was through *voluntary savings*. The evidence from Korea and Taiwan shows that although the consumption of rural households went up in the 1950s and 1960s, it did not rise as fast as income. This resulted in a gradual increase in the average propensity to save (APS), particularly in the 1960s.²⁰ Furthermore, through the setting up of rural financial markets offering attractive interest rates, a substantial proportion of such savings was mobilized for use by the rest of the economy.²¹

The second way in which agriculture contributed to industrial development in East Asia was through *surplus extraction* by the government. Forced transfers from agriculture to industry began early, as part of the land reform programmes, with a substantial amount of the compensation to landlords being paid in government bonds based on expropriated Japanese industrial assets.²² This tied many former landlords to industry and also set the pace for the capital transfers to come. In both countries, such transfers were achieved through production quotas (mainly for rice) subject to compulsory purchase by the government at below-market prices which were then sold cheaply to urban workers, thus lowering industrial wages and production costs.²³ In addition, in Taiwan the government used the State monopoly on fertilizers to extract surplus through the setting of the barter ratio between fertilizers and rice²⁴ and

¹⁹In fact, the very expression "import substitution", as a description of this process, can be regarded as a misnomer, since in many cases industries were set up behind protective barriers to produce goods which had simply not been available before, or only in very small quantities. What was actually occurring was the establishment of industries for the local satisfaction of new demands which were being created through advertizing, the demonstration effect, etc., or of anticipated demands on the part of higher-income groups as their living standards rose. See Pinto (1980), p. 47.

²⁰See Ro, Adams and Hushak (1981); Ong, Adams and Singh (1976); Hyun, Adams and Hushak (1979).

²¹See Adams (1978).

²²Hamilton (1983), p. 50.

²³Hamilton (1983), p. 51; Amsden (1985), p. 86.

²⁴Koo (1968), pp. 79-82.

used the State control of foreign trade to secure a margin between the price paid to producers and the price obtained abroad.²⁵ In Korea, which, in contrast to Taiwan, "was and remains in substantial food deficit, [t]he primary mechanism for the exploitation of agriculture was to deny it the protection awarded industry and to import large quantities of food grains, often on concessional terms".²⁶

The key point in the comparison between the East Asian and the Latin American NICs on this issue is, however, their use of those domestic savings. In Latin America, the savings generated by the large rural household sector tended to be invested speculatively rather than productively, a phenomenon which was related to the growing capital intensiveness of industrial production and the insufficiency of the market in the 1950s and 1960s. Whenever some extraction of agricultural surplus did occur during this period, its burden was, in effect, transferred to the peasants through the political power of the landowners. Coupled with the existence of a labour surplus in the Latin American countryside, this made it unnecessary for agriculture to undergo a process of modernization; its productivity and income remained low, thus dampening both aggregate demand and the availability of wage goods. In Korea and Taiwan, both voluntary savings and surplus extraction played a particularly important role in capital formation in the 1960s. In the preceding decade, the main source of investment surplus had been foreign savings, which were not in the form of direct foreign investment but of grants and loans from the United States government. This amounted to over one-half of gross investment in both countries,²⁷ and was crucial to the high import-content industrialization model that was adopted, inasmuch as it helped finance the large foreign trade deficits which resulted.

The successful completion of the first stage of ISI in both countries was thus in large measure

made possible by foreign assistance; to a great extent, this aid was prompted by the existence of the "communist threat" which, in turn, justified the expansion of government power in the internal sphere. The political and economic conditions created during this initial stage were decisive for the success of the next stage of industrialization, during the 1960s and 1970s. The growth of the internal market and the labour intensiveness of manufacturing production made it attractive for local capital—under strong State guidance—to invest in industries requiring relatively small initial capital outlays which used technologies that were not subject to rapid rates of obsolescence and economies of scale.

This is not to imply that the 1950s were an unmitigated success. For one thing, the rates of growth were substantially lower than in the 1960s, particularly in Korea, where a high rate of population growth also made for a very modest level of per capita GDP growth. In addition, corruption and speculation tended to divert some capital away from productive investment in a way reminiscent of the Latin American experience. Perhaps most importantly in an overall evaluation, the political régimes were highly repressive, although this did not preclude a measure of State responsiveness to public opinion. Thus, in Korea, accusations of corruption and the 1960 student revolt contributed to the replacement of the Rhee government by that of Park.²⁸ In Taiwan, the Kuomintang government showed concern about the alienation of the indigenous population, and efforts were made to carry out what has been called "political gap-filling",²⁹ which included increased preoccupation with economic development.³⁰

Yet, in direct contrast with the Latin American case, the ISI experience of Korea and Taiwan was an instance of capitalist development which was economically "inclusionary" in the sense that its dynamism was based on the progressive incorporation of the popular sectors through the expansion of the internal mass market. This was made possible by: i) the fact that in both countries the structure of asset ownership and income distribution at the start of the process

²⁵This is similar to the ill-fated IAPI policy implemented in Argentina in the late 1940s and early 1950s by the Peronist government, which was quickly abandoned because it was largely responsible for falling agricultural production.

²⁶Moore (1984), p. 58.

²⁷Such aid represented a larger percentage of total investment over a longer period in Korea than in Taiwan as a result of the stronger commitment of the United States to supporting Korea. See Kuznets (1977), p. 77.

²⁸Hamilton (1984), p. 41.

²⁹Moore (1984), p. 58.

³⁰Amsden (1985), pp. 99-101.

was comparatively egalitarian for a developing country context; and ii) the fact that the State enjoyed a high degree of relative autonomy from traditional interests, which allowed it both to guarantee the conditions for a further reduction in income inequalities and to orient the allocation of the surplus towards the expansion of industrial capital that was producing for the mass market under reasonably efficient conditions. This meant, however, that the model was politically exclusionary, in that it prevented any meaningful participation of the popular sectors in political decision-making; this feature was to become increasingly important as the models shifted towards an export orientation, which required a cheap and docile labour force.

When the ISI strategy began to show signs of exhaustion in both the East Asian and the Latin American models, further differences emerged which were in turn a result of the earlier dissimilarities between the two processes.

3. *From import substitution to export orientation*

The apparent similarity to be found in the fact that a crisis was provoked both in East Asia and in Latin America by the narrowness of the local markets and by external bottlenecks is misleading. As already discussed, in Latin America the insufficiency of internal markets was a consequence of growing income concentration, which by the 1950s had already led to a pattern of supply characteristic of "secondary import-substituting industrialization" involving an increasing capital intensiveness. As capital requirements for productive investment rose while the market narrowed, a drop in investment by domestic capital occurred towards the end of the 1950s. The governments responded to this situation with policies for attracting foreign capital which included increased protection and subsidies, often in the form of cheap inputs provided by large State-owned basic industries (notably steel). The inflow of foreign firms reinforced the pattern of growing capital intensiveness and product differentiation, income concentration and skewed demand, and this further reduced the competitiveness of capital-starved domestic firms.

The intensification of these contradictions led the most advanced Latin American NICs to

start moving in the direction of export-oriented industrialization (EOI) in the second half of the 1960s. This move took place under very unfavourable auspices, however. Foreign capital, on whose inflow it depended, was attracted more by the high profits guaranteed by overprotected local markets for high value-added consumer goods than by the very competitive export markets. As foreign capital-led industrialization proceeded on the basis of an increasing capital intensiveness, this had negative consequences for the potential diversification of exports, since the higher value added of the goods produced made them less likely to penetrate protected markets.

As a result, foreign firms contributed neither to the expansion of exports nor to the relief of foreign exchange constraints.³¹ In this respect, their interest coincided with that of the land-owning class, whose opposition to the growth of non-traditional exports was motivated by the threat that such a move would have posed to its own power position; in a context of rapid urbanization and shifting power bases, the position of this class rested on primary exports remaining the only source of foreign exchange. The Latin American response was thus essentially the outcome of the many contradictions engendered by the populist alliances of the 1950s and early 1960s and was due, in the final analysis, to the incapacity of the *desarrollista* State to impose a more viable model of industrialization involving both a different supply-demand pattern and domestic control of capital accumulation.

By contrast, in East Asia the narrowness of local markets was due to a relative saturation of popular demand for non-durables, and the response was an expansion in exports of the labour-intensive manufactures that had been the backbone of the industrialization process. "Primary import-substituting industrialization" gave way to "primary export substitution". This allowed aggregate internal demand to remain strong and also helped East Asian exports to penetrate European and North American markets because of their low value-added. In addition, their early presence in these markets in the 1960s made it possible to raise their value-added in exports during the 1970s without incur-

³¹See Lahera (1985).

ring as great a protectionist reaction as that faced by other new competitors.

In one sense, the move to "primary export substitution" might be explained simply as a function of overcapacity, which in turn resulted from the saturation of internal mass demand, particularly since such a move would also reduce the pressure exerted on the balance of payments by the high import content of import substitution. If that were the case, however, overcapacity in Latin America should have produced similarly impressive results in its export performance, which it has not. In reality, the East Asian process was more complex. The balance-of-payments deficit prompted the United States (which was financing it) to press for an improvement in export performance. The prospect of a reduction in United States aid was certainly an important factor in the decision of both the Korean and the Taiwanese governments to expand industrial output and to direct it towards external markets. However, the move was not merely a response to external bottlenecks; it was also the result of a long-term strategy planned by the State, in collaboration with local capital and with United States support, which was designed to make these countries into capitalist successes in spite of their poor natural resource endowment and small markets.

4. *The policy differences*

There appear to be three crucial policy-determined factors which account for the differential success of the East Asian and the Latin American NICs.

a) *The nature of protection*

The highly discriminatory character of East Asian protectionist policies is in sharp contrast with those of Latin America, where indiscriminate protection was given early on to consumer goods, while intermediate goods were allowed to enter freely. The East Asian policies, in contrast, discriminated both *among* sectors of production (consumer goods imports were not systematically kept out, nor were all intermediate and capital goods allowed in) and *within* sectors as well, with particular industries being selected for protection while others were not. The selection criteria seem to have been designed to promote

efficiency among local producers by subjecting them to competition and to favour both the more efficient and the more export-oriented industries; but, significantly, key import substituting industries also benefited from high effective rates of protection, bearing evidence of the State's concern for linking the EOI and ISI strategies and, hence, of the compatibility between the two. Apart from primary commodities and investment goods, which were generally exempted, quotas and tariffs were extensively used, with the value added in imported goods usually determining the tariff rates applied. In both countries, the so-called "liberalization" of the late 1950s and early 1960s did not affect the rate of effective protection, which remained high for all key import substitutes; in Taiwan, most import tariffs were (and still are) redundant, i.e., higher than necessary,³² and this is true in Korea as well.³³ Export minimums were (and continue to be) required of importing firms in exchange for duty-free imports, and access to the foreign credit necessary to finance imports remains controlled in Korea. These differences between the protectionist policies of Latin America and those of East Asia had a strong impact on exchange rates: to compensate for the growing cost of imports resulting from tariffs in Latin America, policies of overvaluation were introduced which were a further obstacle to exports; in East Asia, by contrast, exchange rates were constantly adjusted to meet export targets.

It is important to stress that the choice of policy packages was to a large extent determined by the freedom of State action in East Asia and its absence in Latin America. In the East Asian countries, export-based industrialization was a State-directed strategy supported by the United States which met with no political opposition from any major sector of civil society; this lack of opposition was partly due to repression, but also to the *tabula rasa* effect of both colonial rule and the wars, and to the existence of an external threat. In Latin America, the indiscriminate over-protection given to the producers of consumer goods had its origins in the political alliances which implemented ISI after 1930; the protectionist policies adopted there have been described by Hirschman as "a plot on the part of

³²Amsden (1985), p. 89.

³³Kuznets (1977), p. 153.

the existing powerholders to corrupt or buy off the new industrialists".³⁴ When foreign capital entered these countries in the 1960s and 1970s it too began to benefit from the same policies and, since it was only interested in local markets, protectionism went on unchanged, screening small captive markets off from competition and encouraging inefficiency in production.

b) *Agricultural terms of trade and the mobilization of domestic savings*

As noted earlier, in Korea and Taiwan the State initially based its labour-intensive industrial strategy on the extraction of both the capital and the labour surplus from agriculture, which was thus made to contribute heavily to industrialization. By the mid-1960s, the absorption of the labour surplus had been so effective that a situation of relative labour scarcity began to emerge; at the same time, the continuous capital transfers from agriculture had caused agricultural production to slow down and rural household income to gradually fall behind non-rural income, thus threatening both accumulation at the national level and political stability in the countryside. Instead of using repression against the farmers, whose support they needed, the governments then designed "new deals" which began shifting the terms of trade in favour of agriculture in both countries and which are all the more interesting because they represented a political as well as an economic response. This took the form of a *rapprochement*, promoted by Chiang Kai Shek's son, between the Kuomintang and the farmers in Taiwan, and of a rural-oriented ideological movement under the influence of President Park in Korea.³⁵ These "new deals" were yet another instance, not only of the extent of State intervention in the economy, but also of the State's interest in preventing imbalances between agriculture and industry from becoming too pronounced in order to protect sources of accumulation. This objective was achieved through changes in pricing policies and investment priorities and through schemes designed to improve rural household income levels through the development of rural industries. The scheme produced remarkable results

in Taiwan, "where the share of rural family income derived from non-agricultural activities (rose) from 33% in 1964 to 53% in 1972";³⁶ if Korea's record is less impressive in this respect, it is because its industrial structure was still relatively dispersed and rural prior to 1968.³⁷

Throughout the 1960s and 1970s both rural and non-rural household income levels remained low in absolute terms.³⁸ Real industrial wages rose, but more slowly than labour productivity,³⁹ allowing for a substantial rate of surplus extraction within the industrial sector; by 1978, whereas Korean wages compared favourably with those in Hong Kong, Taiwanese wages were much lower across the board, and this was reflected in highly repressive policies *vis-a-vis* trade unions. The fact that income distribution did not deteriorate in Korea and improved in Taiwan was largely due to the dynamism of their economies, in which industrial employment was expanding dramatically, rather than to any reduction in income inequality within industry. However, the increase in domestic earnings as a proportion of GNP during this period cannot be explained wholly by the rising share of industrial profits in national income; the average propensity to save (APS) of low income households also continued to go up in both countries⁴⁰ as their income rose in real terms.⁴¹

The lesson to be drawn from the experiences of Korea and Taiwan is that absolute levels of income no more determine a country's APS than the percentage of national income that is saved determines the level of capital formation. Until the mid-1960s, the savings ratio of both East Asian countries had been low (6%-7% of GNP) compared to average Latin American domestic savings. It then rose rapidly, but in the early 1970s, at 17%,⁴² Korean domestic savings were matched by Bolivia, Colombia and Mexico and exceeded by Ecuador; while, at 26.8%,⁴³ Taiwanese savings were matched by Brazil and

³⁶Ranis (1978), p. 400.

³⁷See Ho (1982).

³⁸Amsden (1985), p. 95, table 3.3.

³⁹Amsden (1985), p. 96, table 3.4.

⁴⁰Adams (1978), pp. 551 and 554.

⁴¹Ong, Adams and Singh (1976), p. 580; Hyun, Adams and Hushak (1979), p. 449.

⁴²Westphal (1978), p. 349, table 1.

⁴³Amsden (1985), p. 97.

³⁴Hirschman (1971), p. 107.

³⁵Moore (1984), pp. 59-60.

exceeded by Venezuela (36.2%).⁴⁴ Similarly, there were no substantial differences in gross fixed capital formation between East Asia and Latin America in the 1970s.

The differences between these groups of countries appear at two levels. The *first* concerns the trends of both domestic savings and capital formation in the 1970s and 1980s. Whereas all the Latin American countries exhibited a constant decline in both these variables during the period, the East Asian countries maintained their performance or even—in the case of Taiwan—improved it.⁴⁵ The *second* concerns the greater success, as already discussed, of the East Asian countries in mobilizing domestic savings for capital formation. While the presence of adequate financial markets in East Asia and their absence in Latin America was an important factor, it would appear that the basic difference between the two experiences was the *composition of private domestic savings*. In Latin America, the high concentration of income led to a high concentration of savings, and the latter tended to follow alternative circuits which were less available to popular savings, such as speculative investments and capital flight. In contrast, capital formation in the East Asian NICs was financed increasingly with domestic savings in the 1970s, particularly in Taiwan, which—contrary to Korea—maintained a labour-intensive industrialization policy. In Korea, the greater capital intensiveness introduced in the 1970s required heavy investments, which were financed with foreign savings; still, the resulting foreign debt of US\$ 40 billion at the end of 1983 did not seem as excessive as that of the Latin American NICs, since Korean export earnings in that same year were US\$ 31 billion. By contrast, the growth of external borrowing in Latin America was increasingly used to cover debt servicing and the fiscal deficit, and was thus contributing less and less to capital formation. When the sources of foreign savings dried up for Latin America in the early 1980s, capital formation plummeted in spite of desperate attempts by the State to maintain some degree of investment momentum in order to reduce the impact of the recession.

c) *The treatment of foreign capital*

The issue here is as much one of policy as of the objective degree of domestic control over capital accumulation achieved in East Asia and in Latin America. In Latin America, the growing effective foreign control over capital accumulation, coupled with domestic policies seeking to attract as much direct foreign investment (DFI) as possible, meant that any form of control over foreign capital was always going to be largely ineffectual. In contrast, thanks to their domestic process of capital accumulation, the East Asian countries could impose a much stricter control over DFI and thus ensure its effectiveness.

This form of control followed in the steps of the protectionist policies on imports and was introduced in order to regulate DFI flows attracted by the countries' economic success of the late 1960s. In Taiwan, the large drop in the share of public ownership in total industrial production which took place between 1962 and 1975 (from 46% to 19%)⁴⁶ did not result in foreign capital assuming a dominant position in the economy. Between 1973 and 1980, foreign firms were responsible for only 10% of total investment in manufacturing,⁴⁷ and the State—rather than multinationals—maintained control over key sectors of the economy, with the State's share of gross domestic investment still amounting to 50% in 1980. The Korean pattern was similar, although DFI contributed even less to capital formation there than in Taiwan (a mere 1.2% in the period 1962-1979).⁴⁸ Admittedly, the trend was more pronounced in both countries in the 1970s than in the 1960s, but even then the policy towards DFI was far from liberal and the share of DFI in manufacturing was kept very low.⁴⁹ Control over DFI has allowed both countries to keep in check a major source both income concentration and capital intensity which—by contrast—has had a particularly negative impact on the Latin American economies.

Nevertheless, a move in the direction of greater capital intensiveness took place in East Asia during the second half of the 1970s. The move was broadly inspired by the desire to

⁴⁴See IDB (various issues).

⁴⁵Amsden (1985), p. 105, note 70.

⁴⁶Amsden (1985), p. 92, table 3.2.

⁴⁷Amsden (1985), p. 93.

⁴⁸Hamilton (1983), p. 61.

⁴⁹Luedde-Neurath (1984), p. 18.

reduce reliance on labour-intensive exports and to increase exported value-added. It was more pronounced in Korea, where the government tends to be more responsive to large business interests than in Taiwan. Interestingly, the consequences of this move on the Korean economy soon began to increase its differences with the Taiwanese economy and to bring it closer to the Latin American NICs. Trends of unemployment, income inequality, high technological costs and transfers, growing current account deficits, inflationary financing, currency overvaluation, excess capacity and bankruptcies—all of which are characteristic of the Latin American NICs—began to develop in the Korean economy as well.⁵⁰ In Taiwan, the Kuomintang government was less sanguine about this form of deepening industrialization, and monopolistic trends were more discrete; as a result, the consequences of this policy shift were less serious than in Korea. The lesson was quickly learned, however, and a move back to more traditional labour-intensive exports took place in 1981.⁵¹ This move was made easier by the minority position of DFI in manufacturing and by the high degree of State control over capital accumulation, which was itself a result of the State's "relative autonomy" from the dominant classes. The State was, in fact, relatively more autonomous in Taiwan than in Korea, and was therefore able to maintain a greater overall stability in its economic policy-making.

The picture that emerges from the preceding overview is that strong State intervention had a decisive impact on the success of the East Asian export-led models of growth, which started with land reform and then developed on the basis of a State-directed economic strategy. This bears little resemblance to the free market models which supposedly account for their success, according to monetarist analysis, and which have been presented to Latin America as examples to be followed through massive State withdrawal.

It seems equally clear that there were exceptional political conditions which made such decisive State action possible, including the colonial history of both countries and their position at the forefront of the Cold War. That position

explains the extent of the support provided by the United States, and the combination of the two factors accounts for the exceptionally radical nature of their land reforms, which were themselves the first decisive move made to free the State from the traditional landed interests that have blocked development elsewhere in the Third World. In summary, the ability of the East Asian countries in question to carry out a successful experience of peripheral capitalist development was a function of the following four factors:

- 1) the economically inclusionary character of their ISI phase;
- 2) the relative autonomy of the State both to implement this inclusionary process and to orient the surplus away from traditional agrarian sectors and towards the emerging industrial capital, which was operating with reasonable efficiency to supply a mass market;
- 3) in the EOI stage, the ability of the State to direct industrial investment towards areas where international competitiveness could be achieved (again, a question of State autonomy, this time *vis-a-vis* sectors and groups within industrial capital) and to repress and coerce labour to achieve the low cost and reliability required for international competitiveness;
- 4) the emergence of an indigenous capitalist class with a dynamic and innovative outlook which was able to carry out the process of industrial change and development envisaged by the State. This introduced a potential contradiction into the model, since this capitalist class began to encroach on the autonomy of the State, while at the same time the development thus far achieved tended to produce a mobilization of the popular sectors which, again, threatened the conditions necessary for the reproduction of the model. This process has been particularly visible in Korea in the late 1970s and the 1980s.

The above conditions did not obtain in Latin America, where the model was always fundamentally exclusionary, where the State had much less autonomy with respect to the dominant internal classes and foreign capital, where local industrial capital did not perform the role of a dynamic agent of industrial change, and where

⁵⁰See Koo (1984).

⁵¹Hamilton (1983), pp. 68-9.

the popular sectors were both mobilized and controlled at an early stage through populist movements. In a later section of this article it will be argued that these differences make a replication of the East Asian experience of peripheral capitalist development unattainable in Latin America. At this point, however, the idea to be emphasized is that the different context of State intervention in Latin America—which is

more representative of Third World States than are Korea and Taiwan—has determined the particular role played by the State in accumulation. This in turn, has been responsible for a fiscal crisis whose implications go beyond the impact of the fiscal crisis in central economies, inasmuch as in Latin America, it has tended to generate an overall crisis of accumulation.

III

The orthodox structural prescription and its problems

The orthodox approach to the problems of adjustment in Latin America involves not only short-term "stabilization" measures but also a central structural component. Underlying the "performance criteria" and the "policy understandings" that the International Monetary Fund (IMF) attaches to its stand-by agreements and extended financing facilities, there is the clear notion that, in the final analysis, the only solution to the chronic balance-of-payments and fiscal problems of the Latin American countries lies in a fundamental restructuring of their economies.

There are two main goals. The *first* is to shift the productive structure towards tradeable goods and, more specifically, to increase the share of exports in GNP. The measures recommended for accomplishing this point to: a) a reduction of internal demand (through wage restraint, domestic price rises and a credit squeeze) and, hence, an increase in domestic savings to be invested in expanding productive capacity in the tradeable goods sector; b) devaluation and trade liberalization in order to boost exports and encourage private investment in competitive industries. Together with increased domestic savings and lower inflation, this should reverse the flow of capital flight and reduce dependence on foreign credit. The *second* is to reduce the role of the State, both as an intervener and as a direct producer. Statism is to give way to privatization; this is also seen as a pre-condition for recovery, and one which has to be met rapidly, for it is assumed that the flow of capital flight will not be

reversed until the State moves out of the many sectors in which it has been "crowding out" private capital.

These recommendations raise several issues of a general character concerning the role of the State in accumulation. They also, however, raise some specific questions about both the immediate and long-term impact of such a strategy on Latin America.

The *first* question is made almost self-evident by the strong export-orientation of the strategy and concerns the export prospects of Latin America. Its creditors seem convinced that, in a context of world economic recovery and trade liberalization, the performance of Latin American exports should depend mostly on the determination of the Latin American countries in their drive towards exports. The pertinent point here is therefore to assess its export prospects both in relation to growth and accumulation in the long term and as a viable solution to the debt crisis.

The *second* question concerns the new political environment in which this export strategy (largely designed in the early 1980s) will have to be implemented. While it might be safely hypothesized that authoritarian governments based on repression were broadly in agreement with the adjustment policies recommended by Latin America's creditors in the early 1980s, the opening up of political systems that has since taken place in some of the Latin American deficit countries—which thus have to reckon once again with public opinion—raises a new set of issues. These issues concern both the impact of "redem-

Table 1
EXPORTS OF GOODS FROM TEN LATIN AMERICAN COUNTRIES

(Annual percentage variation)

	1983		1984		1985	
	Value	Volume	Value	Volume	Value	Volume
Argentina	2.8	14.0	3.0	-3.4	2.8	16.8
Bolivia	-8.8	-11.5	-4.1	-6.7	-14.4	-10.8
Brazil	8.6	13.5	23.5	18.5	-5.2	2.3
Colombia	-4.6	-0.6	45.1	36.6	8.8	12.1
Chile	3.3	5.8	-4.6	-0.2	4.1	9.6
Ecuador	0.9	9.5	10.9	11.3	5.6	10.1
Mexico	5.1	15.7	7.7	4.9	-9.1	-5.0
Peru	-8.4	-9.9	4.4	0.9	-5.7	-0.2
Uruguay	-8.0	-0.7	-20.0	-21.3	-8.1	-0.1
Venezuela	-10.8	-2.9	8.8	3.7	-10.4	-7.6

Source: ECLAC (1986a), p. 28, table 9.

ocratization" on adjustment and, conversely, the impact which the adjustment policies that they have inherited may have on the stability of the new democratic arrangements.

1. *The export prospects of Latin America*

The current global strategy for Latin America is based, rather perilously, on future developments over which it has little control. Its creditors' support of export led-growth was reinforced by its 1984 export performance (see table 1). Although Latin America's average export growth was modest when compared with that of East Asia, with only Brazil and Colombia showing truly high growth rates;⁵² these results were nonetheless seen as evidence which backed up the projections of a worldwide economic recovery. Furthermore, they seemed to confirm the allegation repeatedly made since 1982 by the IMF and the creditors, namely that international interest rates mattered less to Latin America than the export prospects offered by the recovery of OECD countries.

⁵²Significantly, although in 1984 Brazil's and Colombia's export growth was higher than Korea's (13.3%), and compared favourably even with Taiwan's (20.6%), the East Asian countries achieved much greater GDP growth: Korea (7.5%) and Taiwan (10.9%) as against Brazil (4.8%) and Colombia (3.6%). *World Financial Markets* (1985b), p. 4, tables 5 and 6; ECLAC (1986a), p. 24, table 2.

Yet, in 1984, in spite of earlier hopes that it would be more widespread, the recovery remained restricted to the United States; furthermore, it did not last, and in mid-1985 it was widely recognized that the earlier predictions had been too optimistic and that real GNP growth would be about 2.5% in the OECD countries, including the United States. This only confirmed the signs that had been visible in the United States economy since mid-1984, which indicated a considerable slowdown in the growth of domestic demand in the United States (from 8.8% to 3.3%) and thus imports. Latin American export projections had been based on the assumption that the United States' recovery would continue and that its effects would be transmitted to other OECD countries. In 1985, the slowdown of United States imports and the persistence of Japanese and European reductions in their imports from Latin American countries had already affected the latter's exports, with the exception of Argentina, Chile, Colombia and Ecuador; compared with 1984 there were drops in value of 5.2% from Brazil and 9.1% for Mexico (see table 1). For the ten countries studied, taken together, the value of exports in 1985 was the same in current terms as it had been in 1984.⁵³

⁵³Calculated on the basis of ECLAC (1986a), p. 28, table 9 and ECLAC (1986), *passim*.

One consequence of the fact that export performance in 1985 was poorer than had been expected was that the 1983-1984 improvement in the trade balance (and its positive effect on the current account as a whole) was not maintained. This faced the Latin American countries with a choice: either they could continue to cut back imports, in which case output would fall further, or they could reactivate imports, at least in some essential input sectors, in order to avoid a deepening of the recession and social and political unrest. The second approach seemed more likely, particularly since one of the creditors' most consistent recommendations was for trade liberalization; but with insufficient foreign exchange earnings accruing from exports, import costs (which were rising in absolute terms as well as relative to falling export earnings) would have to be met by more foreign borrowing. Whether the foreign credit would be forthcoming was (and still is) highly problematic.

Given the near insignificance of other export markets, the import performance of the major OECD countries, as described earlier, suggests the need for a more realistic projection of Latin American exports for the rest of the decade. It is, of course, impossible to predict how long the present depressed conjuncture will last in the 1990s. As long as it does, however, it will have drastic effects on economies which have been made to rely too heavily on export markets: 1) commodity prices (including oil) will continue to be depressed in spite of the depreciation of the dollar;³⁴ 2) manufactured exports will continue to face protectionism in Europe and Japan. It is also relatively safe to predict that the need to reduce the United States' large trade deficit will induce the United States Department of Commerce to redouble its denunciations of unfair practices by Latin American countries in order to justify further import restrictions.

The export prospects of Latin America are no better even when they are viewed from a longer-term perspective. The EOI model would still remain a fallacy for most countries in the area, even under the labour-intensive form which the authors of some proposals now seem

inclined to resuscitate. There are two reasons for this: 1) low as they are, Latin American labour costs cannot match the still lower costs of many other Third World countries and; 2) a "generalisation of the East-Asian model of export-led development across all developing countries would result in untenable market penetration into industrial countries".³⁵ Of those Latin American countries that are already classified as NICs, only Brazil and Mexico and —to a lesser extent— Colombia, might be allowed to proceed further, provided they can also introduce the supportive fiscal, monetary, wage and exchange rate policies which are required for export success; these policies may be politically difficult to negotiate, however, in the context of régimes which need to count on some degree of national consensus in order to remain stable. In the other countries, primary commodities will continue to dominate exports, with perhaps a further processing of raw material exports; this will, however, increase both their dependence on oligopolistic markets and the risk of adverse external shocks (already inherent in primary exports) by exposing exports "to greater risks of substitution by new products or obsolescence in the face of new technology".³⁶

2. *The external debt crisis*

The available evidence indicates unequivocally that the foundation of the export-led strategy is weak and unrealistic: it will not simply be up to the Latin American countries to improve their export performance in the foreseeable future, and the conditions which seem most likely to determine that performance are not favourable to the growth of Latin American exports. In these circumstances, what solution is there to the debt crisis and what justification is there for the squeeze imposed on internal demand?

The foreign debt problem grew particularly acute in 1985. Compared to 1982, the debt-to-export ratio worsened for all countries except Brazil and Colombia (where it improved slightly) and Ecuador (where it remained the same). The foreign debt came to represent between two and six times the dollar value of the annual merchandise exports of the countries

³⁴For the ten countries covered in this analysis, the terms of trade deteriorated at an average cumulative rate of about 17% over the period 1980-1985 according to data in ECLAC (1986a), p. 29, table 11.

³⁵Cline (1982), p. 88.

³⁶Roemer (1981), p. 432.

covered in this study.⁵⁷ What is more, the large drop in international interest rates, which, at about 8%, were at half their 1982 level in 1985, did little to alleviate the ratio of interest payments to exports: as in 1982 these payments continued to absorb between one-fourth and three-fifths of the countries' total export earnings.⁵⁸ It should also be remembered that these figures do not reflect the total service on the gross foreign debt, since they only represent interest payments on the medium- and long-term debt; this leaves out the repayment of the principal that falls due at the end of each financial year, as well as interest and principal on the short-term debt (i.e., debts with a maturity of up to one year), whose volume has tended to grow constantly since the late 1970s. It is not easy to obtain reliable up-to-date information on the latter category of debt but, if included, the total service of the gross foreign debt (and thus its ratio to exports) would be much worse, particularly for countries like Argentina, Brazil, Mexico and Venezuela, which rely heavily on short-term debt.⁵⁹

With a debt crisis that can only get worse and with poor export prospects, the chances of covering a growing foreign exchange deficit through new borrowing would appear to be slim. In a situation in which the gradual withdrawal of the IMF from lending activities will leave commercial banks to handle the bulk of available credit (to an even greater extent than they have so far), the most likely future scenario is that the banks—keen not to become overexposed again *vis-a-vis* their largest debtors—may be prepared to extend new but limited credit only in so far as interest payments on the existing debt are met. The banks in this situation seem to be under no illusion concerning the reimbursement of the debts; rather, their aim seems to be to avoid a major world financial crisis by keeping pressure on the debtor countries to spread a *de facto* moratorium over a long period of time in order to cushion its impact on themselves and on the creditor countries. By reducing their exposure to the major debtors and by cutting back sharply on their lending to Latin American and other Third

World countries between 1982 and 1986, the banks put themselves in a stronger position with respect to the debtor countries. Having learned their lesson from the crisis, international financial markets will not be closed to underdeveloped countries, but it will be more difficult for these countries, including most NICs, to gain access to them than before.

The foreign creditors' advice to borrowers is thus that they should rely on their own *domestic savings*. Yet, together with domestic investment, national savings have gone down since the mid-1970s, and the drop in both has become much more pronounced since 1979-1980 (see table 2). Until 1982, the decline was sharper in savings than in investment, with only Peru—surprisingly—maintaining the same rate of savings (admittedly low, even by Latin American standards) and showing an increase in investment over the (equally low) 1977-1980 average. Investment fared better than savings thanks to foreign capital, which continued to flow into these countries, albeit at reduced rates. In the following period (1982-1984) there was a further decline in both savings and investment, but this time the decrease was more acute in investment than in savings due to a virtual stoppage of foreign capital inflows. Countries like Brazil and Mexico, where the possibilities for speculation were great, managed a small increase in national savings, even while capital flight continued; as for investment, it was down again everywhere except in Chile, where it recovered slightly.

A resumption of investment is clearly needed as much as a reactivation of imports. Since the purpose is to make the debtors more self-reliant, the aim is not simply to increase the rate of gross domestic savings but also to: 1) reduce the rate of their remittance abroad, which has been one of the most consistent failures of all the Latin American policies thus far designed to raise savings for investment; and 2) attract these national savings away from speculation and into productive investment. According to the creditors, this can be achieved if a new investment climate is created, and by that they mean essentially lower inflation and trade liberalization in the debtor countries. It is further assumed that the resulting increased output will find its way into the export markets, while the goal of lower inflation is to be achieved through

⁵⁷Calculated on the basis of data in ECLAC (1986) and ECLAC (1986a), p. 30, table 14 and p. 32, table 17, respectively.

⁵⁸ECLAC (1986a), p. 32, table 18.

⁵⁹*World Financial Markets* (1983), p. 5, table 3.

Table 2
**GROSS DOMESTIC INVESTMENT
 AND NATIONAL SAVINGS,
 1977-1980, 1982, 1984
 IN TEN LATIN AMERICAN COUNTRIES**

(As a percentage of GDP)

	Average 1977- 1980	1982	1984
Argentina			
Investment	24.8	17.9	14.8
Savings	25.0	12.4	11.2
Bolivia			
Investment	18.5	5.1	4.2 ^a
Savings	11.0	3.0	-1.1 ^a
Brazil			
Investment	23.9	21.3	17.3
Savings	20.0	15.5	17.5
Chile			
Investment	17.8	11.3	13.6
Savings	11.7	1.7	2.4
Colombia			
Investment	20.6	22.7	21.5 ^a
Savings	19.7	17.5	16.4 ^a
Ecuador			
Investment	26.6	25.2	19.6
Savings	20.8	15.5	12.6
Mexico			
Investment	25.1	21.9	16.9
Savings	22.0	17.8	19.2
Peru			
Investment	15.4	22.7	16.2
Savings	16.0	16.1	16.0
Uruguay			
Investment	19.1	14.1	10.5 ^a
Savings	14.7	13.1	10.6 ^a
Venezuela			
Investment	35.2	25.9	11.6
Savings	32.4	20.5	18.2

Source: The data for Argentina, Brazil, Chile, Ecuador, Mexico, Peru and Venezuela are from *World Financial Markets* (1985c), p. 6, table 10, for the 1977-1980 average and they have been calculated from the same table for 1982 and 1984; the data on investment for Bolivia, Colombia and Uruguay have been calculated from IDB figures (various issues); the data on savings for Bolivia, Colombia and Uruguay have been calculated on the basis of figures in CEPAL (1984), pp. 224-5, table 106 and pp. 248-9, table 118.

^a 1983.

a reduction in internal demand (wage restraint, a credit squeeze and a reduction of the public sector deficit). However, with the poor export prospects analysed earlier, exports are unlikely to expand at the rate required, and lower internal demand can only mean lower aggregate demand, which would lead to a further fall in output. This trend is already visible in the key sector of manufacturing, where the fall in internal demand and the consequent drop in output has led since 1981—in the assessment of the Inter-American Development Bank (IDB)—to “an increase in idle installed plant capacity—its utilization fell to levels of almost 50% in several countries—and a consequent decrease in productivity, but the levels of industrial investment have also fallen so low that they will undoubtedly affect the growth potential in the years to come in most of the major producers of the region”.⁶⁰

The same tendency will inevitably continue if poor export prospects are coupled with austerity measures which depress domestic demand. Since low aggregate demand can only divert domestic savings away from productive investment, it is difficult to see how the trend of speculation and capital flight can be reversed. It is true that perhaps the main shortcoming of accumulation in Latin America is that it has never been able to rely sufficiently on domestic savings. Nonetheless, the mistake of the “adjustment” strategies is their assumption that an investment climate can be restored without guarantees that market demand can match supply. With export markets clearly incapable of offering such guarantees, they could only come from an expansion of a long-neglected domestic market—not vertically, as has always been the case since the 1950s, but horizontally, i.e., through a more equal spread of income. This would make both economic and political sense in the context of the opening up of Latin American political systems.

3. *The adjustment and the opening up of political systems*

The issue of adjustment has been raised at a time when the political systems of Latin America are undergoing, or are likely to undergo, fundamental changes. These changes do not relate simply

⁶⁰IDB (1984b), p. 201.

to a return to civilian rule. In most of these countries, the urban labour movement is also emerging as a more autonomous political force which is likely to prove difficult to control through repression or co-optation, as different kinds of régimes have done in the past. As for the long-neglected rural labour force, it too has become more articulate and will undoubtedly present a new challenge in many countries of the area.

It is therefore in a context of political unrest and change that the Latin American governments must develop policies to revive accumulation, restore growth and achieve development. This immediately raises the question of the magnitude of the effort that will be required to reactivate accumulation and its implications in terms of the distribution of income, the level of consumption of the popular sectors, the level of public expenditure, the fiscal deficit and the increase in foreign exchange requirements as a result of the debt burden. In 1984 the IDB issued some projections covering seven Latin American countries which are helpful in assessing the magnitude of the problem.⁶¹ Two scenarios were proposed, both assuming that the countries would "persevere in applying the economic austerity policies initiated during the 1982-1983 crisis. This involves restrictive monetary and fiscal policy measures to hold down any expansion of domestic absorption of resources in consumption and investment such that the sum of domestic expenditure remains within the limits of the real value of GDP".⁶² The main difference between the two is in the level of net external financing required to sustain the hypothesized economic growth rate.

The first scenario postulates a GDP growth rate of 2.7% per annum in 1986-1990, i.e., about half the rate of growth for the 20 years preceding the crisis of the 1980s. In this hypothesis, consumption in the countries concerned should grow at no more than 2.8% per annum (again, about half of the 1960-1980 rate) while investment should grow at 2.9% per annum; the latter would, of course, be a major reversal of the trend seen since 1981, which indicates a fall in gross domestic investment in the countries concerned of 11.4% per year up to 1984 (the last year for

which complete statistics are available). In conflict with the social and political requirements of the new régimes, such an effort would call for tight constraints on the improvement of the living standards of the popular sectors; the scenario in fact assumes that per capita consumption levels would remain at the same level as in 1983, the crisis year, and while assuming no change in income distribution, it suggests that the need to force an equilibrium in the balance of payments might trigger inflation that could "shift the cost of the adjustment in the household sector".⁶³ The scenario would also call for a stepping up of State investment, notably in infrastructure.

In the absence of a major tax reform, this would either conflict with the policy of control over internal borrowing or call for increased external indebtedness. The model allows for an external financing gap of US\$ 4.3 billion per year throughout the period, with an increase in the external debt of the countries concerned of 20% as compared to 1983. Since, at the same time, the payment of interest on the existing debt is projected to be about US\$ 40 billion per year, the scenario calls for a joint trade surplus for the countries in question of US\$ 50.7 billion per year throughout the period. For these purposes the model assumes a rate of growth in export revenues of 11.7% per year during the 1984-1990 period. In the light of the previous discussion this is, of course, a highly questionable assumption; indeed, it has already been disproved by the performance of the economies involved in the two years following the projection: after an increase of 12.7% in the value of the merchandise exports of these economies in 1984, a drop of 5.4% was recorded in 1985⁶⁴ and the declining trend continued in 1986.

The second IDB scenario postulates at GDP growth rate of 5.5% per annum in these seven countries for the period 1986-1990, allowing for a rate of growth in consumption of 5.7%, and assumes a more realistic surplus of US\$ 30 billion. However, this scenario calls for a level of net external financing of US\$ 55.7 billion per year, which, by 1990, would increase the total foreign debt of the seven countries by 75% as

⁶¹IDB (1984a), pp. 49 ff.

⁶²*Ibid.*, p. 49.

⁶³*Ibid.*, p. 63.

⁶⁴ECLAC (1986a), p. 30, table 14.

compared to 1983 and would maintain an interest/export ratio of nearly 30% throughout the remainder of the decade. Again, the external financing requirements of this scenario and their implications make its realism questionable.

This discussion helps to illustrate the conclu-

sion that nothing short of a fundamental reformulation of the present pattern of development seems to offer any hope of real progress. This raises questions concerning the type of reformulation involved, its political pre-requisites and, ultimately, its political viability.

IV

The alternative path: problems and possibilities

1. *The nature of the transformation*

A preliminary *caveat* is called for here. The notion of "another development"⁶⁵ to which the model envisaged here relates, is sometimes interpreted as meaning a return to pre-industrial forms of production, consumption and social relations, with technology being deliberately downgraded and industry taking a second place to agricultural development. While it is clear that the kind of industrial and technological development which has taken place in Latin America has reached an impasse, it should also be clear that the way forward cannot be envisaged in terms of a retreat into pre-industrial society. The Latin American countries have achieved, to varying degrees, a level of industrial and urban development which would make it both undesirable and impossible to make so radical a change in the course that the expansion of industry would cease to be the dynamic factor in the economy and society. The issue is not whether, but what kind of, industrial development should take place.

In this connection, a broad area of consensus has been emerging in Latin America which seems to offer a promising avenue for further reflection on the issue: the concept of "endogenous industrialization".⁶⁶ The reader should not be misled by the semantic similarity of this notion with that of "inward-oriented" industrialization. Endogenous industrialization is indeed oriented towards the national economy,

but it does not entail blanket protectionism or autarkic goals. It essentially calls for the definition of industrialization policy in terms of the needs of the majority as well as in terms of the maximization of its internal linkages and multiplier effects.

This means, first, that the pattern of industrial capacity and output should be oriented towards satisfying the basic needs of the population and, therefore, directed towards mass internal markets. For this to be viable, several closely linked requirements must be fulfilled:

a) The structure of income distribution must be modified so as to contribute to the emergence of a mass market for wage goods. This not only calls for an income policy that is more egalitarian as it relates to industry, but also — as the analysis of the East Asian NICs has shown — for a reorganization of economic and social power relations in the countryside. Agrarian reform, in the East Asian experience, was a central component in the process of generating a market for the goods produced by its nascent industry, while the growing productivity of the latter permitted the growth of real income in both industry and agriculture at the same time.

b) Industrialization should emphasize labour-intensive production so that market demand will be created along with its output. It is also the case that the production of mass wage goods is, all else being equal, more labour intensive than the production of luxury goods. This does not mean that productivity should be sacrificed, but rather that productivity should be conceived in terms of units of labour rather than units of capital or of output. This would also have the advantage of reducing foreign exchange requirements, which have constantly expanded

⁶⁵The best analysis of this concept is found in Nerfin (1977), a collection of pieces which explicitly reject the "fundamentalist", anti-industrial version of the approach.

⁶⁶Fajnzylber (1983); Villarreal (1984).

under the present model due to the technological costs entailed by the need both to satisfy the demand of the higher-income strata of the domestic market and to maintain international competitiveness in manufactured exports.

c) Industrialization should also maximize the linkages within the national economy. This implies increasing the use of local inputs and adapting technology to that aim. A particularly promising area for industrial and technological development is the processing of natural resources, both agricultural and mining. The experience of other countries has shown that these industries can become dynamic poles for development in general. Such industries could include the production of both intermediate inputs and capital goods, the latter being, as is well known, intensive in skilled labour. In this way, a multiplier learning effect can be set in motion.

A fundamental component of the new model would be the relationship between industry and agriculture. It has already been emphasized that agrarian reform is a pre-requisite for balanced development. Two points, however, need to be added. Firstly, the balance between agricultural production for the internal food market and for export crops has to be carefully defined. Food security should be a primary goal of agricultural policy in the new model, but this does not necessarily entail food self-sufficiency. Rather, the basic feature of a food system which provides security is its capacity to make available an adequate internal food supply through production, the management of reserves, and imports to meet the basic food needs of all social groups. Such a system is self-determined in that it minimizes vulnerability to international market fluctuations and political pressures; however, its aim is not autarky but rather dependability, while still taking advantage of the gains to be made from specialization.⁶⁷ There is, therefore, a role for export agriculture in the new models, provided that it is conceived and organized in terms of the needs of the national economy and society (i.e., the provision of foreign exchange for essential imports) rather than of international agribusiness or the domestic agrarian bourgeoisie. The second point to be made in connection with the relation between agriculture

and industry is the need to emphasize the establishment of rural industries. Again, the experience of the East Asian NICs is enlightening in this regard. Rural industries are more efficient in terms of the exploitation of local inputs, of labour intensiveness, of reducing the rural-urban migration phenomenon and of generating demand for manufactured products in the countryside.

The economic viability of the model will depend on a careful management of foreign exchange. As regards the balance of trade, this will involve, firstly, the maintenance (and, if possible, the tightening) of restrictions on imports of consumer durables and luxury goods and the concentration of foreign exchange on imports which are necessary for economic activity (i.e., capital and intermediate goods, spare parts and raw materials). Secondly, it will entail an effort to expand exports, be they primary products, agricultural goods or manufactures. This evidently raises difficult problems concerning the alternative uses of resources which can only be analysed in terms of each particular country's situation, but the issue is common to all cases. Equally, the need to reduce capital outflows—notably external debt service and capital flight—emerges as an inescapable common requirement. The debt aspect also raises complex questions of international bargaining for all the countries concerned, as single-country attempts at obtaining meaningful relief have proven unsuccessful, while collective action has turned out to be just as elusive.

On the question of market orientation and trade policies, this study has emphasized the spurious character of the dichotomy between import substitution and export promotion. What has been wrong is the indiscriminate and excessive protection given to finished manufactured products, notably those for the higher-income markets. Far from setting up a favourable environment for infant industries (one would be hard pressed to call the local subsidiary of a major automobile multinational an "infant"), this has created a veritable "rentier" industry whose dynamic potential is very limited. By contrast, the East Asian NICs exemplify the kind of import substitution that entails a learning process, has export potential and must therefore be highly selective and purposeful. In this way the East Asian NICs experience

⁶⁷United Nations Research Institute for Social Development (UNRISD) (1986), pp. 2-3.

further erodes the notion of static comparative advantage as a criterion for international specialization. Before the complex learning process represented by import substitution started, Korea had no comparative advantage in the steel and shipbuilding sectors; ten years later, it was a leading country in these sectors in the world market. Their experience also casts further doubt on the wisdom of the standard rejection of quantitative restrictions—as compared to tariffs and subsidies—in the choice of instruments of protection. As was stated in a recent assessment, "from the viewpoint of a government such as that of South Korea, which seems to have been concerned to encourage and, at times, coerce private firms to move into particular areas of production, one of the main advantages of using quantitative restrictions is that they provide the firms concerned with a greater degree of certainty regarding market size and hence sales and profitability than do tariffs (unless prohibitive) or subsidies".⁶⁸

The selective and directed form of protection which the alternative model would involve should be defined within the context of the promotion of a meaningful process of regional and continental integration. This is, of course, an issue that goes beyond the area of external trade; there are powerful arguments of a broad economic and political nature for recommending the path of Latin American integration. The point to be emphasized here, however, is the need to recapture the concept of regional integration as part of a genuine move towards continental development and independence. In this sense, the notion would acquire a fundamentally different connotation from the one it had in the 1960s, when it emerged as a way out of the constraints which limited national markets were posing to the *desarrollista* model during the phase when it was oriented towards multinational corporations. The new integration effort should go back to the philosophy that inspired the creation of the Andean Pact, rather than that of the Latin American Free Trade Association.

There is a logical link between this last point and the next major question to be addressed in the formulation of an alternative model: the role of the State. The orthodox critique of the roles

assumed by the State as regards intervention and accumulation, is greatly discredited by the failure of the orthodox option to generate development. On the other hand, a return to the *desarrollista* State in Latin America is no solution: the problems that it encountered and the contradictions that it generated in performing its role of supporting private accumulation still obtain, in particular the virtual absence of a dynamic domestic entrepreneurial class capable of acting as the central agent of the process. Equally, the view that the Latin American countries can somehow reproduce the experience of the East Asian NICs and achieve rapid economic growth within a State-directed capitalist framework is refuted by the preceding comparison between the two cases. The Latin American States cannot benefit from the exceptional historical circumstances which contributed to the degree of autonomy enjoyed by the Korean and Taiwanese States *vis-à-vis* their own societies and which allowed them to pursue a path of accelerated capitalist development. The Latin American nations are already saddled with a structure of economic and political power which is fundamentally inimical to the development of their internal productive forces; at the same time, they cannot ignore the presence and the demands of the popular sectors, particularly, but by no means solely, in those countries where processes of a return to civilian rule are taking place. An inclusionary model of development,⁶⁹ which appears both economically and politically necessary, is at the same time unattainable without a fundamental change in the structure of power and in the very social fabric of the Latin American countries. Such a change would allow the State to assume the role of the central agent of growth, change and development, with grass-roots organization and participation also playing a crucial role in a way compatible with the management of a complex industrial economy.⁷⁰

The role of the State in this model will be both to generate and to capture surpluses for accumulation. One lesson of the Latin American

⁶⁸For discussion of the concepts of inclusionary and exclusionary models see O'Donnell (1973) and Stepan (1978).

⁷⁰There is a rich debate on this issue, both at a general theoretical level and in reference to Latin America. See Bahro (1978) and (1982); Heller (1984); Portantiero (1981); Franco (1982); Bruna *et. al.* (1982).

⁶⁹Fransman (1984), p. 54.

experience is that the two main ways in which attempts have so far been made to generate investible surpluses are to be avoided. These are the "inflation tax" and foreign indebtedness. Both have accelerated the fiscal crisis while failing to raise the domestic ratio of productive investment. Clearly, this failure has not been due to a lack of capital resources in Latin America (as demonstrated by capital flight and speculation), but to an insufficient mobilization of these resources for domestic productive investment. To achieve this objective, the surpluses should be generated through: 1) domestic savings, which—as the examples of the East Asian NICs suggest—are not only compatible with, but indeed increased by, a more equal distribution of income; and 2) the setting up of an efficient capital market for whose successful operation, of course, inflation control is essential.

2. *The path to the alternative model: some problems*

This kind of alternative model faces several problems and obstacles. A matter of particular importance is the transition from the current situation to one in which the introduction of the alternative model can be realistically contemplated as a possibility. In making this transition, the role of the State will also be crucial, but equally problematic. In economies undergoing a crisis of accumulation, the question of the availability of the resources needed both to resume growth and to effect the major restructuring implied in the model is an open one. The problem of ensuring that the very legitimate demands of the popular sectors for an increase in their levels of consumption will be compatible with the need to generate investible surpluses appears particularly intractable. Yet, here again, the lesson to be learned from the East Asian experience is that both classical economics' obsession with sources of income and monetarist economics' preoccupation with absolute income levels as *the* determinant of savings and investment are misplaced. Similarly, the supposed identity between savings and investment postulated by both versions of orthodox economics is refuted by the Latin American experience. As the East Asian cases show, in a context of rising popular income, a wider social spread in the composition of domestic savings can occur

which, if properly channelled by the State, can be mobilized for productive domestic investment in a far more effective way than is made possible by the problematic mobilization of the large individual savings of high-income recipients. State success in attracting voluntary savings and in generating and mobilizing a surplus will be crucial for the overall success of the model, for the State will be called upon to step up the provision of housing, education, health and social security, as well as to oversee the satisfaction of the basic food needs of the population as a whole. A heightened popular demand for such benefits will thus renew the pressure on the fiscal budget which was characteristic of the 1970s and 1980s.

More generally—and contrary to the orthodox prescription—the role of the State will have to be increased, not reduced. Yet it is clear that the type of State required to design and implement these policies is not easily found in contemporary Latin America. The resilience of anti-reformist political forces and the urgency of external pressures for adjustment seem to create an ideal combination for justifying austerity measures which, in turn, can only further postpone the implementation of inclusionary policies. Adjustment programmes based on price and wages controls—such as those introduced by the civilian governments in Argentina and Brazil—are only a temporary answer; price controls cannot be maintained indefinitely, and in the absence of structural change, their release will bring a return of high inflation and, probably, of austerity policies that will cause wages to lag behind. Governments will thus find themselves the target of popular discontent. This may either strengthen the position of the proponents—within the State—of urgent and even radical social change, or lead to attempts at reviving the previous limited co-optation strategies of the populist State.

The populist "temptation" continues to have a strong appeal for many contemporary Latin American governments caught in the web of the many contradictions they have inherited. There seems to be little room left, however, for populist strategies. This is due, on the one hand, to the labour-saving form of industrialization pursued, which in the EOJ stage has, furthermore, been closely geared to norms of international competitiveness involving low industrial wages—a tendency which has been reinforced as

a consequence of the fiscal crisis. The limitations of industrial employment and the restrictions imposed on an expanding urban demand for manufactured goods, together with the curtailment of welfare expenditures, create the least congenial setting for a return to populist solutions. On the other hand, any political strategy must take into account the re-emergence of the land issue within a context which is no longer characterized by the backwardness of agriculture but by its export-oriented capitalization. The latter context is still inimical to an inclusionary model inasmuch as it leads to the concentration of land ownership and rural income, to an erosion of food security and to increases in the cost of wage goods. A populist strategy would be no more able than before to incorporate the radicalized demands of highly mobilized rural popular sectors which are still articulated around the powerful symbol of land redistribution. To the contrary, any populist discourse would now be likely to invoke the argument of agricultural productivity to justify non-redistributive policies.

Just as the policies which led to the crisis were based on excluding large sectors of society from sharing in national wealth and income, the orthodox recommendations for overcoming the crisis would maintain—or even reinforce—these same patterns of social exclusion. This represents a far greater long-term danger than the fiscal crisis. Attempts at revitalizing exclusionary models of accumulation cannot succeed either economically or politically in a context of democratic politics involving highly mobilized popular sectors. They can only succeed in destroying the capacity of the régimes to consolidate their legitimacy based on a broad social consensus that would bring in marginalized popular sectors.

The central issue concerning the political viability of an alternative model of development is the key role that the popular sectors must play in a political coalition which could activate that model. Generalizations for the whole of the continent appear unwarranted here; there is no substitute for the detailed assessment of the political potentialities of each national situation. The diversity of the origins of the various popular sectors, of their composition, evolution and insertion in the different national contexts will

be decisive in shaping the political strategies to be adopted.

It should also be clear that, although the alternative project must be so designed as to command the support of a broad spectrum of the population, it is not a project of "national consensus", since it entails opposing the interests of some specific sectors of society. In general, the capitalist class which has defined its interests in terms of an integration with international capital seems to have no place in the new model, unless it manages to redefine its role. In many countries, too, there will be traditional sectors linked to agrarian interests which will be forced to relinquish their hold over society and the economy. Speculative financial capital, which flourished under the "opening" mode in particular, will also feel threatened.

By contrast, the new model should be able to incorporate the interests of those sectors of industrial capital having a genuine national vocation, which have by and large been harmed by the "opening" model. It should also receive support from the middle class of State managers, professionals and technical personnel. A broad inclusionary coalition of this sort—which, it must be emphasized, will have to be more precisely defined in each specific national context—should be able to form a sufficiently solid front to face what will, in all probability, be the opposition of international capital and the international financial organizations, whose prescriptions for a yet wider opening of the economies and their integration into the world capitalist system will be directly contradicted by the new model. The support of some governments in the capitalist centre—the "like-minded countries", in the terminology of international organizations—could be of great importance in this respect.

To summarize, the contradictions of the new democratic State in Latin America stem from the need to promote an inclusionary development model (which requires stepping up the roles it plays in intervention and accumulation) in a hostile external economic environment and a structurally unbalanced and highly conflicting internal context involving increasing demands from the hitherto excluded sectors. Furthermore, this must be done in a way which minimizes the use of coercion, maximizes the

legitimizing role of participatory ideology and increases welfare activities. This is, no doubt, a formidable challenge. How well State structures

and the leadership of the various components of potential inclusionary coalitions will respond to it remains an open question.

Bibliographic references

- Adams, D.W. (1978): Mobilizing household savings through rural financial markets, *Economic Development and Cultural Change*, vol. 26, No. 3, April, pp. 547-60.
- Adelman, I. and Robinson, S. (1978): *Income Distribution Policy in Developing Countries: A Case Study of Korea*, Oxford University Press.
- Amsden, A. (1985): The State and Taiwan's Economic Development, in Evans P.B., Rueschemeyer, D. and Skocpol, T. (eds.), *Bringing the State Back In*, Cambridge University Press, pp. 78-106.
- Anglade, C. and Fortin, C. (eds.) (1985) (vol. II, forthcoming), *The State and Capital Accumulation in Latin America*, vols. I and II, London: Macmillan, and Pittsburgh: The University of Pittsburgh Press.
- Bahru, R. (1978): *The Alternative in Eastern Europe*, London: New Left Books.
- (1982): *Socialism and Survival*, London: Heretic Press.
- Balassa, B. (1984): External shocks and policy responses in sub-Saharan Africa, 1973-1978, *Finance and Development*, vol. 21, No. 1, March, pp. 10-12.
- (ed.) (1982): *Development Strategies in Semi-industrial Economies*, Baltimore: The Johns Hopkins University Press.
- Bruna, S. et al. (1982): *América Latina: desarrollo y perspectivas democráticas*, San José de Costa Rica: Ediciones FLACSO.
- Búsqueda (1986): No. 321, 27 February, Montevideo.
- Cline, W.R. (1982): Can the East Asian model of development be generalized?, *World Development*, vol. 10, No. 2, February, pp. 81-90.
- Coyuntura Económica* (1984): vol. XIV, No. 3, Bogotá, October.
- (1985): vol. XV, No. 1, Bogotá, April.
- Crockett, A. (1982): Issues in the use of Fund resources, *Finance and Development*, vol. 19, No. 2, June, pp. 10-15.
- Dell, S. (1982): Stabilization: the political economy of overkill, *World Development*, vol. 10, No. 8, August, pp. 597-612.
- Dornbusch, R. (1982): Stabilization policies in developing countries: what have we learned?, *World Development*, vol. 10, No. 9, September, pp. 701-8.
- ECLAC (Economic Commission for Latin America and the Caribbean) (1981) (1983) (1984): *Statistical Yearbook for Latin America*, Santiago, Chile, United Nations publications, Sales Nos.: S/E.83.II.G.1; S/E.84.II.G.2; E/S.85.II.G.1, respectively.
- (1986): *América Latina y el Caribe: balance de pagos 1950-1984* (LC/G.1418), Cuadernos Estadísticos de la CEPAL, No. 10, Santiago, Chile.
- (1986a): *Economic Survey of Latin America and the Caribbean, 1985: Advance Summary* (LC/G.1413 (SES.21/8)), Santiago, Chile.
- (1986b): *Economic Development: An Appraisal, and Projections, 1985-1995* (LC/G.1407 (SES.21/9)), Santiago, Chile, 6 March.
- Evans, D. and Alizadeh, P. (1984): Trade, industrialization and the visible hand, *The Journal of Development Studies*, vol. 21, No. 1, October, pp. 22-46.
- Fajnzylber, F. (1981): Some reflections on South-East Asian export industrialization, *CEPAL Review*, No. 15 (E/CEPAL/G.1187), Santiago, Chile, December, United Nations publication, Sales No.: E.81.II.G.4, pp. 111-132.
- (1983): *La industrialización trunca de América Latina*, Mexico City: Editorial Nueva Imagen.
- Fei, J.C.H., Ranis, G. and Kuo, S.W.Y. (1978): Growth and the family distribution of income by factor components, *Quarterly Journal of Economics*, vol. 92, No. 1, February, pp. 17-53.
- Fitzgerald, E.V.K. (1980): A note on capital accumulation in Mexico: the budget deficit and investment finance, *Development and Change*, vol. 11, No. 3, July, pp. 391-417.
- (1983): The State and the Management of Accumulation in the Periphery, in Tussie, D. (ed.), *Latin America in the World Economy: New Perspectives*, London: Gower, pp. 111-23.
- Franco, C. (1982): Los sujetos sociales y el movimiento para el socialismo, *Socialismo y Participación*, vol. V, No. 20, Lima, December, pp. 81-103.
- Fransman, M. (1984): Explaining the success of the Asian NICs: incentives and technology, *IDS Bulletin*, vol. 15, No. 2, April, pp. 50-56.
- Furstenberg, G.M. and Malkiel, B.G. (1977): The Government and capital formation: A survey of recent issues, *Journal of Economic Literature*, vol. XV, No. 3, September, pp. 835-78.
- Hamilton, C. (1983): Capitalist industrialization in East Asia's Four Little Tigers, *Journal of Contemporary Asia*, vol. 13, No. 1, pp. 35-73.
- (1984): Class, State and industrialization in South Korea, *IDS Bulletin*, vol. 15, No. 2, April, pp. 38-43.
- Heller, A. (1984): *A Radical Philosophy*, Oxford: Basil Blackwell.
- Hirschman, A.O. (1971): *A Bias for Hope*, New Haven, Conn.: Yale University Press.
- Ho, S.P.S. (1971): The Development Policy of the Japanese Colonial Government in Taiwan, 1895-1945, in Ranis, G. (ed.), *Government and Economic Development*, New Haven, Conn.: Yale University Press, pp. 287-328.
- (1982): Economic development and rural industry in South Korea and Taiwan, *World Development*, vol. 10, No. 11, November, pp. 973-90.
- Hyun, K.N., Adams, D.W. and Hushak, L.J. (1979): Rural household savings behavior in South Korea, 1962-76, *American Journal of Agricultural Economics*, vol. 61, No. 3, August, pp. 448-54.
- IDB (Inter-American Development Bank) (various issues): *Economic and Social Progress in Latin America*, Washington, D.C.
- (1984a): *External Debt and Economic Development in Latin America*, Washington, D.C.
- (1984b) (1985) (1986): *Economic and Social Progress in Latin America*, Washington, D.C.
- Kelly, M. (1983): Fiscal deficits and Fund-supported programs, *Finance and Development*, vol. 20, No. 3, September, pp. 37-39.
- Khan, M.S. and Knight, M. (1981): Stabilization programs in developing countries: a formal framework, *International Monetary Fund Staff Papers*, vol. 28, No. 1, March, pp. 1-53.
- Koo, A.Y.C. (1968): *The Role of Land Reform in Economic Development - A Case Study of Taiwan*, New York: Praeger.
- Koo, H. (1984): The political economy of income distribution in South Korea: the impact of the State's industrialization policies, *World Development*, vol. 12, No. 10, October, pp. 1029-37.

- Krueger, A.O. (1984): Comparative Advantage and Development Policy Twenty Years Later, in Syrquin, M., Taylor, L. and Westphal, L. (eds.), *Economic Structure and Performance: Essays in Honor of Hollis B. Chenery*, New York: Academic Press, pp. 135-56.
- Kuo, S.W.Y. (1984): Urbanization and Income Distribution: The Case of Taiwan, 1966-80, in Syrquin, M., Taylor, L. and Westphal, L. (eds.), *Economic Structure and Performance: Essays in Honor of Hollis B. Chenery*, New York: Academic Press, pp. 217-34.
- Kuznets, P.W. (1977): *Economic Growth and Structure in the Republic of Korea*, New Haven, Conn.: Yale University Press.
- Laheza, E. (1985): The transnational corporations and Latin America's international trade, *CEPAL Review*, No. 25 (LC/G.1338), Santiago, Chile, United Nations publication, Sales No.: E.85.II.G.2, pp. 45-65.
- Little, I.M.D. (1982): *Economic Development: Theory, Policy and International Relations*, New York: Basic Books.
- Luedde-Neurath, R. (1984): State intervention and foreign direct investment in South Korea, *IDS Bulletin*, vol. 15, No. 2, April, pp. 18-25.
- Moore, M. (1984): Agriculture in Taiwan and South Korea: the minimalist state?, *IDS Bulletin*, vol. 15, No. 2, April, pp. 57-64.
- Nerfin, M. (ed.) (1977): *Another Development: Approaches and Strategies*, Uppsala: The Dag Hammarskjöld Foundation.
- OAS (Organization of American States) (1984): *Short-Term Economic Reports*, vol. IX, Bolivia (Washington, D.C.).
- O'Connor, J. (1973): *The Fiscal Crisis of the State*, New York: St. Martin's Press.
- O'Donnell, G. (1973): *Modernization and Bureaucratic-Authoritarianism: Studies on South American Politics*, Berkeley: University of California, Institute of International Studies, Politics of Modernization Series, No. 9.
- OECD *Economic Outlook* (1984): No. 36, Paris, December.
- Ong, M.L., Adams, D.W. and Singh, I.J. (1976): Voluntary rural savings capacities in Taiwan, 1960-70, *American Journal of Agricultural Economics*, vol. 58, No. 3, August, pp. 578-82.
- Paukert, F., Skolka, J. and Maton, J. (1981): *Income Distribution, Structure of Economy and Employment - The Philippines, Iran, the Republic of Korea and Malaysia*, London: Croom Helm.
- Pinto, A. (1980): The opening up of Latin America to the exterior, *CEPAL Review*, No. 11 (E/CEPAL/G.1133), Santiago, Chile, United Nations publication, Sales No.: E.80.II.G.3, pp. 31-56.
- Portantiero, J.C. (1981): El socialismo como construcción de un orden político democrático, *Socialismo y Participación*, vol. IV, No. 15, Lima, September, pp. 63-72.
- Ranis, G. (1978): Equity with growth in Taiwan: how "special" is the "special case"?, *World Development*, vol. 6, No. 3, March, pp. 397-409.
- Ranis, G. and L. Orrock (1985): Latin American and East Asian NICs: Development Strategies Compared, in Duran, E. (ed.), *Latin America and the World Recession*, London: Royal Institute of International Affairs and Cambridge University Press, pp. 48-68.
- Rao, D.C. (1978): Economic growth and equity in the Republic of Korea, *World Development*, vol. 6, No. 3, March, pp. 383-96.
- Ro, Y.K., Adams, D.W. and Hushak, L.J. (1981): Income instability and consumption-savings in South Korean farm households, 1965-1970, *World Development*, vol. 9, No. 2, February, pp. 183-91.
- Roemer, M. (1981): Dependence and industrialization strategies, *World Development*, vol. 9, No. 5, May, pp. 429-34.
- Schmitz, H. (1984): Industrialization strategies in less developed countries: some lessons of historical experience, *The Journal of Development Studies*, vol. 21, No. 1, October, pp. 1-21.
- Sharpley, J. (1984): The Potential of Domestic Stabilization Measures in Developing Countries, in Killick, T. (ed.), *The Quest for Economic Stabilization: the IMF and the Third World*, London: Heinemann Educational Books in association with the Overseas Development Institute, pp. 55-85.
- Stepan, A. (1978): *The State and Society: Peru in Comparative Perspective*, Princeton University Press.
- Tanzi, V. (1982): Fiscal Disequilibrium in developing countries, *World Development*, vol. 10, No. 12, December, pp. 1069-82.
- Tobin, J. and Buiter, W. (1980): Fiscal and Monetary Policies, Capital Formation and Economic Activity, in Furstenberg, G.M. (ed.), *The Government and Capital Formation*, Cambridge, Mass.: Ballinger Publishing Company, pp. 73-151.
- Tseng, W. (1984): The effects of adjustment, *Finance and Development*, vol. 21, No. 4, December, pp. 2-5.
- UNRISD (United Nations Research Institute for Social Development) (1986): *"Food Systems and Society": Problems of Food Security in Selective Developing Countries. A Draft Overview Report*, Geneva, March.
- Villarreal, R. (1984): La estrategia de industrialización y comercio exterior en América Latina, *Economía de América Latina*, No. 12, Mexico, 2nd semester, pp. 33-51.
- Wade, R. (1984): Dirigisme Taiwan-style, *IDS Bulletin*, vol. 15, No. 2, April, pp. 65-71.
- Westphal, L.E. (1978): The Republic of Korea's experience with export-led industrial development, *World Development*, vol. 6, No. 3, March, pp. 347-82.
- Wiesner, E. (1985): Domestic and external causes of the Latin American debt crisis, *Finance and Development*, vol. 22, No. 1, March, pp. 24-6.
- World Financial Markets* (1983): June.
 ———(1985a): February.
 ———(1985b): May.
 ———(1985c): September-October.
 ———(1986a): February.
 ———(1986b): March.