

# CEPAL

## Review

*Executive Secretary of ECLAC*  
Gert Rosenthal

*Deputy Executive Secretary for  
Economic and Social Development*  
Andrés Bianchi

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

*Director of the Review*  
Anibal Pinto

*Technical Secretary*  
Eugenio Lahera



UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

SANTIAGO, CHILE, APRIL 1988

# CEPAL

## Review

---

Santiago, Chile

Number 34

---

### CONTENTS

An economic policy for development. <i>Norberto González.</i>	7
An assessment of the structuralist paradigm for Latin American development and the prospects for its renovation. <i>Orvaldo Rosales.</i>	19
An outline of a neo-structuralist approach. <i>Ricardo Ffrench-Davis.</i>	37
Neo-liberalism versus neo-structuralism in Latin America. <i>Sergio Bitar.</i>	45
The challenges facing Latin America in the world today. <i>Guillermo Maldonado Lince.</i>	63
International primary commodity marketing and Latin America. <i>Mikio Kuwayama.</i>	77
Urban employment: research and policy in Latin America. <i>Víctor E. Tokman.</i>	109
Small and medium-scale industry in the development of Latin America. <i>Mario Castillo and Claudio Cortellese.</i>	127
Prebisch's ideas on the world economy. <i>Armando Di Filippo.</i>	153
Prebisch: a classic and heterodox thinker. <i>Benjamin Hopenhayn.</i>	165
Raúl Prebisch central banker. <i>Felipe Pazos.</i>	179
Dependence, interdependence and development. <i>Raúl Prebisch.</i>	197
Recent ECLAC publications.	207

## An outline of a neo-structuralist approach\*

*Ricardo Ffrench-Davis\*\**

In the 1980s, for the first time in four decades, Latin America has been faced with a prolonged period of setbacks in its development. If it is to begin to move forward once again, it will have to formulate new development strategies which will offer a technically consistent and politically viable approach.

The author sets forth a comparative analysis of the neo-liberal and neo-structuralist approaches which covers both their theoretical aspects and their application to the design of public policies. Within the framework of this analysis, his selection of what points to stress among those on which the two approaches differ markedly has been influenced by the state of Latin American development and the outlook for the international economy.

The author illustrates this analysis with examples concerning the economic performance of the region before and after the onset of the debt crisis. In so doing, he draws attention to the underlying theories and the policy recommendations associated with each of these two approaches. Finally, he underscores the need to further develop the neo-structuralist approach, especially as regards policy design (how and when to do what) with a view to constructing a future marked by greater growth, equity and regional autonomy.

\*See the note on the use of the term "neo-liberal" at the beginning of the article by Sergio Bitar in this issue of "CEPAL Review".

\*\*Vice-President of the Center for Economic Research on Latin America (CIEPLAN).

## Introduction

It is no easy task to outline an alternative to the orthodox economic approach. The latter is relatively straightforward and well-defined and has become even easier to characterize since the changes it underwent during the 1970s. The predominance of the monetary approach to the balance of payments has made it even more so, and its economic policy conclusions and recommendations have become more extreme. When the debt crisis began in the early 1980s, the orthodox school of thought—which was partly responsible for it—appeared to be losing ground. This trend was short-lived, however, as may be seen by the fact that the theory and practice of the orthodox or neo-liberal approach have occupied a dominant position in the management of the debt crisis.

Latin America carried out a successful development process during the three decades between 1950 and 1980, when, despite serious shortcomings, it achieved an annual growth rate of over 5%. In the 1980s, however, it has achieved markedly poorer results. Today, it is searching for a new development strategy in line with its new status as a semi-industrialized region and with an international economic situation which is expected to be substantially different in coming years from what it was in earlier decades.

Within this framework, the renewed currency of approaches of a neo-structural character appears to be a highly useful development in connection with the formulation of consistent and effective strategies.

This article, which is inevitably subject to certain limitations and simplifications, includes a brief review of the relationship between structuralism and neo-structuralism in section I. Section II consists of a comparative analysis of the main theoretical features of the neo-liberal approach (also termed "neo-conservative" in the United States, "orthodox", or "monetarist") and of the neo-structuralist approach, as well as of the main economic policy recommendations of the two. The article closes with some brief conclusions in section III.

<sup>1</sup>This school supported excessive borrowing by advocating the liberalization of financial markets and by arguing that going into debt was "good business" and that, if done by private agents, it was a self-regulating process.

## I

## The origin of neo-structuralism

No theoretical approach starts from zero. All build upon prevailing contemporary concepts, either by extension or antithesis. This has been the case with classic, Marxist and Keynesian theory. Under the influence of social and economic phenomena and changes in the alignment of political forces, different approaches rise and fall. Sometimes theories whose roots go far back in history experience a rebirth. One example of this is the monetary approach to the balance of payments, which is reminiscent of the gold standard and the automatic adjustment processes of the nineteenth century.

Creation, whether in a positive or negative sense, is the re-mixing of many different known components, coupled with the addition of some new elements and of others which had been forgotten. This new combination, however, may lead to radically different interpretations and recommendations despite the fact that it shares some components with the opposing approach. One central example of this is the presence of the market. It is not a question of accepting or rejecting it, but rather of the extent of the role it is assigned and of the supplementary and compensatory factors which accompany it.

Structuralism, which has emerged as a vigorous force in the interpretation of the problems of Latin America, has been heavily influenced by Keynesian and post-Keynesian thought. Neo-structuralism, for its part, draws upon the structuralist tradition, but also goes beyond it because its analytical development is strongly oriented towards the design and implementation of economic strategies and policies. There is no question about the fact that it has retained many of the postulates it inherited from the structuralist thinking developed since the 1950s: the existence of structural heterogeneity in national and the world economies; the simultaneity of several deep imbalances; the fundamental role played by institutional variables; the instability and deterioration of the terms of trade; the uneven distribution of the benefits of technological change; etc. Prominent structuralist writers also provided an early warning as to the exhaustion of

the "easy" stage of import substitution and the need to couple it with the promotion of exports (see Prebisch, 1961).

However, structuralism suffered from two shortcomings in the realm of implementation. One was its limited concern with the management of short-term macroeconomic variables, in that the analysis and definition of areas in which action might be taken with respect to fiscal deficits and monetary liquidity occupied a secondary place in structuralist thinking. It did not make a systematic transition from diagnosing the source of such disequilibria to a consideration of appropriate regulatory policies.

Its other flaw was the weakness of its thinking concerning medium-term policies for linking national development objectives with planning, although the fact that it considered them at all was a step forward, in view of the conspicuous absence of the subject in neo-liberal thinking.

One of the reasons for this failing has undoubtedly been the neo-classical school's focus on the examination of extreme positions (e.g., arbitrary protectionism versus totally free trade). This, of course, discouraged structuralism from seeking constructive contributions to policy making and co-optable inputs from the orthodox approach.

Approaches to regulating foreign trade, the definition of the objectives and the regulation of public enterprises, and the examination of alternative mechanisms for promoting investment, creating productive jobs, controlling foreign investment and organizing the financial system generally played no more than a secondary role in the development of structuralist thought. This school did, however, contribute to the progress made in the application of public policies in these spheres. Furthermore, its criticism of the orthodoxy of the time was essentially correct, as was its combination of abstract and historical elements (see Sunkel and Paz, 1970). Particularly noteworthy contributions have been made to the understanding of inflationary processes by such authors as Ahumada, Furtado, Noyola,

Pinto, Prebisch and Sunkel. Nevertheless, no systematic effort was made to formulate economic policies to go along with the structuralist analysis of the situation. The advances made in this sphere, and there were many, were not a central concern.

After the analytical retrogression seen under the globalism of the monetarist approach, the time has come, in our opinion, to restore the structuralist tradition by incorporating into it a systematic concern with the design of economic policies. Macroeconomic equilibria, the co-

ordination of short-term and long-term measures, initiatives aimed at ensuring that the public and private sectors will act in concert with one another, the building of structures of production and management which will entail a greater degree of equality, and the consideration of strategies and policies which will permit greater national autonomy are all highly important aspects in this respect. This is what might be called "neo-structuralism", whose most outstanding feature is that it offers selective policies in contradistinction to the theoretically neutral policies of neo-liberalism.<sup>2</sup>

## II

### Neo-liberalism versus neo-structuralism

The comparative analysis made in this section between the theoretical approaches and policy recommendations of neo-liberalism, on the one hand, and those of what might be characterized as neo-structuralism, on the other, inevitably involves some overlapping of the various elements into which each approach will be broken down. The reader should note that the sole purpose of this outline is to illustrate those features which best describe the basic nature of each paradigm, with emphasis on the main points upon which they differ.

Obviously, many of the specialists in the North who move in academic circles associated with the neo-classical tradition do not share all of the beliefs or characteristics which are ascribed to the neo-liberal school in this analysis.<sup>3</sup> The classification outlined below is chiefly based on those postulates which have figured prominently in the recommendations and pressures directed towards the developing world in

recent years, rather than on the "middle-of-the-road" positions of the neo-classical tradition. It also reflects the interpretations, arguments and policies used in the Southern Cone during the 1970s and in three or four Latin American nations during the 1980s (the most notable case being that of Chile). Nonetheless, the extreme expressions of these theories in their pure forms are more often found in textbooks and intentions than in real life. The neo-liberal approach might be, for example, summed up by the following elements: the new type of conditionality which figures in the Baker Plan; the set of theoretical and policy propositions which go to make up the monetary approach to the balance of payments; and the proposals for a "financial deepening or liberalization" which gave rise to the financial reforms instituted during the 1970s in the Southern Cone and other countries.

The following outline compares the neo-liberal and neo-structuralist approaches, first in relation to their theoretical features and then as regards their policy recommendations.

<sup>3</sup>For example, the inputs provided by such specialists in relation to the implications of product differentiation, economies of scale, the learning process and dynamic externalities play a very important role in the neo-structuralist approach and help to give it a more formalized character. Generally speaking, the recommendations of the neo-liberal school often overlook these aspects.

<sup>2</sup>This refers to the "neutrality" of the target policy (e.g., a free trade policy which seeks to treat all types of goods equally). However, the transition from the prevailing situation to the target policy is not neutral.

## A. THEORY

### *Neo-liberal paradigm*

1. An adjustment is quicker and more benign in a liberalized economy. Tends towards theoretical propositions which work with marginal changes in a homogenous economy.

2. A static comparative analysis; focuses on microeconomic efficiency, while failing to give sufficient consideration to the macroeconomic effects on employment, distribution and productive investment.

3. Tends to consider just one disequilibrium at a time, which is assumed to be the result of ill-advised public policies; Pareto's optimum state is regarded as attainable.

4. Only one policy tool is used for each problem to be analysed, although this is not seen as precluding the application of economic policy packages.

5. Economics is a science which provides the same answers for the same problems in each case, regardless of the historical, political and economic contexts of the analysis.

6. Economic liberalization ensures the deconcentration of political power. Extensive economic freedom is postulated as a pre-condition for full political freedom.

7. Advocates economic internationalism and assumes that there is a trend towards the obsolescence of the nation-State. The main unit of analysis is the microeconomic unit.

### *Neo-structuralist paradigm*

1. Adjustments are slow and/or may produce disequilibria in a heterogeneous national economy; the costs of the transition greatly affect the final equilibrium, depending on what course the adjustment process has followed.

2. The analysis takes the dynamics of adjustment processes into consideration; the search for macroeconomic efficiency predominates and takes into account the effects on the rate of utilization of production resources and on physical and human capital formation.<sup>4</sup>

3. Acknowledges the existence of many different disequilibria and maintains that a number of them are of a structural origin. The quest for efficiency is seen within the context of a real "sub-optimal" ("second-best") world.

4. Considers the simultaneous application of a package of policies to deal with a group of problems, establishing priorities as regards the timing and intensiveness of each policy.

5. The answers may vary, according to the point in time concerned and the prevailing institutional structure.

6. Selective economic regulation and an improved distribution of power buttress one another. Excessive economic freedom is conducive to concentration among small groups.

7. The main unit of analysis is the nation-State. Attention is focused on the deliberate (as opposed to spontaneous) maximization of national social well-being.

<sup>4</sup>One undoubtedly very significant orthodox theoretical proposition refers to human capital formation. Nonetheless, orthodox stabilization and macroeconomic adjustment policies frequently end up discouraging human capital formation and reducing expen-

diture on research, the funding for education and the rate of utilization of available resources.

## B. POLICY RECOMMENDATIONS

### *Neo-liberal paradigm*

1. Passive government and neutral economic policies.

2. No public interference in production; any possible redistribution is only *ex post*, primarily through monetary transfers.

3. The State is not a producer. Privatization of public enterprises. Emphasis on private capitalist enterprise.

4. Atomization of economic agents; disincentives in relation to unions and professional associations.

5. Neutral tax system, except for incentives to promote private saving and investment.

6. Free financial system which spontaneously guides the structuring of the supply and demand for goods and services; flexible interest rates freely determined by the market. Central Bank independent from political authorities.

### 7. Free trade

a) Indiscriminate and unilateral opening up of the economy to the entire world, regardless of prevailing trends on international markets; "small country" incapable of influencing external environment.

b) Low and uniform nominal tariff, with the objective being to bring it down to as close to zero as possible; elimination of non-tariff mechanisms.

### *Neo-structuralist paradigm*

1. Active government and selective economic policies.

2. Selective intervention in the production system in order to create greater equity: production to satisfy basic needs, services which equalize opportunities, labour-intensive activities.

3. Pluralism in the forms of ownership and management, which include public enterprises playing an active leadership role in priority sectors and various types of private enterprise. Public and private enterprises are regarded as being complementary.

4. Development of intermediate bodies: unions, co-operatives, neighbourhood councils, professional associations, etc.

5. Progressive taxation system which redistributes expenditure and reallocates production resources.

6. Financial system regulated so as to serve the purposes of productive development, with regulated real interest rates and preferential access and interest rates for small and infant producers. Central Bank subordinate to the Executive Branch, on a level similar to that of fiscal policy and productive development.

### 7. Selective insertion

a) A gradated process, influenced by the functioning of the international economy; preferential treatment for countries participating in integration processes and negotiated trade with the country in question.

b) Differentiated effective tariff; use of non-tariff mechanisms in response to external instability as a means of directing State purchases and regulating certain types of transactions among subsidiaries of transnational corporations.

- c) Export promotion by means of the exchange rate and the liberalization of imports; diversification of products and markets is seen as the spontaneous result of free trade.
8. Unified exchange rate: free rate (closed economy monetarism after the style of Friedman) or fixed rate (monetary approach to the balance of payments). Assumes that the government cannot modify the real market exchange rate, except in the short run.<sup>5</sup>
9. Capital movements (whether of credit or foreign investment) should not be regulated and their allocation should be determined by the market; foreign investment should compete freely with national entrepreneurs, without sectoral restrictions.
10. Comparative advantages are well-defined and easily identifiable in a free market. No production sectors carry a special priority.
- c) Differentiated compensatory subsidies; negotiation with other governments and transnational corporations with a view to gaining greater access to external markets.
8. Regulated real exchange rate: unified or dual, depending on the differences between the behaviour of trade in goods and services and capital movements; crawling or programmed rate, with "mini-adjustments".
9. Capital movements should be regulated in order to avoid macroeconomic impacts that would result in disequilibria; their use should be directed towards compensating for fluctuations in the terms of trade and complementing domestic savings; foreign investment should be admitted on a selective basis with a view to promoting inputs of technology and access to external markets.
10. There are open-ended comparative advantages in sectors where such advantages are acquirable; national development is based on efforts to acquire comparative advantages, which should be selective.

### III

## Some concluding remarks

The substantial difference between these two approaches comes down to being a matter of degree as regards the homogeneity and integration of markets, products and factors. The neo-liberal school of thought assumes that, in the absence of governmental restraints, markets are homogenous and integrated; market signals are therefore believed to be free-flowing, transparent and marked by high inter-market and inter-

generational price elasticities.<sup>6</sup> Consequently, it does not acknowledge the existence of structural disequilibria, except those generated by the State. It also maintains that the dissimilarities among the existing capacities of different factors are due to natural elements; if a decision is made

<sup>5</sup>At the theoretical level, this idea retains much of its force. Nevertheless, since the beginning of the debt crisis "crawling-peg" policies have predominated.

<sup>6</sup>According to this last assumption, one generation would not irresponsibly go into debt at the expense of subsequent generations. Similarly, the extreme argument is made that it does not matter whether fiscal expenditure is financed by present taxes or by borrowing (which would involve future taxes). This orthodox theoretical concept is not generally reflected in the neo-liberal recommendations directed to Latin American nations.

to compensate for these differences, then this should be done outside the bounds of the production system.

Paradoxically, the policy recommendations derived from the microeconomic theory of price optimization on which neo-liberalism bases its policy recommendations, is founded upon the "maximization" of liberalization. It does not recognize the existence of intermediate points between the extremes. One example of this is the management of the exchange rate, inasmuch as this approach shifts abruptly between recommending absolutely free and absolutely fixed exchange rates.<sup>7</sup> The manifest force of circumstance has obliged the neo-liberals to accept (although often only temporarily) "mini-adjustment" policies. This new exchange rate policy, which made its debut two decades ago, may be characterized as a neo-structuralist contribution.

The neo-structuralist approach ascribes a vital role to structural heterogeneity. This includes, *inter alia*, the heterogeneity of external markets; the heterogeneity of different phases of the economic cycle (i.e., differing market responses during recessions and economic booms); the varying response capacity to the stimuli affecting regions or market segments (large and small, peasant and urban, infant and mature enterprises); the differing degrees of resource mobility and price flexibility; and the possibly perverse dynamics of macroeconomic adjustment processes, depending upon the intensity of the response made by different sectors and markets and upon the perceptions or expectations of economic agents.

<sup>7</sup>In another sudden move, neo-liberalism abruptly modified its proposals for monetary and exchange rate policy. In the 1950s and 1960s, this school recommended the use of the money supply as a means of controlling inflation and of the free exchange rate as a means of restoring the balance of payments to equilibrium within a Friedmannesque world. During the 1970s, however, these same neo-liberals threw themselves wholeheartedly into the use of monetary policy as a means of placing the balance of payments in equilibrium and of the exchange rate as a means of regulating the rate of inflation. This constituted a spectacular leap from closed to open monetarism (the monetarist approach to the balance of payments). Such sharp turnabouts are facilitated by the assignment of a single policy to each problem. The author's criticism on this point does not preclude an acknowledgement of the fact that there are policies which produce more significant effects in given spheres and that they should therefore be used chiefly for that purpose.

This is illustrated by the genesis of the present debt crisis. Some economic agents failed to grasp a number of facts including the following: a) that the international private capital market was "coming of age", and that therefore net capital flows, which had been very large during its formative years, might be sharply reduced as the market approached maturity (i.e., to equilibrium levels); b) that with the freeing of capital movements, the structures of production and domestic expenditure adapted to the existence of large financial flows; c) that, perversely, the exchange rate became geared to financial rather than real forces (i.e., currency revaluations despite the presence of growing deficits on current account); and d) that external credit was siphoned off for consumption because economic agents assumed that the flow of funds and the flexible interest rates would remain at levels favourable to debtors for an extended period of time. Hence the neo-structuralist recommendation of regulating capital movements, exchange rates and trade policy and of applying a productive development policy, of directing resources towards investment, and of promoting the acquisition of comparative advantages as a means of creating and taking advantage of greater opportunities for investment and innovation.<sup>8</sup>

Latin America's adjustment in the aftermath of the debt shock is another case in which the two approaches take different paths. The adjustment has primarily been based on demand-reducing policies. Policies designed to bring about the switching of supply and of expenditure have played a minor role, as attested to by the sharp decline in economic activity observed in Latin America. The neo-liberal response to a deficit on current account tends to be to reduce aggregate demand, even if this means that production then decreases, investment shrinks and demand must be further reduced in order to follow production in its downward spiral.

Neo-structuralism stresses a more balanced combination of a decrease in aggregate demand with reallocative policies. Certainly, the size of the deficit was indeed too great to be sustained

<sup>8</sup>These things are not easy to do. Clearly, a *laissez-faire* policy is very simple to design, as is arbitrary interventionism; any more efficient policy, however, must be more sophisticated and complex.

since, as noted earlier, the net inflow of external funds during the 1970s was excessive. Neo-liberalism, however, by recommending the regular payment of interest on the debt and neutral policies, led to an over-adjustment. In any event, an adjustment was inevitable, even if the countries had succeeded in making an optimum arrangement (i.e., net transfers near to zero) with their creditors.

What needed to be adjusted was the excess of demand over domestic supply, which was being met by an unsustainable volume of external resources. If, however, production declines during the adjustment process, this then exacerbates the problem because it makes necessary a further drop in demand; in its turn, will pull down investment, which will be discouraged by the underutilization of installed capacity and by a recessionary macroeconomic situation. This is the basis for recommending selective policies in connection with public expenditure, taxation, credit and trade which, in combination with the exchange rate policy, will help to:

a) Localize the reduction of aggregate demand in those of its components in which decreases are sought (expenditure on foreign goods), while maintaining effective demand at levels commensurate with the existing production capacity.

b) Strengthen capital formation, rather than weakening it. Since aggregate demand must be lowered, it is therefore necessary to reduce its other component: consumption. The two approaches again part ways here, with the

options being either to lower wages and/or employment, or to reduce non-essential consumption.

This debate is of great significance for the future. Neo-liberalism places great faith in the efficiency of the traditional private sector and is extremely mistrustful of the public sector. In contrast, neo-structuralism requires that the State play an active role. It bears repeating that this last task is not an easy one. This being so, in order to remain true to the concept of "structural heterogeneity", it is therefore necessary to be selective: the number of actions undertaken by the State must not exceed what it is capable of carrying out on a socially efficient basis, and it must concentrate its efforts in those areas where it can have the greatest macroeconomic impact.

The identification of the most socially productive spheres for State action, and the formulation of criteria for ascertaining the optimum degree of public intervention in each, are areas in which more intensive research is needed.

In part B of section II a number of strategic areas were identified. Some of these have been examined in depth, such as exchange policy and interest rates; others have been discussed less fully, such as the design and implementation of an efficient and dynamic process for identifying and utilizing acquirable comparative advantages, the organization of efficient public enterprises, and the establishment of clear guidelines concerning the optimization and concerted action of the various sectors of production and of society.

### Bibliography

Prebisch, R. (1961): Economic development or monetary stability: the false dilemma. *Economic Bulletin for Latin America*, vol. 6, No. 1. ECLAC, Santiago, Chile, March.

Sunkel, O. and Pedro Paz (1970): *El subdesarrollo latinoamericano y la teoría del desarrollo*. Mexico City: Siglo XXI Editores.