

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



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C E P A L

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Address delivered by Dr. Raúl Prebisch at the
twenty-first session of ECLAC
(Mexico City, 24 April 1986)

Mr. President, Mr. Executive Secretary, officers of the Session and participants in this Conference: Yesterday we listened to a memorable speech by the President of Mexico in which he referred in unequivocal terms to the need for a renovation of ECLAC's thinking: a suggestion which is of course stimulating to those of us within ECLAC who are of the same mind.

In the face of the tremendous problems—all of them highly complex—which Latin America and the Caribbean are having to face today, an overhauling of ideas becomes an inescapable necessity. Nor has it been a matter of concern only in recent years, but has long been claiming attention. The dramatic character of current events, however, demands that the task recommended to ECLAC by the President of Mexico should be embarked upon with special vigour. What are the reasons for this? There are many. From the internal standpoint, the most important relates to the implications of the radical changes that have taken place in the structure of society and in the power relations that so strongly influence income distribution and, in the last analysis, capital accumulation.

To put it briefly—since this is not the occasion for academic disquisitions—I would say that the form of accumulation of reproductive capital—that is to say, of the capital that multiplies income, employment and productivity—is out of step with the structural changes that have occurred in our societies. The fruits of the considerable technical progress that has been achieved in recent decades have been largely concentrated in privileged strata whose dynamic mission should be (as it has been in the history of capitalism in the centres) capital accumulation. The primary source of capital accumulation ought to be, according to the system, precisely in those privileged strata.

But what has happened in our countries in these decades of which I am speaking? There has been frenzied imitation of the patterns of consumption of the centres. With a much lower level of productivity, we are racing to copy the consumption patterns of the centres, where capital accumulation and productivity have been developing for a very long time indeed. In other words, the mission of the privileged strata has been fulfilled only in part, because another part of the fruits of technical progress has been allotted to the privileged consumer society. I think we must recognize this fundamental fact: in some countries to a greater, in others to a lesser degree, the imitative consumption of the upper strata has militated against capital accumulation and, in consequence, has limited the productive absorption of manpower, which has largely been left to drag along at the bottom of the social structure. Unemployment and underemployment are ever-present witnesses of these facts.

The time has gone by, however, when the labour force of Latin America and the Caribbean submitted meekly to the market laws, and when the State maintained a *laissez-faire* attitude in respect of income distribution. This is manifest everywhere, although in different degrees. What is happening, then? As these new situations are brought about, new forms of private and social consumption on the part of the labour force emerge, not at the expense of the privileged consumption of the well-to-do strata, but superimposed upon it, just as the sometimes hypertrophic development of the State, which increases public spending, generally does so over and above privileged consumption rather than to its detriment. I am referring not only to civil expenditure but also to military expenditure, which in some instances has soared to impressive figures.

Accordingly, there has been a superimposition of forms of expenditure whose aggregate increase tends to outstrip the growth rate of productivity; and inflationary phenomena then supervene that are different from those we have seen in the past and that cannot be dealt with by what were once effective methods. A restrictive monetary policy was efficacious in former times,

under our countries' bygone type of capitalism, in controlling or correcting inflation; today it is so no longer. I am not criticizing central banks and governments which have had to resort to that instrument, for the simple reason that they have hitherto had no other at their disposal. The system as it stands affords no other way of combating the trend towards dynamic imbalance between expenditure and reproductive capital accumulation. But this does not mean that the effects of monetarism are not serious. They are in fact grave to the extreme, since in essence the philosophy of monetarism, though not always clearly expressed, is that of bringing about a contraction of the economy, with consequent unemployment, until the trade unions resign themselves to accepting lower real wages and to the impossibility of recouping the other burdens laid upon the workers.

Perhaps this sacrifice would be excusable if it permitted the fundamental solution of the problem, but that is not so, and this decisive fact must be recognized. An adjustment which leads to unemployment and a fall in real wages cannot be kept up as a permanent situation, for increasingly powerful economic and social forces exist that are fighting for the recovery of employment and wages. It is inconceivable that the labour force should renounce its claims; on the contrary, it will reassert them, and a new inflationary spiral will be triggered off. What does all this mean? That as the system stands, the brunt of an adjustment to control inflation has to be borne by the weakest elements of that system, who are compelled to retrace the forward steps they had taken, so as to provide means of covering the State expenditure that has proved impossible to curtail, and the privileged consumption of the well-to-do strata. Herein lies the element of social inequality, of inequity, which is due, in the last analysis, to the *modus operandi* of the system. I make these observations because I am convinced that in stabilization and capital accumulation policies, a renovation of ideas is called for.

The manifest crises we are witnessing fully justify such a renovation process in these fields. But not only there, Mr. President. In ECLAC from the very outset we have dissented strongly from certain opinions of the International Monetary Fund. The Fund has always counselled our countries to adopt external adjustment policies which also fall most heavily upon the weakest elements in the system. If there is a balance-of-payments deficit, we are recommended to cope with it by means of a contraction of the economy, until the relation between exports and imports recovers its balance. In ECLAC we have systematically attacked this aberrant method of restoring external equilibrium. It seems to have reared its head again, however, over the problem of the debt. What does this mean? Once again the burden of adjustment is laid on the weakest elements of the international system, namely, our countries. They have to adjust their balance of payments, compress their economy, restrict their imports, in order to generate a surplus for the purpose of servicing the debt. Herein there is an unacceptable asymmetry. While the international commercial bankers have continued to enjoy enormous profits, the adjustment has to be borne by the weakest links in the chain.

On this problem of the debt, the most burning question at the present session, I am only going to make the following remark. One of the reasons —very laudable, no doubt— that governments adduce for not taking unilateral measures is that they would have long-term effects on the foreign investment which our countries need, above all during periods of very low capital accumulation. It is understandable, therefore, that this far-sighted caution, combined with other well-known considerations, should prompt us to make a sustained effort to continue negotiations. For how long? That is unpredictable. But implicit in this situation there is an enormous risk, for if negotiations of this type drag on while the reanimation of the economy has to be deferred in order to generate resources with which to cover service payments, no foreign capital will arrive: it will not come to economies that are not growing or are declining and that are subject to increasing social pressures.

This is a dilemma which must be clearly seen; no solution for it will be reached in the absence of a political decision on the part of the governments of the creditor countries. Why a political decision? Because the origin of this problem is political. The Eurodollar market was born of a political position on the part of the larger countries, especially the United States. Leaving the Eurodollar market unregulated, despite the warning voices that were raised at the time, was a political decision. Covering the fiscal deficit of the United States, not in the traditional and orthodox fashion through

an increase in taxes and a reduction of expenditure, but by absorbing domestic saving and gigantic quantities of saving from the rest of the world through astronomically high interest rates, is a political decision. How then can we do other than maintain that the debt problem is essentially political? Because of the nature and origin of this situation, and because of the serious consequences that its persistence will imply for all the countries affected and, in the last resort, for the industrial centres, too, it calls for a forward-looking approach and for understanding of the dangerous threat to the world economy that it involves, since it is not only the problem of the debt that is at issue, but also, as has been said over and over again at the present session, other problems which are superimposed upon it.

I should also like to comment —since we are talking of the renovation of ideas, of ideas that lag behind events— on the foreign trade policy of the Latin American countries. When did import substitution begin in Latin America? During the great world depression, when the monetary policy of the United States and the enormous rise in customs duties shattered the whole system of bilateral trade and payments that had been working very well. The slump in our countries' exports was formidable, and import substitution was the only way out. I had an active part to play at that time, and I do not remember that in the prevailing situation there was anyone crazy enough to say "The thing is not to substitute domestic production for imports but *to export manufactures*". Export manufactures where? To a world that was out of joint and where protectionism was a normal way of safeguarding economies? Import substitution was the only solution possible. It was not a doctrinaire imposition. It was imposed by force of circumstances. Then came the difficulties of the postwar period, until at last, with Europe reconstructed and the world economy set on its feet again, the opportunity and the need to export manufactures did arise.

Some Latin American countries seized the opportunity and very intelligently turned it to account. Others, through inertia, continued to pursue import substitution policy alone, came late to exporting manufactures and generally did so intermittently, with no firmness of purpose. However, when the countries in the former group had gained considerable competitive capacity through the acquisition of new technologies, they found themselves faced with increasing protectionist measures: a great contradiction between expectations and reality. An additional handicap was the slow growth rate of the centres. All this, too, confronted us with the need to reconsider our ideas: not to engage exclusively either in import substitution or in exports, but to combine the two. It is somewhat encouraging that the World Bank is at last recognizing this need to combine import substitution and exports of manufactures. It has been reluctant to see things in this light, but it is doing so today.

Incidentally, I should like to recall that a quarter of a century ago, in 1961, ECLAC pointed out, in the studies it presented to the governments, that industrialization policy in Latin America had been asymmetrical, since it had encouraged import substitution (that is, industrial production for the domestic market) but had not provided equivalent incentives for the export of manufactures. It therefore recommended combining the two measures. That is what we said then, and what has been reiterated in the latest issue of *CEPAL Review*, which has just come out; but it is still often alleged that ECLAC is responsible for the continuance of a unilateral policy in this respect.

This is not a question of doctrinaire preferences. The extent to which our countries should go on combining import substitution with exports depends upon the receptive capacity of the centres. If the growth rate of the centres remains far below what it was in the past and protectionist measures continue to proliferate, the need for import substitution will be much greater than if thriving developed economies throw open their doors to exports not only of manufactures but also of primary products from the developing countries. As I said, everything ultimately depends on the receptive capacity of the centres; the need to export is not a whim of the developing countries, but a requirement of their growth. And if some day, as I hope, we manage to attain growth rates which allow us at least to absorb the increment of the labour force, a much greater foreign trade effort than any that is being made at present will be indispensable. Furthermore, import substitution (which will have to be continued although, as I indicated, to an extent in accordance with international

circumstances) will provide a very broad field for the transfer of technology and for competition on the part of foreign firms, either alone or in combination with national enterprise, whether public or private. That would open up a vast area for international co-operation. It is the centres, therefore, that will determine the intensity of substitution policy, which has to be concerted between two or more countries, for well-known reasons.

As if these phenomena did not provide sufficient matter for deep concern on the part of the Latin American countries and were not among the problems that call for new ideas in accordance with the initiative of the President of Mexico, there are still others that can only be mentioned in passing in this rapid review of the problems that take up our thoughts. I should like to refer, for example, to international monetary reform: a topic which comes to the fore from time to time and which now ought to engage our attention much more closely, if we are not to find ourselves in the position that Keynes described in a confidential note to his government during the deliberations at Bretton Woods, in which he complained that the presence of the developing countries might turn the meetings into a "monkey house". The truth is that I think there must needs be such a "monkey house" if, in the future, the reform of the international monetary system is mooted.

Gentlemen, I have seen at first hand and suffered in my own country the effects of the gold standard: the extreme vulnerability that the gold standard signified for our economies. But the gold standard, which did have elements of containment of the arbitrary creation of international currency, was abandoned, and its place has been taken by the dollar standard, with the result that the creation of money no longer depends upon world requirements, but upon the internal needs of the country in which this privilege of creating currency is invested. I greatly fear that many of the phenomena we have seen in the last fifteen or twenty years are imputable to this switch from the gold standard to the dollar standard. There have been two phases in the monetary policy of the United States: one of euphoria, in which the creation of money overflowed the bounds of that country and generated seeming worldwide prosperity, until that very prosperity began to have increasingly inflationary effects; and another, in which inflation finally compelled the United States to control it, but this was done by means of monetary restriction and by raising interest rates. First, worldwide monetary expansion, then the siphoning-off of resources from the rest of the world. A serious state of affairs for our countries, and one with respect to which our ideas must likewise be overhauled.

Nobody is in possession of the revealed truth today, gentlemen, neither in the North nor in the South. We all catch glimpses of the truth, we have carried out analyses, some of which are promising, but we cannot accept what the North thinks as the revealed truth. I have every respect for the ideas of the North, but they must not necessarily be taken at their face value. It is essential that some day all of us, those of the North and those of the South together, set ourselves to explore the nature of our problems, discarding dogmas and preconceived ideas, until we reach a measure of common ground. For I am convinced that, once their industrialization has been achieved, the developing countries could play a meaningful dynamic role in the development of the economies of the northern hemisphere. We are wasting this opportunity. We must arrive at formulas which are not those of the past: formulas of understanding on the questions to which I have referred and on many other matters, such as capital accumulation and foreign investment policy. That is all, gentlemen. Thank you.