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Adjustment, redeployment or transformation?

Background and options in the current situation

by Pedro Sáinz*

Since 1973, the Latin American countries have had to adjust to a world economy and a world trade situation which are characterized by slow growth and instability in the central countries. Between 1974 and 1980, the region managed to remain relatively dynamic, considering the internal circumstances. Most governments seemed to take the attitude that the crisis was mainly conjunctural in nature, although they did acknowledge the existence of some structural elements as well.

In 1981 and 1982, as the signs of recession were accentuated, it became obvious that there were certain aspects of the crisis of the central countries that were definitely structural in nature. The region suffered simultaneously the 'impacts' of the deterioration of the terms of trade, the rise of protectionism and the increase of interest rates on an external debt which had grown excessively, especially as regards the short-term component thereof.

The author presents background information which should be useful in the redefinition of policies which is made necessary by the situation. It has now become evident that marginal changes will not suffice; the magnitude of the challenge has proved them to be of little use when they have been attempted. Hence the need to gather background information on the structural aspects of the situation.

Although in some ways the crisis is similar to that of the 1930s, there can be no question that today the region is quite different and that international relations are also different. The author therefore makes an assessment of the 1970s in order to reach conclusions regarding the structural conditions that exist at the beginning of the 1980s.

He then presents a brief description of the problems facing governments under the current circumstances. He also outlines two prototypes of policy options based on whether the crisis is considered to be conjunctural or structural in nature.

Finally, taking the long-term standpoint the author examines certain elements pertaining to economic dynamism, income distribution, external economic relations and the sectoral structure that should provide the framework within which economic policies for the situation may be outlined.

Introduction**

The serious economic situation in which most of the Latin American countries find themselves at the beginning of the 1980s is causing them to make more or less profound changes in their economic policies.

During the crisis of the 1930s, the countries applied certain economic policies which greatly influenced the subsequent development of the region; today, in the face of a dilemma in which some of the important features of that time appear to be reproduced, it seems essential to gather as much useful information as possible in order to study what policies should be applied in dealing with the current crisis.

In this paper, three types of information are discussed. First, an appraisal is made of the economic aspects of the 1970s; the results of this appraisal provide some of the data which must initially be borne in mind in designing a policy for the 1980s. Different positions have been taken *vis-à-vis* these results by those who stress the importance of transforming production and finding new forms of international insertion and those who emphasize the fact that structural problems still remain. For this reason, the first section is devoted to a review and assessment of the appraisals of the development process that were made during the 1970s, considering that we are now in a better position to look back at the decade as a whole.

In the second section, the current situation is discussed and an analysis is made of the factors that brought about the crisis, the main problems arising from it which require short-term solutions, and two strategic options to be used in considering the possible orientation of conjunctural economic policies.

Finally, some of the components that should be included in a conjunctural policy are explored from the standpoint of a vision of de-

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velopment which is aimed at solving the main structural problems that remain despite the sometimes profound changes that have taken place in the region.

I

Appraisals of development during the 1970s

A review of the numerous appraisals of the development process of the Latin American countries that were made during the 1970s will allow us to make some comments that might be useful in designing policies for the 1980s. Since different conclusions were reached in the different appraisals, we must in the first place set forth some of the criteria on which they were based. We shall then present the main conclusion of these appraisals, distinguishing between those which stress the successes achieved and those which refer mainly to negative results. This section concludes with an overall evaluation of the trends noted during the 1970s, for which we are able to take advantage of the hindsight we now enjoy.

1. *Criteria used in making the appraisals*

The diversity of the conclusions reached in the different evaluations is to a large extent a measure of the differences between the various criteria on which they were based.

The dimension of time is one of the most important of these criteria, as many of the evaluations were aimed at assessing the results of short-term economic policies. The conjunctural nature of these exercises is shown by the fact that they attribute a central role to the results obtained in aspects such as inflation, open unemployment or variations in the reserves. Other appraisals, on the other hand, concentrated on the structural aspects, assessing the changes brought about over the medium and long term and attributing special importance to factors such as the transformation of production, technological and social change and the nature of external economic relations.

The influence of time-oriented approaches in the evaluation of results becomes evident when one takes into consideration the sharp contrasts between different periods of the

1970s as regards short-term indicators—for example, in the economic growth and balance-of-payments series—and the factors implicit in those indicators, such as the international economic situation, socio-political organization and the principles guiding the international economy.

The model or pattern used as a standard for each appraisal also helps establish the differences between them. In this regard, there is great diversity: the evolution of the Latin American countries during the 1970s is compared with previous periods, or with what happened in the central countries, or even with paradigms taken from Marxism, neoliberalism or the CEPAL view of development.

Finally, another important criterion is that of the scope of the appraisal, which may be wide ranging and not be broken by social groups, if the object of the appraisal is the 'country as a whole', or, on the other hand, it may have a different scope if it assesses the situation of one or several specific social groups.

In considering the conclusions which are discussed below, it is important to bear in mind the differences between the criteria used and not to forget that the past decade was characterized by its contrasts. At the temporal level, there was a succession of periods of economic boom, contraction and uncertainty. As regards the orientation of policies, there was a wide variety of schemes, some of which were based on doctrines as disparate as Marxism and neoliberalism, and the contrast between the results obtained by different countries and social groups is no less sharp. Hence, in considering the successes and failures of the decade, it must be borne in mind that no general conclusions can be applied without proper study to any particular country.

2. Positive and negative findings in the appraisals of the 1970s

In the compilation of findings which follows, emphasis is placed on aspects of a structural nature. Although short-term results are also considered, those aspects have been selected which have persisted long enough to be viewed as conditions which might be carried over into the 1980s.

The positive aspects set forth in the appraisals show that, despite the difficulties encountered, economic growth did consolidate some productive, technological and institutional changes which, from the perspective of post-war proposals, unquestionably represent progress.

The most notable of these are the following:

(a) The great dynamism achieved by many countries of the region in the early 1970s. The growth rate of the regional product had been accelerating since the mid-1960s and during the early years of the 1970s the region's tremendous potential for growth was reaffirmed. In some countries and for some products, markets were large enough to create dynamic spaces suitable for carrying out efficient projects having broad scales of production.

(b) The relatively intense process of investment and productive and technological transformation in some of the regional economies which was reflected in the appearance of new branches of industry and modern agricultural and service enterprises, and in the expansion of the infrastructure. However, and especially in this regard, the disparities between countries were considerable.

(c) The capacity of the economic policy to seek new forms of insertion in the international economy. From the beginning of the 1970s, most of the external conditions created during that decade were reconciled with the transformation of production in order to alter the structure of exports, diversifying the basket of basic commodities at the national level and increasing its content of manufactures; then, when international liquidity increased, large amounts of external financing were attracted. For the period 1975-1981, the medium-term growth rates of the volume of exports rose in

most of the countries to the highest levels of the postwar period. This adjustment to the changing conditions of the international economy was often interpreted as a guarantee of the region's capacity to deal with difficult external situations. The policy followed made it possible to take advantage, depending on the circumstances, of the positive conditions of world trade or the abundant availability of financial resources.

(d) The capacity of the State to improve the operation of the markets, to modernize tax and financial structures, to establish and manage efficiently State enterprises that play a key role in the transformation of production, to maintain the major economic balances within acceptable ranges and to raise significantly the shares of the product earmarked for domestic savings and for investment.

(e) The resilience shown by many Latin American economies in preserving, after 1974, their overall industrial and economic dynamism, despite the limited growth of the central countries. Some Latin American countries kept their industrial transformation on the course previously followed, reducing the relative importance of the branches producing non-durable consumer goods and increasing that of the intermediate and metal-mechanical industries. This evolution made it possible, in many cases, to deal with the balance-of-payments problems through import substitution and the expansion of exports of manufactures. At any rate, it should be noted that the trend in another group of countries¹ was highly negative during the period under consideration.

The positive aspects noted above were countered by the inability of the region to alter long-standing social imbalances and imbalances in external relations.

Some of the main negative aspects stressed in the appraisals are the following:

(a) Contrary to expectations, dynamism and productive transformation were not sufficient to prevent the development of extremely unjust societies having a high concentration of

¹Argentina, Chile, El Salvador, Nicaragua, Panama and Peru.

wealth and income, high unemployment rates and a large segment of the population living in poverty. A significant part of the transformation of production was channelled towards meeting the consumption requirements of the high income strata, strengthening the transnational corporations and thus giving rise to a highly dependent technology and to balance-of-payments problems.²

(b) The rate of economic growth noted in most of the Latin American countries during the second half of the 1970s declined and its recovery seemed limited by factors of instability and uncertainty which were to a large extent linked to external variables.

(c) Despite the progress made, the transformation of production did not include a sufficient degree of vertical integration; this is evident in the lag in the production of intermediate and capital goods. The inadequate degree of internalization and technological development played a major role in this lag. At the same time, the meagre success of the efforts made to find formulas for bringing the interests of the transnational corporations in line with those of the Latin American countries has made it even more difficult to solve these problems.

(d) The structure of external relations is still asymmetrical, both as regards the nature of the flow of exports and imports and as regards the unfavourable trend in the terms of trade in the non-oil-exporting countries; to this is added the external indebtedness, its real and financial effects on the real national income, and the deterioration of the balance of payments. All this leads to an extremely vulnerable and unstable economic growth process.

In view of many authors, the accentuation of this asymmetry is due to a large extent to the transnationalization of the economies. The role of the transnational corporations is increasing in importance and many of the economic flows recorded as flows between States actually take place within a single economic agent which acts independently of national boundaries.

² See, for example, Luis Claudio Marinho, "The transnational corporations and Latin America's present form of economic growth", in *CEPAL Review* No. 14, August 1981.

3. *The appraisals viewed from the perspective of the 1980s*

The successes and failures noted in the appraisals made during the 1970s may now be re-interpreted from the improved perspective of the 1980s. Thus, we shall examine the continuing validity of these findings, the positive factors carried over from the 1970s into the 1980s, and the problems of the early 1980s which remain unsolved. This will enable us to make some preliminary comments.

In the *first place*, underlying many conjunctural appraisals is the external situation which often is not considered explicit enough during boom periods and the impact of which is underestimated during difficult periods. Because of the difficult international economic situation, in many countries the optimism of the early 1970s began to pale and by the end of the decade had changed to pessimism. During the triennium 1971-1973, the rapid growth of world markets and the improvement of the terms of trade created a feeling of optimism regarding the possibilities that were opening up for the countries of the region. As a long-standing policy of industrialization and modernization matured, most of the countries were able to support a new and more diversified export structure that included increasing percentages of manufactured goods; as they were freed from the restrictions brought about by a relatively rigid external supply, they were able notably to accelerate their economic growth.

Beginning in 1974, the external situation began gradually to deteriorate, especially in the non-oil-exporting countries. Nevertheless, an abundance of external financing and a rapid increase in exports made it possible to maintain external balance; the countries were thus able to keep their imports at acceptable levels and, in this way, to sustain the level of internal activity. Towards the end of the 1970s, both these mechanisms began to lose their effectiveness. On the one hand, the rapid growth of the debt and the changes in credit terms and interest rates meant that interest and amortization payments absorbed increasing percentages of the purchasing power of exports. On the other hand, the deterioration of prices for basic commodities eventually counteracted the ef-

fect of the large increase in the volume of exports. Moreover, the considerable increase in net external financing was accompanied by a radical change in the sources of such financing. Indeed, from the 1950s to the early 1960s, the bulk of capital entering Latin America had come from official sources, with long repayment terms, and, part of it consisted of direct investments. During the 1970s, on the other hand, a large share of such financing came from private banks and commercial sources; it consisted of short and medium-term loans and was subject to constantly increasing interest rates. The shortening of repayment terms and the rise in interest rates increased at the beginning of the 1980s, reflecting the fact that the region is in a clearly asymmetrical position with regard to the international financial markets.

As a result of this trend, one positive factor that remains is the new structure and level of exports. Despite the repercussions of the current unfavourable situation on the export-oriented sectors of production, in many cases markets have been opened up and consolidated and, in macroeconomic terms, the increasing deterioration of the region's share in world trade has been stopped. On the negative side, it should be noted that the new financial insertion has accentuated the asymmetry of external relations and has transferred to the domestic economy, and often increased, the more unfavourable effects of the recession of the centres.

In the *second place*, as has been mentioned above, the changes in economic policy were judged in positive terms—because of the role they played with regard to productive transformation and external insertion—and in negative terms because of their inability to solve social problems and because of the continuing asymmetry of external relations. Beyond these judgements, it must be stressed that quality of the management capacity attained during the decade, which underlay these successes and failures, depended on the orientation of the economic policy followed.

The economic policies of the 1970s combined in very different proportions various forms of State intervention, which we shall call active and passive. The active ones are those which contribute to the strengthening of public

institutions and public intervention policies. Concrete examples of this form of intervention are the creation of State enterprises concerned with exports (promotion, marketing, financing, negotiation and opening up of markets) and with production in key sectors of the economy, the establishment of policies providing for subsidies and incentives to production, and the monitoring of the activities of the transnational corporations (including the amounts, terms and channelling of external financing). On the other hand, the passive forms of intervention are those which tend to reduce or eliminate the activity of public institutions in order to facilitate the action of domestic and foreign private agents. Some examples of this are the policies providing for the liberalization of foreign trade and of the financial sector and the opening up of the financial sector to the international banks.

A study of the Latin American countries will reveal the distinction between those policies where the active elements were predominant and those where the passive elements were predominant. Although some hold the view that there was no substantial difference between them, because of the decisive influence of external agents on State action, it should be stressed that the economic results were clearly different.^{3,4}

The countries which applied mostly active forms of intervention during the period 1974-1979 followed a State policy aimed at promoting industrialization and the modernization of other sectors. This policy was aimed at co-ordinating the recent insertion into the international economy with the expansion of production. Thus, part of the investment in industry was oriented towards taking advantage of both domestic and external markets, external financing

³Ten Latin American countries representing nearly half the population of Latin America in 1975, in which the State plays an important role in industry, either through direct action or through promotion, achieved average annual growth rates in the manufacturing sector of between 5.7% and 12.1%.

⁴According to other criteria, the spread of transnationals has also been classified as either active or passive. See, for example, Raúl Trajtenberg and Raúl Vigorito, "Economía y política en la fase transnacional: reflexiones preliminares", in *Comercio Exterior*, Vol. 32, No. 7, Mexico, July 1982.

or surpluses were used to support a relatively explicit productive transformation project and, in general, the financial sector was better balanced with the productive sector, when it was not subordinated to it. Despite the fact that the change in the international scene of the 1980s produced a disarticulation of this policy and prevented most of the countries following it from maintaining their previous growth rates, there is no question that the organization of the State places them in a better position to establish development policies than is the case with those countries where the passive forms of intervention were predominant.

In the *third place*, despite the disparity between countries and periods, it was clearly shown that the region possesses a considerable potential for transformation and economic growth. In certain periods—for example 1970-1974—the region grew at rates of close to 7.2%,⁵ thus demonstrating its great capacity to absorb investment and to balance the growth of domestic and external savings. Throughout the decade, certain productive branches of the industrial sector were strengthened, part of the agricultural sector was technified and diversified, and commercial and financial services were modernized.

In many appraisals, the view is taken that most of these transformations, as well as the economic dynamism, were brought about by internal and external economic agents which used the changes to gain greater control over the rest of the society. This is not the view expressed in other appraisals, which dispute the statistical quality of the indicators used to measure the concentration of income and of wealth or consider concentration as an inevitable stage in the process of growth and economic transformation. What should be stressed here is that, even if one accepts the first view, it seems reasonable to hold that the point of departure makes it possible to reach higher levels of production with a more complex structure. Moreover, since an appreciable percentage of the infrastructure and of the productive capacity created can be used in a relatively flexible

manner, they may also be useful in very different development patterns.

In brief, with a higher material base and with the region's demonstrated potential for economic growth, it is possible to think in terms of much more ambitious development strategies based to a greater degree on the internal development capacity of the countries.

Nevertheless, and in the *fourth place*, the most important conclusion to be drawn, from the perspective of 1982, is concerned with the persistence of the structural problems of Latin America. The deterioration of external conditions showed that:

(a) The changes which took place in commercial and financial relations did not change the asymmetry of external relations, but instead strengthened it.

(b) Economic dynamism did not create the internal foundations the region needed to protect itself to a reasonable degree from the periods of sharp depression in the centres. Between 1974 and 1980, the region seemed to have attained a degree of autonomy that would enable it to maintain relatively high growth rates, although it was affected by the fluctuations in the centres and in their growth rates. Events have shown that external indebtedness had played a greater role in creating this presumed protective capacity than had been acknowledged in many appraisals.

(c) The inequality in the distribution of political and economic power among the various social groups has either continued or increased; likewise, the inequitable nature of Latin American societies has been evident in the distribution of the costs of the crisis.

These preliminary remarks provide some background on the issues that should be considered in designing a strategy for the 1980s. On the one hand, the structural problems have persisted, albeit under new conditions and in new institutions; macroeconomic and institutional tools put into use through existing public and market mechanisms are in and of themselves inadequate to overcome social inequities, the high degree of dependence on the exterior and the instability and vulnerability of economic growth.

Moreover, the region might lean more

⁵ Estimated at 1975 prices. Taking into account only the non-oil-exporting countries, the annual growth rate was over 7.5%.

heavily than it has to date on its internal potential for growth and transformation. A material and institutional base has been created which, if used for other goals, could significantly reduce the problems affecting the most backward strata of Latin American societies. The poten-

tial for development which this material base provides could be considerably reinforced if the countries utilized it in a more co-ordinated fashion; this in turn would enable them appreciably to increase their autonomy with respect to the exterior.

II

The current situation

1. *Background of the current crisis*

Having explored the positive and negative long-term aspects of the trends noted during the 1960s, we must now look at the current situation from the short-term viewpoint.

The crisis which began in 1981 and was in full swing during 1982 originated from external disequilibria. The region had satisfactorily withstood the sharp deceleration of growth in the developed countries between 1974 and 1980, but the policies used then did not bring success in dealing with the current crisis.

Several factors worked together to bring about the current situation of sharp external disequilibrium. As mentioned previously, the region had been dealing with its external problems through both an increased indebtedness and an accelerated growth of exports. The second rise in oil prices and the new economic policies of the Reagan administration in the United States, among other factors, affected the growth of the value of exports because of the drop in real demand and in prices. Moreover, the export promotion mechanisms that had been operating actively to take advantage of the strengthening of productive capacity turned out to be inadequate because of the increasing protectionism of the centres. Then, the rise in interest rates significantly increased the cost of servicing the external debt. These events occurred at a time when the level and the profile of indebtedness had already, in 1978,⁶ led CEPAL to foresee that it would be impossible

to maintain the trend of the second half of the 1970s. Indeed, it would have been difficult to maintain the ratio between the service of the debt and the value of exports in view of the situation with regard to the external demand, interest rates and overdue loans.

The external disequilibrium was transferred to the Latin American economies by mechanisms that either did not exist or were not widely disseminated in the early 1970s. During the 1970s, the region was rapidly integrated into the international financial system under circumstances which were clearly asymmetrical. The loans received from international private banks were transferred to the national productive sectors quite flexibly, although sometimes on unfavourable terms. Thus, a high percentage of Latin American enterprises was directly subject to the conditions of the international financial markets and to fluctuations in the exchange rate. Likewise, in 1981 and 1982, the international financial crisis and the external disequilibria of the countries also affected certain sectors that had very few trade links with the exterior.

As the seriousness of the situation became evident, there began in 1981 a gradual disarticulation of the policies that had made possible the type of external insertion that was typical of the 1970s. There was a spate of devaluations, rises in tariffs and other measures aimed at palliating the external commercial disequilibrium, although the increased efforts to protect the countries with regard to external trade has deepened the financial crisis for many enterprises. The ambivalent impact of these measures on business has made it necessary to take additional action, such as the creation of diffe-

⁶See, for example, "Tendencias y proyecciones de largo plazo del desarrollo económico de América Latina", *Cuadernos de la CEPAL*, Santiago, Chile, 1978.

rential exchange rates for the payment of debts and different types of moratoria or State subsidies for debtors.

The economic situation varies from one Latin American country to another. In most of them, the external disequilibria go hand in hand with a drop in the level of economic activity and, in some cases, there are also sharp increases in inflation or unprecedented levels of unemployment. Despite these differences, action by the public sector is increasing everywhere without regard to ideological considerations, and a new economic situation is beginning to take shape in which there is an alteration both of the distribution of functions as between the public and private sectors and in the economic parameters within which the agents must act. Latin American economic history once again shows how much depends on the direction and magnitude of public action in this type of crisis.

In view of the above, it is worthwhile to summarize those problems that are perceived as urgent in the current situation and look at the framework in which they are viewed and the strategy to be chosen in dealing with them.

In a crisis situation, there are usually certain imbalances, financial or real, external or internal, of such a magnitude that it becomes essential to find a quick solution to them; what is important is to remember that such a solution is far from being the only one and that the solution adopted will have quite a different effect on the structural problems faced by the economies. Thus, the consistency of the short-term policy will depend on the long-term vision with which the numerous emergencies characteristic of such situations are met.

2. *Short-term public action*

As has been mentioned repeatedly, the countries are faced with serious structural problems that give rise to conjunctural disequilibria which are accentuated in times of crisis. Some of these conjunctural problems are evident in almost all the Latin American countries and, because of their seriousness, require an urgent solution.

(a) *Renegotiation of the debt*

The service of the external debt as envisaged for 1982 and 1983 is of such a magnitude that it cannot be met, especially in view of the circumstances surrounding external trade that are described above. The solution is to renegotiate the debt, for the previous situation of abundant supply, when new loans amply covered interest payments, has changed radically. Those countries which must cover a substantial portion of the debt in one or two years are in the most serious trouble; in such cases, the classical solution of paying the interest and renewing the debt does not work and consequently they must now replace the current debt with another one having a longer term. The conditions for renegotiation that the external agents might try to impose could reduce a country's manoeuvring room, therefore, action by the public sector, at the national or international level, is essential in dealing with this problem.

(b) *The crisis of the external financial sector*

Because the internal financial crisis has spread to most sectors, many enterprises have become insolvent. There has been a mutual feedback between the internal financial crisis and the slowdown of activity. This has accentuated the problem for business and often the market has not offered any solution to the disequilibria other than bankruptcy. A more or less profound intervention on the part of the central bank is becoming essential to restore the normal operation of the productive system.

(c) *The depression of the productive system*

The years 1981 and 1982 were characterized by a considerable slowdown of economic growth and in many countries by a vertical drop in the level of the product, so that open unemployment and underemployment have increased notably. Public action is required to reduce the deficits on the trade balance, although, since it is quite unlikely that exports will increase significantly, there is the problem of reducing imports with minimum effect on the level of domestic activity. Expenditure must be reoriented towards activities that will put less pressure on the level of imports and imports must be controlled if a level of activity

or employment compatible with a non-repressive policy in the political sphere is to be maintained.

(d) *The boundary between public and private activity*

The degree to which the State does or should intervene to deal with the crisis brings out in the open a dilemma regarding the protection of public interests. There are cases when, in order to keep an enterprise in operation, the public sector must provide, on very favourable repayment terms, financial resources that are almost equal to the capital of the enterprise. In order to guarantee the proper use of such resources, the State must create control mechanisms. When the government provides a large proportion of a company's capital and takes over central aspects of its administration, the borderline between this situation and the management of a public enterprise becomes hazy. In other cases, the operation of the market does not suffice to control the imbalance, e.g., with regard to crises in the exchange rate, and State intervention involves an implicit transfer of large amounts of resources between economic agents. The use of such resources for purposes other than those pursued by the State might be contrary to the public interest and changes might have to be made in the delimitation of the public and private sectors. Finally, during periods of crisis it is usually necessary to adopt measures that entail great commercial or financial risk and the private sector is usually not prepared to assume those risks under such unstable circumstances. In such a situation, the government must redefine the boundaries between the public and the private sectors and take emergency measures as well.

The public sectors facing these conjunctural problems have started out from very different positions, which should be borne in mind before strategic options are proposed. There are public sectors in which State intervention was active during the 1970s and which therefore have a vast institutional arsenal in the fields of investment, production, finance and external trade. Other governments, however, have concentrated their action on the more aggregated instruments of macroeconomic policy. Dif-

ferent governments are also in different positions with regard to the balance of payments: some still have a considerable export potential while others seem to have reached the limits of their installed capacity. There are also contrasts in the capacity for reducing imports and in the relative importance and the profile of the debt and the service thereof. Despite the aforementioned disparities, the great majority of countries have serious internal and balance-of-payments problems and the differences noted have a bearing more on the possibilities for action than on the existence of difficulties.

3. *Long-term frameworks for short-term problems*

Because of the many different policy measures that governments must take to solve the wide variety of problems with which they are faced, they must devise an overall framework to give such policies consistency. Moreover, because of the very nature of the problems, certain measures will have to be taken which will gradually determine long-term development; viewing such measures within a long-term context will make it easier to appreciate their full implications. Hence, a long-term framework will be essential to the definition and study of short-term policy options.

We shall describe only two types of strategy options to illustrate the long-term considerations on which a short-term position must always be founded.

Under the first option, public action is guided by the conjunctural approach and the attitude towards external circumstances is passive. This option would be taken by countries where the public sector had a limited capacity for intervention or those whose governments assigned a high value to liberal mechanisms and to the operation of the market within those mechanisms. When this option is taken, the form of external insertion of the 1970s is not questioned; rather, the aim is to alter it as little as possible with a view to returning to it when the central economies—and with them international trade—recover.

Within this line of thinking, public intervention must change the allocation of resources arising spontaneously from the market as little

as possible and new trends must be expressed through the market. Thus for example, a devaluation should transmit enough internal signals to make it possible to reassign resources between production for the domestic market and production for export, making any kind of control or foreign trade subsidy unnecessary. Moratoria in the payment of the external debt should take the form of long-term renegotiations within the parameters of the financial market itself and aid to the most seriously affected sectors should not involve profound changes in the structure of distribution. In this type of option, any discussion is of a practical nature, because the central objectives of the development pattern are not questioned. The inherent primacy of market mechanisms underlies this option and interferences in the operation of those mechanisms are accepted only temporarily; they would be considered unnecessary in the absence of factors of rigidity such as the refusal of entrepreneurs to declare bankruptcy or of workers to accept wage cuts.

The second option is based on a different interpretation of the situation and involves making substantial changes in current development patterns. In the view of those who take this approach, the current crisis shows once again the inability of the central countries to maintain a stable growth in the level of world activity and trade. The deterioration of the terms of trade in the periphery once more shows that in the trade of basic commodities and industrial goods, those who specialize in commodities are at a disadvantage and that it is the countries that are better able to protect themselves that are in a position to export manufactured goods. The instability of the market for basic commodities and the benefits which the developed countries obtain from the decline in the terms of trade when the markets suffer contraction, are viewed as structural characteristics of the present world trade system. The fact that the countries of the periphery have little or no influence in the establishment of real interest rates, the terms under which external financing is granted or decisions regarding monetary policy reflects the asymmetry of external economic relations. The transmission of the high interest rates makes it almost impossible to find productive investments that can

compete with speculative investments and the resulting slowdown of domestic economic activity and the high unemployment rates of the Latin American countries show how extremely vulnerable the region is to external conditions. Finally, the fact that the system has very little capacity to distribute equitably among the different social groups both the cost of the crisis and the fruits of the growth of the boom period, is a confirmation of its inability to solve the problems of distribution. Hence, those who take this approach no longer hold to the illusion of the early 1970s regarding the productive and distributive potential of full insertion in world trade or the value attributed subsequently to full participation in the new international financial system. They do not think that the world trade boom of the 1970s can be repeated or that external financing can be used to the extent, in terms of percentage of the product, that it was during the period 1974-1980. Hence, they consider that the approach must be different from that of the 1970s and that the elements of dynamism must be found within the Latin American countries and the region. It will be important, however, to retain all those elements that demonstrated the region's potential for mobilizing resources and penetrating external markets.

Economic reactivation will thus cease to depend solely on the reactivation of the developed countries. It will depend, first of all, on the capacity of public policy to establish more stable, dynamic and fair regional and national markets and to encourage those activities to which priority is assigned. In the second place, it will depend on the collective capacity of the region to restore suitable external conditions. This will involve collective negotiations regarding the general terms of external financing and protectionism and the building up of more effective regional co-operation in the fields of trade and finance.

The establishment of markets is aimed at implementing a policy for the redistribution of income and consumption that will equitably spread out the deterioration of real income and guarantee a minimum degree of stability in the operation of the market. In order to ensure greater stability, it will be important to make clear, among other parameters, to what extent

domestic activities will be protected or neglected; this also refers to the government's attitude regarding changes of policy in the developed countries (protectionism and subsidies).

To guarantee a greater degree of autonomy and symmetry in external relations, a long-term policy regarding the transformation of production must be designed. The State should play an important role in the stages of definition and execution of such a policy.

The emphasis given under this option to structural issues should not be construed as indicating a lack of concern for conjunctural problems; on the contrary, the solution of such problems should constitute a first step towards structural change. Indeed, the new delimitation between the public and private sectors, the full or partial operation of market mechanisms, the degree of protection given to the productive sectors, the deliberate action of public agencies and enterprises —using indicators other than the current erratic prices of world trade and real interest rates rather than those of late 1981 and early 1982— constitute basic in-

gredients for the solution of the problems pertaining to reactivation and to the balance of payments.

Thus, under this second option, the current crisis is viewed as yet another demonstration of the inability of the current forms of international insertion used by the region to solve its structural problems and an active national and regional policy is proposed in order to bring about fundamental changes in the development pattern.

Finally, it should be mentioned again that both the definition of the problem and the policy options presented in this article are generic in nature and do not refer to any country in particular. At the national level, both tasks should be undertaken with due regard to the circumstances that are specific to each country, such as its economic and social systems, the organization and scope of its public sector, and the participation of external economic interests as well as to the differences between countries as regards size of the population and the economy and the availability of resources.

III

Structural elements in the solution of the crisis

The economic crisis of the period 1981-1982 is without a doubt profound and far-reaching. In 1982, the service of the debt in many countries will exceed half the value of exports and the situation will deteriorate for as long as the prices and volume of exports continue to drop while interest rates rise and the proportion of the short-term debt increases. Not only is inflation higher than 50% per year in several countries, it is rising rapidly in most of them, open unemployment is in the two-digit range and activity is slowing down seriously in many branches of the economy.

The policy measures that are being adopted also give an indication of the seriousness of the crisis: one devaluation follows another and over a period of one year they amount to or are close to 100%, the money stock is growing rapidly, tariffs are being raised and high subsidies

are being granted to major sectors of the economy.

Under such circumstances, the measures that are being taken to deal with the crisis will inevitably produce results of a structural nature. Indeed, many branches, if not sectors of production, are being seriously undermined and the relative position of the economic and social groups is changing significantly. Moreover, if the structural nature of the crisis is not recognized in time, especially if the problem is viewed as being of a temporary nature, the situation will deteriorate very seriously. What usually happens in such cases is that radical measures are eventually adopted which only deal with the problem piecemeal and do not take into account what should constitute a comprehensive strategy for facing the crisis. Thus, for example, when economic and political pres-

asures made it necessary to apply heavy devaluations to solve the balance-of-payments crisis, the solution of which had been postponed, they caused serious financial imbalances, explosive inflation, and rising unemployment, as well as other undesirable effects whereby the problems were transferred to another sector of the economy without any overall approach having been taken to deal with them.

In mid-1982, the situation of many countries was such that the instruments of economic policy could no longer be applied in a marginal fashion and it was becoming increasingly evident that a structural framework was needed with which to manage economic policy, in other words, a medium and long-term vision of the international situation and of the domestic problems pertaining to which priorities might be established, at least in connection with the sectors or branches of production which were to be protected against deterioration or disappearance, and the distribution of costs among economic and social groups. Likewise, policy schemes should be established for attacking the problems with some degree of simultaneity; in this regard, it should be recognized that in view of the magnitude of the disequilibria, the economy cannot function the way it did before the crisis and that, therefore, instruments that might be effective in more normal times cease to be so and in critical times may even be inefficient.

Following is some background information which may be useful in devising a structural frame of reference for a policy option of the second type described above, i.e., an option based on the view that the current crisis of the central countries is not conjunctural in nature and aimed at solving the problems of social equity and the lack of dynamism which affect the Latin American countries.

The Economic Projections Centre of CEPAL⁷ has prepared several studies which explore aspects relating to economic dynamism, income distribution, external economic relations and the structure of production, analysing the requirements and possibilities for

achieving a more dynamic, equitable and autonomous development. This information should be useful in studying the extent to which current public action might be oriented towards structural considerations rather than merely conjunctural ones. In the first place, a review is made of some ratios and orders of magnitude pertaining to economic dynamism, employment and underemployment, sectoral productivity and redistribution policies; then, a study is made of the orientation that is desirable for a trade and external financing policy in order to achieve greater economic dynamism and greater autonomy in the decision-making with regard to the exterior; finally, an estimate is made of the needs for industrialization that are implicit in this strategy and some questions are raised regarding certain key subsectors.

This background information should be interpreted as an exploration into orders of magnitude, prerequisites and restrictions which is designed to provide guidelines for the State intervention which seems inevitable under present-day conditions.

1. *Dynamism and equity*

One of the central problems with the development pattern being applied in the great majority of the Latin American countries is that it leads to the formation of unjust societies. We shall not stress here the controversial subject of how the distribution of wealth and of political power influenced the distribution of income, but shall limit ourselves to pointing out two elements we consider vital in determining the basis for which any redistribution policy, i.e., employment and sectoral differences in the product per employed person.⁸ This does not imply disregard for the fact that distributive policies and, especially, profound political changes can bring about substantial changes in the distribution of consumption and income; rather, the aim is to describe the challenge with which the policy chosen must deal, beginning with the current situation in which the families

⁷ See, especially, "Latin American Development Projections for the 1980s", *Estudios e Informes de la CEPAL* No. 6, Santiago, Chile, October 1981.

⁸ The ideal would be to have some way of measuring marginal productivity; as an approximation, we shall use the product per employed person, which is representative of average productivity.

that are suffering the most are associated with the sectors where unemployment is high and the product per employed person is low.

If a minimum acceptable level of productive employment is to be established, the level of activity must increase. In previous studies, CEPAL has already stressed the unusual challenge which the need to provide jobs for a rapidly growing labour force represents for the region.

In this exercise, the labour force has been estimated on the basis of population data which make it possible to estimate the active population; the proportion of the active population that enters the labour force is the result of complex mechanisms linked to different factors, such as the labour market, the age structure of the population, its geographic location (particularly with reference to urbanization processes), the type and duration of education, and the participation of women in the labour force. In the projections, conservative parameters have been used which are based on the assumption that the percentage of the active population joining the labour force does not increase much over time.

The product per employed person has been estimated separately for the different sectors of the economy and the level is assumed to depend on the level of income and on the trend in the product per employed person in countries having a high income level, from which a substantial part of the capital goods and technology used come. Quantitative estimates for countries and sectors have been made, by using econometric methods, on the basis of data on central countries and Latin American countries.

In accordance with these criteria, the regional growth rate of the labour force has been estimated at an average of 2.8% per year for the 1980s and around 2.5% for the 1990s. As mentioned above, the growth of productivity depends on economic dynamism. Disregarding the particular features of different countries and sectors, it is estimated that in order for the per capita product to grow by 3.3% per year—a rate similar to that of the 1960s—the product would have to grow at the rate of 5.9% per year during the 1980s, and a growth rate of 4.2% for the per capita product would call for an annual

growth rate of 7.3%. In the first case, open unemployment would be in the order of 10% and in the second case, in the order of 5%.

This first fact gives an idea of the effect capital accumulation and economic dynamism have on employment.

If we consider 5% to be the maximum acceptable rate of open unemployment—and bear in mind that a rapid increase of the product per employed person over a period of ten years would reduce to an acceptable magnitude the difference between the central economies and the Latin American economies—we may reach the conclusion that 7% is the minimum acceptable long-term growth rate for the region.

If the per capita product were to grow in the manner postulated above, this would present new challenges relating to distribution because, as is well known, there are at the present time considerable differences between sectors as regards the product per employed person. Indeed, according to a rough estimate, the product per employed person in the agricultural sector represents around 30% of the average for the economy, in the manufacturing industry it is practically double the average, in the other goods-producing sectors (mining, quarrying and construction) and in basic services it is 50% higher than the average, and in all other services, it is close to the average.⁹

The acceleration of growth under the conditions described above would tend to aggravate some disparities, particularly because of the rapid growth of the product per employed person which is to be expected in manufacturing and in basic services. In respect of the average, the position of these two sectors would improve even more, while the services sector, excluding basic services, and agriculture would see their position somewhat worsened.

The main changes in the structure of employment would still be, fundamentally, a transfer from the agricultural sector to the services sector (excluding basic services). The current agricultural employment rate of 36%

⁹It should be borne in mind that when the product per employed person is used without regard to the relationship between capital and labour, the wrong conclusions may be reached for particular branches. However, for aggregated sectors, the macroeconomic figures are close enough to show the overall picture.

would drop to 31%, while the rate for services, excluding basic services, would increase from 38% to 43%. The manufacturing sector would maintain a share of close to 14%.

Under such circumstances, the region would have a new structure of employment and of the product per employed person. A better distribution of income would be fostered by the reduction of unemployment and underemployment and of the percentage of the population employed in agriculture; on the other hand, the growing discrepancies in the product per employed person would produce the opposite effect.

These global figures, despite their being aggregated, make it possible to appreciate the magnitude of the challenge. The difficulty of achieving long-term annual growth rates in the order of 7% is a mystery to no one. Although, as has been explained above, this dynamism would alleviate the problems of unemployment and underemployment, it would at the same time make it absolutely essential to take other measures relating to redistribution and to capital accumulation. If the Latin American economies were to continue distributing income among social groups and between consumption and savings according to the patterns of the past decade, they would in many cases be faced with excessive needs for external savings and with increasingly unjust societies. Neither the market, which in the words of Raúl Prebisch was neither a temporal nor a social horizon, nor current public policies are capable of achieving both the growth objectives and the equity sought. Hence the imperative need for new policies especially designed to attract part of the value added in those sectors where its value per employed person is higher and grows more rapidly, so as to ensure that a substantial part of this income is channelled in the right direction.

2. *External economic relations and the structure of production*

The increased economic dynamism and the problems now facing trade and external financing call for changes in external economic relations; such changes, in turn, cannot be carried out without affecting to some extent the

internal structure of production. Following are some considerations to be borne in mind in formulating a proposal for new internal structures of production and new external economic relations.

The evolution of foreign trade and the productive structure of the Latin American countries in the postwar period have been dealt with in detail in other CEPAL documents. One of the central concerns of these studies has been the structural inclination towards a deficit in the balance of payments resulting from the fact that the expansion of production requires increasing amounts of capital goods and intermediate inputs of industrial origin. Over the long term, the decision to import or produce these goods depends on the possibilities of exporting other goods or services on terms considered beneficial. Traditional behaviour, i.e., the export of basic commodities, is faced with two main difficulties: the serious deterioration of the terms of trade, especially in times of crisis, and the slow growth of the demand for such commodities. Moreover, Latin American exports of basic commodities have risen at lower rates than the world demand, largely because of the policy of diversification of the supply (investment in other areas) and the protectionism of the central countries. Thus, a group of countries promoted their economic growth through the substituting of industrial imports; this was a decision regarding supply which was forced on them to a large extent by external conditions. From the mid-1960s on, the previous industrialization process opened the door to a new form of decision as to what to produce, what to import and what to export. The possibility of exporting industrial goods, both to the region itself and to the rest of the world, made it possible *inter alia* for exports to grow at rates similar to or higher than the growth rates of the gross domestic product. The economies in which the relative importance of external trade with respect to the product was declining changed their direction and began to 'open up' to the exterior: The increase of imported industrial goods required by growth was then achieved thanks in part to an external trade of industrial goods; however, some problems still arose. Industrialization does not allow for constant and similar progress to be made in every

branch; if advantage is to be taken of external markets, there must first be an industrial infrastructure and the time needed for installation and the magnitude of the investment required present difficult problems of scale. This in turn explains the attempts at integration and the greater success of those countries which managed to make progress in this regard or which because of their economic and demographic size were able in certain stages to handle the problems of scale by themselves.

Beginning in 1973, two new elements were added to the factors affecting the equilibrium of the balance of payments: the abundance of external financing and the increased value of fuels. External financing, which had traditionally been used by the region, more than doubled in importance relative to the product and made it possible, for a relatively long period (1974-1980), to support a level of imports which could not have been supported by exports alone. The rise in the prices of oil had different effects on different countries, since some were net exporters, others were net importers and a third group had a relatively balanced external trade in fuels. Most of the countries resorted, for different reasons, to external financing, including the net exporters of oil. In the early 1980s, it is difficult to increase the debt any more, as the cost of so doing is high and the service of the debt is beginning to put pressure on the levels of imports. As regards the increased price of fuels, the deficit countries have made great efforts to adjust their economies to the new situation by increasing exports and, in some cases, reducing imports. The surplus countries have adjusted their economies to higher levels of imports relative to the product. Therefore, it does not seem likely that these two elements could again, during the 1980s, play the role they did during the period 1974-1980. On the contrary, they have both created the need to increase exports substantially in order to make it possible to maintain the relative position of imports and to service the debt. This all leads to the conclusion that, unless imports can be restricted, the region must continue to increase its exports rapidly and, for the reasons explained before, such growth must be based on manufactured goods

and must be achieved in the regional and non-traditional markets.

In order better to describe these concepts, we shall now look at some data for the region as a whole. In making the projections, an import product elasticity of somewhat over one has been used, although this is lower than that of the 1970s; in this respect, it should be recalled that because of the lower elasticity of fuel consumption, a global elasticity of more than one is especially meaningful. This position is based on recognition of the fact that, despite the expansion of industry, it will be necessary to invest higher proportions of the product than are being invested now and to have access to capital goods and inputs which most countries cannot easily produce over the medium term if each market is considered separately. Moreover, if a reasonable degree of efficiency is to be achieved, a certain openness to external commercial markets must be maintained.

As mentioned above, net external financing increased significantly as a percentage of the product, rising from levels of around 2% during the 1960s to around 4% in the mid-1970s and 3% towards the end of that decade.

As a result of this trend, the servicing of the debt, which up to 1975 had represented about 25% of exports, rose to nearly 45% towards the end of the 1970s, despite the accelerated growth of exports. The projections show that, even with high export growth rates, it would be impossible to keep net external financing at the levels attained since 1974, particularly if interest rates remain at positive real levels and if the profile of the debt continues to worsen. In this exercise, moderate assumptions regarding these last two factors have been used and net external financing has been fixed at relatively high levels, around 2.7% of the product, and in percentages of exports that are clearly higher than those of the 1960s, although somewhat lower than those of the late 1970s. In this way, the service of the debt could represent, as previously, 25% of exports.

The assumptions adopted for imports and external financing mean that the equilibrium of the balance of payments will depend on the terms of trade and on the growth of the volume of exports. Without considering differences between countries, especially as regards external

trade in fuels, a ratio similar to that in force in 1979 has been assumed. As a point of reference, it should be recalled that the index of the terms of trade in 1981 was 40% higher than in 1979 for the oil-exporting countries, whereas it deteriorated by 20% for the rest of the Latin American countries.

In these circumstances, in order to balance external accounts, the long-term growth of the volume of exports would have to be 8.5% per year. If the terms of trade improved by 10% during the first years of the decade, the requirement for the growth of exports would be reduced by approximately 1%. The recent experience of some Latin American countries, where the deterioration of the terms of trade has made it necessary to force the growth of exports, provides a good example of the importance of this ratio.

Therefore, a relatively dynamic growth of imports accompanied by a bearable external financing and terms of trade which, although unfavourable for most of the countries, are higher than at present, places the burden of the effort on exports.

To find out whether such a high volume of exports can be achieved, we shall now explore the implications of such a goal in terms of content and destination.

Latin American exports were placed on a world trade scenario that is divided into regions: the developed market economies, the centrally planned economies, Latin America, the OPEC countries (except Venezuela and Ecuador) and the rest of developing countries. The foreign trade of each of these regions depended on the internal level of activity. While it is true that long-term trends tend to increase the deficit that has been evident in Latin America's trade in goods, if one takes into account what has happened since 1976, one may see that the region has reacted to external problems by increasing its exports at record rates. What is significant, in any event, is the disparity in the growth of the markets for the different goods. It is estimated that, with world trade growing at average annual rates of between 7 and 8%, the trade in manufactured goods grew at between 8.3 and 9.7%, while the trade of commodities only grew between 4.2 and 4.8% and fuels grew between 3.1 and 3.7%.

The region already has a significant share of the international commodity market and in the past has had to face heavy competition from other developing regions, as well as the protectionism of the centres. The low growth rate of the commodity market, together with the difficulty of increasing Latin America's share in it, would make it impossible to base a growth rate of nearly 8.5% on commodities; moreover, a great effort will be required to maintain or increase, even marginally, the region's share in the international markets. The option that is considered most acceptable would be to reverse, or at least stop, the downward trend in the share of commodities (from 17% in 1955 to 12% in 1980) and raise it slightly in order to reach 12.5% in 1990. A similar assumption has been made with respect to fuels, which would remain at 12%, i.e., with an average annual growth rate of 4.5%.

Therefore, the growth of exports required to balance the balance of payments should be based primarily on manufactured goods. These goods, which represented 1.3% of world trade in 1980, will represent 2.4% in 1990; in order to appreciate the relative importance of these percentages, it must be borne in mind that in 1990 the world trade in manufactured goods will be five times greater than the trade of commodities. This means that Latin American exports of manufactures must increase at average annual rates in the order of 17%.

This new composition of exports would require a significant restructuring of the destination of the goods. It is not realistic to think that the developed countries are going to change their behaviour radically and allow the developing countries easily to increase their share in those markets; moreover, the imports required by Latin America create a good market for regional projects, especially pertaining to manufactured goods. Indeed, by 1990, nearly two-thirds of imports will be manufactures. If the region were to aim by 1990 to supply 30% of its imports with goods produced in the region, as compared with the present 17%, the 8.5% growth of exports would break down into average annual growth rates of 5.7% for extraregional exports and 13.2% for intra-regional exports. In this way, the composition of intra-regional trade would change substantially and manufac-

tured goods would account for 64% in 1990. At the end of the 1970s, the figure was 30%.

The data and projections just described are based on the assumption that there will be significant changes in the magnitude, composition, origin and destination of foreign trade. They simultaneously serve two purposes: they make a high economic growth rate viable and strengthen such growth, and they introduce greater symmetry into external economic relations. Such changes can alter the region's position as regards world production and trade, improving it both quantitatively and qualitatively. Thus, the structural modification of external economic relations appears to be closely linked to changes in the internal productive structure. The subject will be discussed on the following pages.

3. *The productive structure of the Latin American countries*

The discussion on foreign trade has been guided by the need to allow for economic growth with respect to the supply of imported industrial goods and to place the problem of financing within manageable boundaries. The magnitude of exports is conditioned here by the need to strike a balance between the balance of payments and its composition and the dynamism and elasticities of demand. The structure of external trade that is implicit in these projections must be consistent with the internal productive structure, which means that the Latin American countries must meet a basic requirement: that of having an industrial sector capable of supporting the new composition of exports, since, in quantitative terms, industrial exports should grow at much higher rates than the product.

This need to industrialize appears even greater when one bears in mind the magnitude and nature of the domestic demand that is implicit in a more equitable and accelerated growth. Investment requirement would generate a heavy demand for industrial goods, particularly from the metals and metal products sector, and the rapid growth of private consumption would also increase the demand for such goods. While it is true that measures regarding distribution can modify this trend somewhat,

there is no question that the demand for industrial goods would grow more rapidly than the income.

Therefore, everything seems to indicate that the industrial sector should grow at higher rates than the product. In the projections made, it is estimated that the manufacturing sector would have to grow at an annual rate of somewhat over 8%, which would mean that the sector's share in the product would be around 30% in 1990.

Industrial growth that met the requirements described here should be different from that which has been occurring in Latin America. A look at the growth of the domestic demand will show that the expansion of investment and of private consumption would directly and especially create pressure on the metals and metal products sector, while the projections for the external trade indicate that those export products with respect to which the greatest growth should be sought are machinery and transport materials, which should grow at annual rates of 21% between 1978 and 1990, and whose share of exports would rise from 4.1% to 16.3%.¹⁰

This growth of the metal and metal products sector would create a substantial additional demand for basic intermediate inputs. It would be essential to develop, among others, the branches of ferrous and non-ferrous metals, petrochemicals and heavy chemicals particularly considering that the projections for imports do not envisage an accelerated growth for this type of goods. In addition, it would be necessary to correct the problems of vertical integration in the industrial sector, through a greater integration of the intermediate and metal and metal products branches.

It is easy to understand that the growth of regional trade and development of branches which generally pose problems of scale will make it necessary to apply selective criteria. Likewise, access to the technology of the centres is restricted and burdensome, so that in choosing an alternative it will be necessary to

¹⁰This subject is discussed in greater detail in "Estrategia de desarrollo sectorial para los años ochenta: industria y agricultura", *Estudios e Informes de la CEPAL*, No. 9, Santiago, Chile, 1981.

examine the prospects on both the international and the Latin American scenes.

In this connection, many questions arise that must be explored. For example, as a result of the energy crisis and its repercussions, some developed countries seem to have abandoned to some extent certain energy-consuming sectors, particularly certain parts of the steel and heavy chemicals industry. At the same time, the OPEC countries seem to be developing a strong chemicals and petrochemicals industry, while an examination of the Latin American industrialization process shows that between 1974 and 1980 the bulk of industrial growth was based on the development of intermediate branches. In this respect, it will be necessary to determine what the current Latin American deficits are, what openings might be created as the developed countries abandon certain intermediate branches and what would be the repercussions of the entry into production of OPEC investments.

A close study should be made of the development of the transport materials industry. The developed countries are engaged in a technological battle in this branch and the new plants in Europe appear to be achieving cost levels comparable to those of the Japanese. It would therefore be essential to determine whether the existing plants in Latin America are adjusting adequately to these innovations.

In brief, a study of a set of selected industrial branches would be essential in order to draw up guidelines for the economic policy that is implicit in the industrialization goals

discussed here. These would indicate the possible combinations of investment, technological innovation and margins of protection that have to be established in order to make the industrialization process desired a reality. For example, CEPAL is currently conducting a study on the production and external trade of capital goods, the preliminary findings of which show the potential for regional development that exists in this field.¹¹

Finally, industrial development should also be considered from a broader sectoral perspective. Agricultural growth would have quite a different significance for the countries of the region if they increased the use of regional machinery and raised the value of their commodities through agro-industry. The same may be said with regard to services. It is well known that services are expanding considerably in the developed countries and that their nature depends to a large extent on their association with the goods-producing sectors and especially with the industrial sector. As long as part of the growth of services is associated with an industrialization process, they will represent actual increases in productivity and make a real contribution to the well-being of the population. This was the case of the increase in percentages of the population employed in services under the accelerated growth option described above, which is different from the case of the increases that took place in some Latin American countries, where they represented a mechanism for redistributing income.

IV

The current situation and structural change

It might seem out of place, in 1982 when many Latin American economies are in the midst of a crisis, to take a medium and long-term approach to the transformation of production, the new forms of insertion into the international economy and the issue of distribution.

Nevertheless, with the passing of time, the evidence has confirmed the fact that the crisis of the central countries is structural in nature

and the data available have shown the profound effect which this crisis has had on Latin American societies. As is usual in this type of

¹¹Some preliminary findings are discussed in the article by Jorge Beckel and Salvador Lluch entitled "Capital goods. Size of markets, sectoral structure and demand prospects in Latin America", in *CEPAL Review* No. 17, August 1982.

deep-seated external crisis, any change that takes place in respect of the disequilibria in the balance of payments will in the long run affect the parameters under which the economy as a whole operates.

A comparison between the direction which changes are actually taking and the direction they should be taking in order to bring about a more equitable and dynamic society in which decisions can be taken independently, will show similarities and disparities.

There are elements in the changes produced in the external sector that could be helpful in establishing a productive structure that would meet the requirements for an external trade similar to that proposed above. In effect, devaluations, increases in tariffs and other measures designed to restore balance or to attain a surplus on the trade balance tend to favour production for domestic and regional markets. Although it is true that, theoretically, exports to the central countries should also be encouraged, it is well known that this potential growth is held back by the protectionism of those countries, especially as regards manufactured goods, and by the new drops in the prices of commodities which could go hand in hand with an increase in the supply.

For this reason, the measures adopted have a more direct effect on the domestic market because they provide greater protection to those who produce for it; at the same time, one of the areas of foreign trade in which there is a certain degree of autonomy is that pertaining to a possible policy of regional co-operation as regards manufactured goods and the governments are now taking certain measures to promote such a policy. Nevertheless, three phenomena affecting demand and productive capacity conspire against these advances: the depression of the domestic markets brought about in many countries by measures designed to restrict expenditure, the deterioration—not easily reversed—of productive capacity in many branches as a result of the policies of the 1970s, and the magnitude of the financial problems of many enterprises, which are further aggravated by devaluations.

There is no question that in most of the countries, dynamism has been sacrificed to external balance, although this has been done to

different degrees in different cases; indeed, there are substantial differences as regards the will and capacity to reduce and restructure demand. Some countries have tried to replace domestic demand by external demand in order to avoid a decline in the product and at the same time to restore external balance. Other countries have tried to restructure domestic demand in order to reduce the demand for imports. Insofar as possible, reserves and import substitution have also been used.

Naturally, the governments that had developed more active economic policy schemes during the 1970s are now able more successfully to face the need for restructuring than those which based their policy fundamentally on macroeconomic tools; likewise, those which had developed their manufacturing sector to a greater extent now have a greater margin of flexibility as regards supply.

Nevertheless, despite the efforts that have been made, the decline of external demand from the central countries, the internal financial disequilibria and the strong dependency of certain vital sectors on external supply have limited the effect of the measures designed to check the fall of global demand. To this is added the fact that, unfortunately, measures aimed at restructuring demand have not always been applied in connection with a supply policy and on occasions they only seem to be part of a chain reaction to unstable external conditions, with serious and not easily remedied consequences for the productive sector. Thus, in general, the recession has had a very negative effect on economic dynamism; this has been particularly true in the case of employment and often also in the case of real wages. Government policies have attempted, with different emphases, to reduce these undesirable effects of the recession on production. However, it appears that in general the cost of the recession has not been distributed with due regard to criteria of equity. In the cases where high-income groups have continued to receive large shares of the income, it does not seem to have been channelled towards investments capable of sustaining a new structure of production; this behaviour is reinforced by the prevailing uncertainty and instability.

Moreover, there are indications that a cer-

tain amount of that income has been channelled towards speculative investment, which in general aggravates the external crisis, the productive depression, and the productive disequilibria. Thus, there is every indication that the current situation has accentuated the existing inequities. On the other hand, since the political process has become more fraught with conflict, changes are taking place which in some cases favour the return of democratic forms.

In summary, the policies are simultaneously producing signs of adjustment, redeployment and transformation. The appraisals of the 1970s, and the prospective exercises discussed clearly show the need for transformation.

If the orientation that is implicit in the new parameters of the external sector is considered by the authorities to be a phenomenon that is not conjunctural in nature, if the domestic markets recover and if regional co-operation efforts succeed, the current situation might point to a structural change in the orientation of invest-

ment and, consequently, in the productive structure of the countries. However, it is still too early to determine which of these trends will predominate in the current crisis. Because of the magnitude of the problems, so evident everywhere, and the many opinions and pressures favouring the adoption of an approach ranging between adjustment and redeployment we must conclude by stressing the fact that the crisis also offers possibilities. Possibilities, because it has become evident that despite the progress made to date, the structural problems remain; they are still critical and must be faced. Possibilities, because many restructuring measures that could not be applied in more normal economic situations are now politically viable. Possibilities, finally, because circumstances are making it clear that, in the face of difficulties of this magnitude, it is essential to establish political systems that will allow for the participation of the majority social groups which will, in the last analysis, bear the brunt of any structural solution.