

# CEPAL

## Review

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UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
SANTIAGO, CHILE, AUGUST 1985

# CEPAL

Review

Santiago, Chile

Number 26

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# Crisis and development in Latin America and the Caribbean

*Executive Secretariat, ECLAC*

At its twentieth session, held in Lima in April 1984, the Economic Commission for Latin America and the Caribbean decided, *inter alia*, that at the 1985 session of the Committee of the Whole one of the main items should be "the examination of those pivotal aspects of long-term economic and social development policy which could serve as sources of inspiration for meeting the challenges posed to the countries of the region by the changes in the international economy".<sup>1</sup>

Since that date, the Secretariat has given priority attention to the fulfillment of this mandate. First of all, various technical studies were prepared which are included in a set of documents completed in April of this year.<sup>2</sup> Secondly, an expert meeting was convened to examine and comment on these documents. At this meeting, held at ECLAC headquarters from 29 April to 3 May, over a hundred personalities from inside and outside the region assembled to give their different points of view in a rich and fertile debate.<sup>3</sup>

The present document is a revised version of the analytical summary considered on that occasion and it takes up some of the many lines of thought which arose from the debates. It has been submitted to the Committee of the Whole of ECLAC—and, more broadly, to the governments of the region—in pursuance of what was decided in the resolution mentioned above. Its central purpose is to continue to encourage the exchange of ideas on the most important elements of the economic policies and economic and social development strategies which should be applied in the years to come, and in it the options open to the region in order to seek a response to the present crisis and make proper preparations for the future are analysed. The document is divided into three parts.

Part I seeks to explain the past evolution, the advances made in the economic and social field, and the elements of heterogeneity which define the possibilities open for the future, after which attention is centred on the abrupt changes in trends which took place as from 1980 and the origin, characteristics and scope of the crisis.

Part II explores the restrictions and conditioning factors affecting the future development of the countries of the region, placing emphasis on those phenomena which call for important changes in the historical growth pattern, on the natural assumption that the region must overcome the crisis and reactive the economies which make it up.

Part III refers to the general orientations that could be given to economic and social development in the medium and long term. Special account is taken of the time horizon of the next ten years, although consideration is also given to the longer-term prospects linked, *inter alia*, with the foreseeable changes in the international economy. On the whole, the proposals involved are of a very preliminary nature and will call for subsequent elaboration.

Both in the long-term evolution and in the different manifestations of the crisis and the way of tackling it, there are important differences among the Latin American countries, stemming from their economic size, their resource endowment, the relative level of development, the special features of

<sup>1</sup> Resolution 457 (xx) of 6 April 1984.

<sup>2</sup> The essence of these contributions is collected together in a three-volume document and an analytical summary entitled (*Crisis and development: the present situation and future prospects of Latin America and the Caribbean. See Crisis and development. Analytical summary* (i.c./i.. 333 (Sem. 22/6)), 23 April 1985; Volume I. *Change and crisis: Latin America and the Caribbean, 1950-1984* (i.c./i.. 332 (Sem. 22/3)), 22 April 1985; Volume II. *The onset of the crisis and the economic policy response: effects and options* (i.c./i.. 332 (Sem. 22/2) Add. 1), 24 April 1985, and Volume III. *Challenges and options for future development* (i.c./i.. 332 (Sem. 22/L.3) Add. 2), 11 April 1985. See also *Central America: Bases for reactivation and development* (LC/I.. 331 (Sem. 22/5)), 27 March 1985, and *A view of the Caribbean* (LC/I.. 327 (Sem. 22/4)), 14 March 1985.

<sup>3</sup> See *Report of the Expert Meeting on Crisis and Development in Latin America and the Caribbean*, Santiago, Chile, 29 April-3 May 1985.

their peoples, and the various approaches to economic policy taken by their governments. The possibilities open to them and the problems faced by each of them therefore display great diversity. This obviously makes it impracticable—even if it were desirable—to try to work out generally valid development formulas, but this nevertheless does not detract from the value of the search for common denominators, the examination of national experiences, and the discussion of some of the most important elements involved in the definition of the development strategies that could be followed in the years to come. Naturally, the specific forms that these strategies and policies may take can only be considered within the ambit of each country, bearing in mind its special features and preferences.

## Introduction

At this moment in time, in the middle of the 1980s, it seems superfluous to stress that in recent years the countries of Latin America and the Caribbean have suffered the deepest and longest recession since the 1930s. The harmful consequences of the crisis are all too well known. The region as a whole has seen real per capita income fall to the level it had already reached in 1977; open unemployment and underemployment have grown; rates of saving and investment have been eroded; consumption stands at a depressed level, and real wages have shrunk. Moreover, the room for manoeuvre in the application of economic policy has become very restricted.

The severe imbalances of external and internal origin which arose in all the countries have been reduced to some extent, but in no wise overcome. Although improvements—albeit only temporary—are observed in the balance-of-payments situation, inflationary tensions have reappeared in a number of cases and are yielding only slowly in others. Furthermore, the recessive nature of the adjustments which in many cases have made these improvements possible sheds doubts on their permanence or viability.

The fact that most of the countries of the region have based their growth to an excessive extent on external indebtedness and have tried to put off the most painful expressions of the adjustment process by this means has led to the accumulation of a heavy debt burden whose servicing costs are a singularly negative influence on the balance-of-payments and public finances. This latter feature helps to give distinctive characteristics to the effects of the international recession in Latin America compared with other developing regions.

The immediate problems that have to be

faced merge with and sometimes magnify the structural shortcomings of the Latin American economies, which had given rise to severe lags and imbalances even back in the 1970s. The peculiar combination of modernization with structural heterogeneity which is a special feature of Latin America has had the result of causing profound economic and social changes which, while they represent significant advances towards more complex societies and economies, retain at the same time in their structure heterogeneous elements which represent limitations on the possibility of attaining suitable conditions for self-sustaining development.

Outstanding among these elements are the lack of suitable structural links between primary and secondary activities; inadequate forward and backward linkages in the manufacturing sector, together with cases of inefficiency and technological backwardness; the extreme external vulnerability of the economies; the dual character of agriculture, which operates at both the modern and the subsistence level, and the incapacity to create sufficient productive jobs to cope with the rapid expansion of the economically active population: a factor which in turn helps to explain the persistence of the extreme poverty in which substantial portions of the population still live and the economic and social heterogeneity which continues to be present in all the countries.

The above-mentioned economic phenomena have been accompanied by important political and social changes. In some countries, long-standing tensions have overflowed into violent situations which have still not been solved. In others, autocratic régimes have been replaced by elected civilian governments. Although it is

not easy to establish a cause and effect relationship between the evolution of economic, political and social developments, there is no doubt that there are multiple interrelationships between them, and these may help to explain the unusual political effervescence to be noted now in the region and the renewed importance which is being given in many countries to the attainment and consolidation of pluralistic and democratic societies as an intrinsic objective of development.

This effervescence forms part of a very dynamic picture of change, both in the region and in the surrounding world. The central countries, for their part, are going through a veritable technological revolution which, among many other consequences, will have the result of significantly and rapidly changing the system of comparative advantages in world trade. This, together with gradual changes in the hierarchic position of different nations in the international economy and the consolidation of new actors on the world stage—such as the transnational corporations— involves opportunities but also perils for countries which have been characterized up to now by their slow capacity for adaptation.

Furthermore, for many different reasons, the Latin American countries will continue to face growing difficulties in the years to come in mobilizing external financing: a telling contrast with the fact that the main industrialized economy of the world has now become a net importer of capital.

At the domestic level, the crushing weight of the external debt, the contraction in levels of saving and investment, and the gradual obsolescence of the existing stock of capital—which has been inadequately replaced in the last few years—are only a few of the new factors which present themselves as obstacles to the reactivation of the economies.

In short, after over 30 years of impressive achievements but also of important shortcomings in economic and social matters, the countries of the region now stand at the crossroads. If they do not persist with the adjustment process—despite its painful consequences—and if they do not adopt reactivation programmes on new bases, the outlook is not encouraging.

Faced with all the above phenomena, we must reject from the outset the view that the recent recession, deep though it is, is only of a

transitory nature and that in the near future the countries of the region can return—on the basis of the old historical model—to the path of growth they had become accustomed to during the three decades following the last war. Instead, events seem to confirm the hypothesis that the countries of the region are now faced with different circumstances which it will require time, sacrifices and novel solutions to overcome.

We must also reject as a way out of the crisis the recommendations based on a neo-liberal paradigm which advocate the decided integration of the Latin American economies into the world economy so that the reactivation of the industrialized countries can take along with it the developing countries. Quite apart from the well-justified skepticism which might be felt regarding the sustained nature of the recovery in the central economies (and, if such a recovery were to take place, the dissemination of its effects among the developing countries), it seems very unlikely that conditions could exist in which all the Latin American and Caribbean countries could simultaneously rapidly increase their exports and place them on markets which are of limited size and are also conditioned in the central countries by strong protectionist tendencies designed to allow the technologically backward industries of these nations to adapt themselves to a new situation. The fact is that a new international division of labour is being built up which will not exactly depend on the free play of the market forces.

This is not to deny the presence of important potential for the exports of the region or to deny that some of the small economies could convert their export sector into the motor of growth. What we do wish to maintain is that it would not be realistic to concentrate the efforts of all countries on a strategy aimed at the indiscriminate opening up of their economies at the expense of established economic activities which were created with great effort and sacrifice in the period following the war and which continue to generate dynamic impulses, although not always as efficiently as might be desired.

This document only briefly sketches the bases and guiding principles of a strategy which neither advocates seeking reactivation on the basis of historical patterns nor espouses the paradigm in vogue in some industrialized countries.

The strategy put forward is based on the profound conviction that the countries of the region must take decisive steps to react to the set of new circumstances of external and internal origin which will condition both their growth possibilities and their possibilities of achieving other universal objectives of development.

If such action is not taken, then the uncorrected imbalances will probably persist, accompanied by a rate of economic activity which is very slow or even negative. This would not only compromise the achievements of the past but would also jeopardize the possibility of consolidating and intensifying the recent processes of greater democratization in several countries.

The central idea on which a considerable part of this document is based consists of the recognition that development must be guided by the principles of growth, autonomy, equity and democracy. The relations between these objectives, however, are complex. They are interdependent, since it is impossible to conceive of self-sustaining development without all of them being satisfied to some essential degree, yet at the same time there are many situations where there is a conflict between the simultaneous full achievement of these objectives. In such situations, it is necessary to seek solutions which ensure that each objective is fulfilled to more than a certain minimum extent.

Naturally, in specific national situations, it may be particularly urgent to try to achieve one or another of the objectives in particular. In the present Latin American crisis, for example, it is clearly imperative to recover autonomy in the formulation, and above all the implementation, of the countries' economic policies if it is desired to recover the capacity to grow and to make new changes in the societies of the region. As already noted, it is very probable that the unfinished structural changes in the international economy will prevent the region as a whole from benefiting to a substantial degree from the financial aid and markets of the central countries. We must therefore inevitably admit that Latin America and the Caribbean have before them an enormous task in solving new difficulties and old problems by their own efforts. In other words, it is neither realistic nor desirable to expect the solutions to come from outside.

It should be clearly understood that the

foregoing does not mean that the countries of the region should be cut off from the financial, trade and technological flows operating in the world economy, but that their endogenous capacity for the development of production and technology should be strengthened, their national and collective autonomy should be improved, and in this way the region's insertion into the changing international economy should gradually be modified.

To this end, the countries of the region will have to adapt their productive apparatus in order to make fuller use of the stimuli of national, subregional and regional demand and selectively gain access to international markets. Both the adjustment and the reactivation will basically be the result of the creativity, efforts and initiative of the Latin American societies. It follows from this that among the universal objectives of development—growth, change, improvement in income distribution, greater autonomy, and progress towards more pluralistic, participative and democratic societies—the objective of gaining greater autonomy or increasing the room for manoeuvre in the formulation and execution of economic policy acquires special urgency. Without satisfying this pre-requisite it would be difficult to achieve the other objectives.

The starting point for an alternative strategy lies in gaining political recognition of the fact that the region is probably at the beginning of a stage of slow development and that without the integral mobilization of the social energy of each country the likely outlook would rather be one of further setbacks. Consequently, it is important to formulate a strategy which reconciles the adjustment with the reactivation and reorientation of the economies right from the start. There are, of course, no easy recipes or painless methods of achieving the adjustment. What is undoubtedly to be recommended is that the cost of this adjustment should be better spread over time and among the different strata of the population. The depth and seriousness of the crisis have erased the dividing lines between short-term and medium-term economic policy, since the adjustment, reactivation and development do not correspond to successive phases of the strategy but form part of the same policy. This way of conceiving economic policy requires greater emphasis to be placed on the protection and stimula-

tion of supply —especially that which generates foreign exchange through exports or efficient import substitution— rather than on strict controls tending to reduce demand.

With regard to the reorientation of the economic development of the countries of the region, it will be essential to redouble our efforts to overcome structural imbalances such as the lack of proper linkages between economic activities, inefficiency, technological lags, weakness of management, and shortcomings in the training of labour and the form of insertion in international markets. To this end, the task of articulating the productive system in the most efficient manner must be undertaken with a pragmatic and flexible approach. As already noted, the development of new export lines must be carried out in a selective manner.

Efforts must also be made, with regard to production aimed at satisfying domestic demand, to improve its efficiency, secure greater inter or intra-sectoral linkages, and adapt advanced technologies —or develop our own technologies— which are appropriate to the needs and conditions of the countries of the region.

The Latin American economies will very probably suffer for a long time to come from constraints due to the shortage of financing and the need to make remittances of capital abroad. This being so, the domestic savings effort and the effectiveness of investment will be called upon to play a decisive role, for which purpose suitable fiscal policies and the reordering of financial systems will be needed.

In this connection, the fulfilment of the objective of equity will also play a functional role. The reversal of the downward trend in the income of the masses of the population will make it necessary to increase the supply of basic goods —food, clothing, footwear, construction materials, some consumer durables— in which the region has already acquired a good deal of experience and whose production generally requires only a few imported inputs but makes intensive use of labour. This does not mean that technologically complex activities should be discouraged, but they should instead be promoted in a selective manner, preferably in line with a subregional integration criterion.

Intra-regional co-operation would thus become another pillar of the reactivation and de-

velopment effort, not only on the basis of the traditional criterion of uniting markets and substituting imports, but as an important means of gaining greater efficiency and developing new technologies. It is not a question of insisting on the fulfilment of formal undertakings which call for the gradual and progressive harmonization of policies and activities in national economic life, but rather of promoting joint action to solve common problems.

Among such problems is that of tackling in a collective manner —at the subregional or regional level— some of the limiting factors of the international economy and even possibly getting together to try to influence or alter the inertia displayed by the policies of the industrialized countries. Relations with the central countries will continue to play a decisive role in the future of the countries of the region. Latin America will have to make a greater effort to interpret and react to the trends of the international economy. This is essential not only in order to take advantage of external opportunities, but also in order to anticipate and reduce the effects of the restrictions coming from the same origin. Joint negotiations, or at least consultations among the governments of the region, could continue to play an important role in ordering trade and financial flows, as well as in putting forward solutions to specific obstacles such as those deriving from external indebtedness, especially as regards the need to give some relief to many countries of the region and share costs more equitably between creditors and debtors.

The development of human resources at all levels must also play an important role in the reorganization of the development of the countries of the region. This is an unavoidable condition for stimulating creativity, gaining greater efficiency, applying and developing appropriate technologies, and even helping to form more pluralistic, participative and democratic societies.

It will also be necessary, at least in some countries, to put into effect long-postponed reforms for modernizing and improving the linkages among primary activities and between them and secondary activities. This is particularly relevant with regard to overcoming the disparities between the modern agricultural sector and subsistence peasant agriculture. The solution of this

heterogeneity of production in the agricultural sector and the overcoming of other long-standing problems in Latin American agriculture will call, *inter alia*, for the strengthening of the peasant economy by giving it greater access to productive resources; reduction of the dependence of the sector in order to adapt the technologies used to local resource endowments, and seeking a progressive reduction in the asymmetry observed in the international insertion of the Latin American countries into the agricultural commodity markets. In the same connection, it will be necessary to reorganize industrial development so as to achieve more efficient forms of production which are better adapted to the conditions actually prevailing in the region and have greater intra- or intersectoral integration, with a view to achieving what is known as the "endogenous technological dynamization nucleus". Small and medium-sized enterprises would play an important role in this effort, not only because they can reach high levels of efficiency, but also because they frequently generate more employment and more value added per unit of investment than large-scale enterprises.

The reordering of Latin American development necessarily involves the reappraisal of the role of the different economic agents, and particularly that of the State. It is therefore also necessary to explore the dynamic tension which exists between the logic of the market—which, for reasons of efficiency, favours the fittest without any considerations of justice as regards the distribution of income or power—and the administrative assignment of resources through direct State decisions. Both forms of assigning resources should coexist, although with different mixes and forms from one country to another, according to their customs, institutions and special forms of political interaction.

The scheme of development advocated is conceived within a participative and democratic framework, viewed not only as an intrinsic objective but also as an indispensable instrument for

fulfilling the economic objectives. In a crisis, there is always a temptation to use authoritarian solutions. These, however, would do away with the elements of solidarity and creativity which the resumption of development calls for in both the political and the economic spheres. Therefore, the main means of settling social conflicts, converting new sectors of the population into bearers of change, and reconciling the conduct of the agents of production should be democratic concertation, with the government and the governed sharing power and responsibilities around a national development project. The possibility of overcoming the crisis is not to be found only, or even principally, in the technical and economic field, but rather in the political sphere, since it depends basically on achieving the union of the State and civil society in the struggle to recover the capacity to achieve development.

In short, the development of the countries of the region in the 1980s is faced with similar dilemmas—both false and authentic—to those which it faced before, among them: growth versus equity; outward-oriented versus inward-oriented strategies; consumption versus investment; the State versus private enterprise; planning versus the market; and the exploitation of resources versus protection of the environment. Now, however, these dilemmas have to be faced within a framework of radically changed circumstances which change their scope and characteristics as well as the way they must be tackled. The present document identifies some of these changes, and the way in which they affect Latin America's prospects, and it also presents a preliminary sketch of the lines of action which the region and the individual countries could begin to establish with the purpose of resuming the path towards economic and social progress. The fact that we have to simultaneously tackle three processes which cannot easily be reconciled—stabilization, reactivation and structural change—represents the most difficult task that the region has faced since the Great Depression of the 1930s.



## Change and crisis: Latin America and the Caribbean, 1950-1984

### *1. Main features of the evolution of Latin American development since the end of the war*

In the economic and social fields, the region underwent profound changes in the three decades from the period just after the war up to 1980. In a number of countries, such factors as the expansion of production capacity, the strengthening of the middle groups, the growth of education and health services and the dynamic insertion of the countries into the international economy gave rise among many social groups to the conviction that the pattern of development was running along the right lines. The numerous and important underlying problems seemed of lesser account compared with the achievements that were being made, and there was confidence that economic growth would eventually solve such difficulties.

This confidence was temporarily further strengthened when, despite the world economic recession of 1974-1976 and the subsequent limited recovery of the centres, the region nevertheless managed to maintain its economic growth, although, as was later to be seen, at the cost of using up part of the available room for manoeuvre. Many countries affected by the energy crisis were able to maintain and even increase their imports, taking advantage of the abundant flow of external financing. The idea persisted in various circles that the storm clouds hanging over the international economy were only transitory, and that it would soon be possible to resume the upward trend which, as already noted, had characterized the evolution of the majority of the Latin American economies in previous decades. In short, it was confidently forecast that the 1980s would witness positive economic evolution without any serious upsets.

As from 1981, however, it was seen that the prevailing development style suffered from great vulnerability, especially *vis-à-vis* external factors, and that some of the problems which it had been assumed were in the course of solution

had not only not disappeared but had even got worse. The new situation highlighted both old and new difficulties and clearly revealed that they were now much greater than in any other period since the war.

#### a) 1945-1965

In Latin America, the period immediately following the war was characterized by the attempts to formulate an economic and social policy capable of structuring and orienting the partial measures arising from the reactions to internal and external phenomena. The international conflicts and crises which upset the Latin American economies up to the Second World War and the gradual transformation of predominantly rural societies into urban ones stand out among the causes giving rise to these domestic policies.

Outstanding among the internal changes—sooner in some cases and later in others—is the beginning of a strong trend to industrialization. Not everything can be linked to the appearance or strengthening of the industrial sector, however: at the same time that urbanization was taking place, a domestic market whose expansion was to replace international markets to a substantial extent as the motive force for economic development was being formed, new groups which would change social stratification began to arise, and in the political field, responses designed to channel the aspirations of the emerging groups arose. This set of phenomena is grouped together under the title of "inward-oriented development", which seeks in this way to give a graphic idea of the profound change in the pattern of development.

The deliberate projects for change and the political régimes which promoted them assumed very diverse concrete forms responding largely to the historical and structural differences of the countries. The terms 'reformism', 'populism' and 'developmentalism' which have been used to de-

scribe them usually reflect, in their ambiguity, the difficulty of reducing that diversity to an overall picture. There were, however, common denominators which, in principle, referred both to certain circumstances repeatedly found in different cases and to the predominance of certain basic values. Outstanding among the latter are economic, social and political modernization, nationalism and Statism, or the assignment of a leading role to the State.

Modernization was directed towards the idea of building up urban industrial societies which broadly followed the model of the developed countries, although in order to arrive at that stage it was necessary to follow a different path. This idea covered economic change, spearheaded by deliberately promoted industrialization and by the improvement of the living conditions of the population as a result of increased income, expanded consumption and the opening up of access to social services, while the political structure was to be modified in order to integrate and transfer some power to social groups which had previously been subordinated or underprivileged.

Nationalism expressed itself in two main senses. First of all, as a form of assertion *vis-à-vis* the developed centres from which most of the countries of Latin America depended to an extreme degree during the period of outward-oriented development. Secondly, as the integration of societies and economies which still needed to decant their national identity. Statism, for its part, consisted mainly of assigning to the State a decisive role in the formulation and execution of national projects of change.

With natural differences of tone and emphasis, these values penetrated and became generalized in all the political movements and régimes arising from the crises of traditional governments in the 1930s.

In the economic field, substitution industrialization played a central role. Initially, it was more the result of the countries' reaction to an external crisis than the fruit of a long-studied decision. Afterwards, the world war drastically reduced the availability of foreign exchange, bringing about as a more or less spontaneous reaction of the economic policies the need to administer the scarce foreign exchange available. Little by little, these policies were rationalized

and incorporated longer-term objectives and instruments, until the idea of deliberate industrialization took shape.

Exchange and tariff policies to protect the expansion of the branches producing non-durable consumer goods and some intermediate inputs gained importance. The State transferred resources to industry in order to facilitate the accumulation of capital, frequently through the appropriation of the surpluses from agriculture and the most profitable export lines. The public sector itself transformed the physical and educational infrastructure, and in many countries it created basic branches of the industrial infrastructure through government enterprises.

A fairly widespread feature was that industrial development was linked to the domestic market (or the subregional market, in the case of the incipient economic integration processes), without being combined with the winning of external markets or with a systematic search for domestic competitiveness. This feature, understandable in the beginning because of the way the process sprang up in Latin America and the prevailing international conditions, and subsequently because of the tardiness in adapting the industrialization policy to the new conditions and possibilities of the world market, helped to accentuate the balance-of-payments problems of many countries.

If we look at the economic process in greater detail we see that there were two ways of changing and growing, largely originating in the external economic relations. The first of these was adopted by the countries which had already made significant steps towards industrialization in the 1930s or after the Second World War. These were the relatively larger countries and those whose main commodity export or exports had come to have some influence in world markets. These were the countries which suffered the greatest restrictions on their import capacity and had to make different kinds of efforts to intensify their industrialization strategies. The Southern Cone countries, which had been the most advanced in previous stages, showed little dynamism, and none of them exceeded an annual growth rate of 4%. Colombia, for its part, attained an annual rate of 4.7% and Brazil and Mexico were close to 6%. In all cases, however, there was a gradual drop in the ratio between

imports and the product. As the process speeded up, the resulting restriction on imports caused several countries to push ahead the substitution process to extents which frequently affected the level of efficiency of production, since there was no basic concern with raising domestic productivity and competitiveness, nor with systematically promoting technological change. Growth was centered on the manufacturing sector, but its progress increasingly demanded the use of capital goods and intermediate inputs provided by branches of industry which were more difficult to develop. At the end of the period under examination (1965), the ratio between imports and the product in Brazil, Mexico and Argentina was less than 10%: a substantially lower ratio than that registered at the beginning of the 1950s.

In the second group of countries—medium-sized and small nations—substitution industrialization started from relatively incipient levels of manufacturing development, so they were able to progress without running into the external restrictions suffered by the First group. The annual growth rates of the product were higher in these countries, nearing or exceeding 6% in several cases. In this group of countries, those of Central America began to embark on a fruitful stage of subregional integration towards the end of this period.

In the social field, urbanization and economic development finally consolidated a set of social groups which served as the political support for the style of development followed in this period. The State sought to orient the changes in production, while the industrial entrepreneurs, middle and working class sectors, and at least part of the peasantry, struggled to get away from their role as passive agents of development and become actual actors.

An important feature of the evolution of the process of development in this period was the coexistence of traditional and new groups. The latter favoured the changes tending to emulate the industrialized societies, which served as their point of reference. However, they were up against both the resistance of the traditional groups and the natural difficulty of combining in a common project the different interests which mobilized them. Furthermore, differences sometimes arose within the new groups themselves.

Naturally, the central values guiding the process of change were interpreted differently by the different social groups which supported the process. Certain common elements are to be identified, however, such as the expansion of access to education and other social services and to consumption. Furthermore, there was a general acceptance of the ideas of rationalization of the economy, transformation of the structure of production, increased efficiency, and the extension and intensification of the political, economic and social participation of the new social groups. There was also agreement on the need to encourage certain forms of social organization (trade unions, business organizations, political parties) which would make society more pluralistic and participative.

Industrialization meant that the State would have to play a leading role in the beginning, while the industrial entrepreneurs were strengthening and modernizing their activities. The changes needed to convert the private sector into a dynamic agent of change did not always take place. Industrialization was partly centered on the processing of primary commodities, where traditional interests and patterns of behaviour were maintained. Thus, while being an agent of change, the industrial entrepreneurs were themselves structurally limited from having a type of behaviour which was clearly consistent with a modernizing industrial project.

The middle sectors were strengthened both in numerical and political terms. Generally speaking, during the period of rise in the social scale these sectors showed a propensity to seek their support in the popular sectors; they played an important role in the expansion of consumption, the attainment of greater social and political participation, the establishment of greater social mobility, and support for industrialization and economic change. In many cases, however, this alliance proved to be only transitory.

Broad popular movements also arose in the period under review. In a number of countries they gained political importance, improved access to higher levels of consumption, and managed to secure the adoption of protective social legislation.

Migration brought about a radical change in the urban situation in general and that of the

working class in particular. The problems of incorporation into urban life predominated over those connected with industrial life, and the solution of the former was outside the possibilities of action of the trade unions, since it depended much more on overall government policies. This fact was not overlooked by the régimes of the time, and in many cases relationships of dependency of the trade union movement *vis-à-vis* the State were created.

The agrarian problem was one of the sources of greatest concern, both because of its incidence in terms of the market for domestic industrial expansion and because of its role as a generator of foreign exchange and basic consumer goods, which were key elements in supporting urban and industrial growth. In most cases, the latter function predominated and the peasantry remained on the sidelines of the main channels of economic and social development.

In the final analysis, the State played a leading role in economic and social change, although with some limitations.

The shaping of an inward-oriented growth model under the leadership of the State and the existence of a favourable international climate basically account for the longest period of prosperity which Latin America has enjoyed since its independence. However, difficulties arose in this long process, and the problems which were later to emerge with some violence when the international economic crisis took place at the end of the 1970s were building up unnoticed all this time.

The expansion of industrial development gradually began to run into obstacles of market size and access to external technology and capital; in response, proposals were put forward for economic integration and export promotion, rationalization of protection, and structural reforms, among them those concerning agriculture and taxes.

On another level, the groups which had acquired some power were struggling to gain access to the fruits of growth, thus quite frequently creating serious political tensions. As the State's share in the product grew larger, it began to encounter limitations on its capacity to propel economic and social change and to reduce, by means of transfers to the less favoured groups, the acute disparities in income distribution which

accompanied an intensive process of capital formation.

The main restriction which the action of the State ran into, however, was to arise later, as a result of the process of integration into the world economy at a time of recession in the latter and upsets in the international financial markets.

#### b) 1965-1973

As a result of the domestic economic and political difficulties described earlier, changes in the style of economic development which had prevailed up to that time began to take place in the mid-1960s in many countries of the region. This first attempt at change reached its culmination when the crisis that broke in 1973 and the important variations that took place on the international scene as from 1974 made it necessary to introduce qualitative changes in the styles of development.

In this change, some countries gradually altered their economic policies in an effort to take advantage of the dynamism of external trade and the appearance of new centres of international demand. Governments attached more importance to the promotion of exports, and at the same time, as current income and the balance-of-payments situation improved, they explored the possibility of liberalizing their imports and tended to unify their exchange rates.

In many cases, reforms were also made in the policies and legislation affecting foreign capital, sometimes with the aim of regulating its role, but basically in order to encourage its entry.

Industrialization continued to be a fundamental pillar of development, but it was oriented not only at the domestic market but also at the subregional, regional and world markets. A bigger impulse was given to the processing of natural resources and the incorporation of new branches producing consumer durables, intermediate inputs and capital goods. Agriculture was modernized so that technical progress could reach it more effectively, and in some countries greater emphasis was placed on diversifying exports of agricultural commodities.

The functions of the State also tended to change. In some cases, an important role was assigned to public enterprises. In others, growing support was given to national private groups.

Governments advanced in the planning of their activities; although the planning was not always as effective as had been hoped, in a number of countries public action was gradually making progress as regards the coherence and clarity of its objectives, and at the same time the handling of economic policy instruments was improved, both in the sphere of external trade and exchange policy and in that of fiscal and monetary policy. Control of inflation was a growing concern of many governments. Finally, domestic financial markets were encouraged and a growing linkage with the exterior was permitted.

As already noted, up to 1973 the region registered quite dynamic economic growth and made changes which were by no means insignificant. Such an overall picture, however, conceals a wide range of results.

Thus, obstacles to the subsequent advance of subregional integration processes arose and difficulties in the application of domestic reforms, particularly agrarian reform, became increasingly evident. At the same time, the role of some social groups in the political régimes was changing. In some cases, the armed forces and technocrats came to play more important roles. In others, an attempt was made to expand the popular base of political régimes by incorporating broad urban and rural groups.

Changes on the political level were in many cases a reflection of the social difficulties encountered in trying to absorb a sufficient proportion of the growth in the urban labour force and to satisfy the consumption aspirations of the middle classes. There were undoubtedly difficulties in making room for the aspirations of certain groups. Thus, for example, in the case of the younger sectors there was an increase in the gap between their aspirations and their effective access to participation.

In some cases, the reaction went to the other extreme, giving way to neoconservative-type economic approaches; sometimes the possibility of applying these new formulas was made easier by the existence of authoritarian political régimes.

### c) 1973-1980

As from 1973, various phenomena in the international field—especially the increase in oil

prices—brought about important changes in the economic picture in Latin America. For the countries which exported this product there was a substantial improvement in their terms of trade and a sharp increase in their foreign exchange income. For the importing countries, however, there was the opposite effect, in that their terms of trade deteriorated and there was greater pressure on the balance of payments, not only because of the increase in oil prices but also because of the increases in the prices of imported manufactures due to simultaneous inflationary pressures in the developed countries.

The increase in oil prices and a series of structural factors also altered the functioning of the international economy. There was a notable expansion in the role of the commercial banking system; the supply of financial resources for the developing countries significantly increased; world inflation speeded up, and a little later interest rates rose also.

The Latin American governments gained very easy access to this abundant international financing. External indebtedness with private sources grew sharply, and the banking system assumed an increasingly outstanding role both with regard to the balance-of-payments and the external debt and in the financing of the domestic economy.

Loss of income by the population, inflation, and sometimes erosion of the legitimacy of governments were the effects of the first international crises (in the areas of monetary matters, oil and basic foods) in the 1970s, which culminated in the profound world recession of 1974-1976.

However, the evolution of external trade and external financing during the period 1976-1980 served to back up in some countries the conviction that the recessive phase of the international cycle had been overcome and that the world was returning to normality. During this period, exports grew in both volume and value at the fastest rates registered since the war. Imports also increased, in certain years at surprisingly rapid rates (in the Southern Cone countries and some net oil-exporting countries). At the same time, however, in most cases and years the trade deficit on goods and services was maintained. In general, the expansion of trade after the crisis was rapid but left a deficit. In this latter connec-

tion, the relationship between the production and financial sectors was redefined, and in some cases the first of these lost part of its relative importance *vis-à-vis* the second.

In these circumstances, it was usual to find exceptionally large deficits on the balance-of-payments accounts covering transactions of goods and services. These deficits were made possible, if not justified, by the availability of external financing which, as already noted, was offered in abundance to almost all the countries, initially at low real interest rates.

In short, three factors common to the majority of the countries arose simultaneously in the evolution of external trade and Financing: trade dynamism, a deficit on the goods and services account, and abundant net external financing. Thus, to the extent that it was possible to foresee a situation of rapid growth in the value of exports and low interest rates, it appeared perfectly feasible to increase external indebtedness without running excessive risks as regards external payments capacity, while at the same time expanding the reserves. There was an appreciable degree of freedom in the area of economic policy and in the actual political measures of the governments. In fact, in many cases the exchange, credit, fiscal and international reserve policies helped to stimulate domestic spending, thus giving rise to a boom which stimulated imports and made necessary new external financing.

As from 1981, the facts gave the lie to the optimistic assumptions of the policies aimed at new forms of external economic and financial relations. In most cases, the balance-of-payments situation and the debt burden deteriorated to such a point that they provoked a profound growth crisis, one of whose most immediate manifestations was the increase in unemployment.

The mirage of finding ways to circumvent the need for readjustments in the international economy had been based on two beliefs which later turned out to be false. On the one hand, it had been believed that the heavy external indebtedness would not give rise to subsequent restrictions, this view being based on optimistic assumptions regarding the evolution of international trade and inflation and of the domestic public finances. On the other, it had been thought that the obvious political and social costs of the 1974-1976 recession could be paid for

through the economic growth which would derive from a new and simple form of insertion into the international economy.

Hence, when the external situation changed, the crisis in the style of development which had been incubating in previous years became obvious. The dependence and vulnerability, although changing considerably in their form, got worse, and in many cases neither the State nor society at large were in a position to face up to them adequately.

## 2. Shortcomings and lags in the prevailing style of development

The crisis which took place in the 1980s involved both long-term structural aspects and other short-term factors, some of which have just been mentioned. The evolution of the Latin American economies during the long period following the war displayed important shortcomings, contradictions and lags. Outstanding among these were the gradual exhaustion of the dynamic impulse derived from the changes registered in the structure of production during the 1950s and 1960s; the inequitable distribution of the fruits of growth among the various segments of the population and among the various regions within each country, and the increasing loss of economic autonomy of the countries *vis-à-vis* the international economy.

The challenges posed by the great changes which have taken place since the end of the war up to the present time have been magnified, likewise, by the vigorous population growth of Latin America and the Caribbean. The region's population more than doubled in these three decades. This rapid growth was accompanied by an even faster expansion in the urban population and an important spatial redistribution of inhabitants within the countries. Thus, in almost all of them the urban population now predominates, and in many it represents over two-thirds of the total population. Since the middle of the 1960s, however, a slackening in the population growth rate has been observed as declines in fertility became more general and the decline in mortality slowed down. At all events, it is impossible to overlook the effects that these dynamic processes of population growth, redistribution

and urbanization have had on the magnitude of the efforts that governments have had to make in order to generate employment and provide basic services (health, education and infrastructure) for a growing and youthful population, and to subsidize some essential goods and services, notably food and transport.

a) *Changes in the structure of production*

The traditional institutions, conduct and technologies of production were partially reformed or replaced by others. Industrialization and agricultural modernization, urbanization and the action of the State disseminated technical progress, changed the structure of production and employment and modified the social structure, with the emergence of middle-level and working class urban groups. These changes did not eliminate the distributive heterogeneity, however, nor did they always lead to democratic modernization.

The change in the structure of production was correlative with institutional change. From a situation where the traditional hacienda, family enterprises and craft workshops predominated, there was a transition to another where a large part of production was organized around modern enterprises—public and private—which in some cases achieved an appreciable size and were increasingly linked with international markets. Foreign direct investments, previously concentrated in infrastructural activities and the exploitation and marketing of natural resources, gradually moved into industrial development and modern agricultural production.

In the 1970s, moreover, national financial markets developed within a vast process of liberalization and integration with world financial centres. In some countries the external credit flows fed the national financial systems, while in others the international banking system made up for the weakness of domestic financial institutions and circuits.

Public action became more effective, with industrialization and agricultural modernization policies, the creation of infrastructure, and improvements in the handling of economic policies (tax and tariff reforms, more intensive use of exchange policies). Government enterprises

played a role of the greatest importance in changing the structure of production of many countries, without this fact involving any limitation of public support to the entrepreneurial sector.

Industry grew, diversified and generally became more efficient; its share in the total product rose from 17% to 24% between 1950 and 1980. Import substitution made possible economic growth even in periods of recession in external trade. The expansion of the industrial sector was accompanied by a gradual change in its structure. The production of non-durable consumer goods was followed by the development of branches producing intermediate inputs, consumer durables and capital goods, especially in the larger countries. In this way, domestic production came to satisfy almost the entire demand for consumer goods and a significant and growing part of the demand for basic intermediate goods and capital goods.

This process also showed deficiencies, however. Excessive protection or the absence of stimuli for domestic competition created a class of industrial entrepreneurs who were to some extent divorced from the pressures of technological change and efficiency of production, while they were highly dependent in their investment decisions on government expenditure and policy trends. A strong technological dependency thus grew up, combined with scanty creative capacity; the articulation of the different branches remained limited; the development of the capital goods sector lagged behind; and a strong imbalance in the external trade in manufactures persisted.

Agriculture was changed with the introduction of new production techniques and progress in organization and in the marketing of products. Modern agriculture was capitalized and benefited from the public investments in irrigation and transport infrastructure, new technologies were incorporated on a massive scale, linkages were established with urban and external markets, and important agro-industrial activities were developed. At the same time, however, peasant agriculture (on which a high proportion of the rural population depends) continued to exist almost without any improvements in productivity, and it was still only capable of providing low levels of living, in most

cases below the critical poverty line. Moreover, the relative share of the region's agriculture in world trade tended to decline, while it did not prove possible to consolidate to the full the intra-regional exchange of agricultural products.

#### b) *Equity and participation*

As regards the satisfaction of the objective of economic equity, recent Latin American history shows a complex picture of achievements, setbacks and limitations.

In the area of income distribution, no clear improvements in the overall measurement coefficients were observed, nor were any to be noted in connection with the least favoured groups. It is particularly disappointing that even in the periods following booms in the capital formation process there is no evidence of any substantial improvement, nor has it been possible to share on an equitable basis the costs of the present economic contraction.

The overall considerations, however, conceal big differences between social groups. In urban areas, the middle level sectors appropriated appreciable percentages of the income and participated actively in the political life of the countries. At the same time, in the great metropolises significant groups of the population still live in conditions of extreme poverty. The 5% of the population with the highest income, for its part, has managed to maintain if not to increase its share of total income.

No less significant, in many countries, was the evolution in rural areas. The incorporation of the modern entrepreneurial sector and the dissemination of technological advances in agricultural production is modifying the structure and functioning of rural society and increasing its integration with the rest of the system, while at the same time increasing the differentiation between business agriculture and traditional or peasant agriculture.

With regard to employment and unemployment, various facts are to be noted. The labour force has increased rapidly as a consequence of the high population growth rate and greater participation in the labour market. Moreover, the heavy rural-urban migration, together with the prevailing pattern of development, has prevented modern urban activities —although they

have absorbed large contingents of labour—from being able to generate sufficient productive jobs to match the great supply of labour. This relative insufficiency explains the growth of informal activities, where urban underemployment is concentrated.

Towards the beginning of the 1970s, about 40% of the population was living in conditions of critical poverty, and it does not seem that there have been any substantial improvements since then.

The great changes characteristic of development processes —among them urbanization and the introduction of technical progress— normally cause great disparities and social imbalances. The emergence of new developments in contrast with the traditional situation is not a phenomenon which is exclusive to Latin America and the Caribbean. The special features of the distributive and social heterogeneity of the region are its intensity and persistence, even at times when the dynamism of economic change raised hopes that it might be reduced. In Latin America, partly because of the demonstration effect of the standards prevailing in the industrialized centres and the growing demands for capitalization of the modern sectors of the economy, the differences separating the modern strata from those which are still sunk in traditional structures tends to persist or even become more evident. Here, the dissemination of the fruits of technical progress tends to run into new obstacles which are later crystallized into very inequitable social structures.

Nevertheless, education (in which great advances have been made) has become a way whereby people can become integrated into national society and it has also become a channel for social mobility. In many countries, almost all children are now in school, and university education has become a mass phenomenon. Illiteracy tends to be residual in a number of countries; in spite of this, however, there are still high proportions of illiterates in the rural population (and especially the indigenous rural population) of a fair number of countries. Nor has it been possible to give the entire population a complete cycle of basic schooling. Higher education has been expanded in some countries to levels comparable with those of European nations, although there are clear deficiencies in academic quality. Basic education



has provided opportunities for broad sectors which were previously marginated, but it has not been given sufficient priority or, of course, resources to enable the entire population to be provided with a minimum of necessary knowledge and balance the various educational cycles, including higher education.

Economic growth, industrialization, agricultural modernization, technological and cultural change and urbanization have brought about great changes in the stratification of the Latin American societies. Great sectors of society have taken part in the process of social mobilization by passing from rural to urban status. These changes, as well as representing tangible advantages for the rising social classes, have also enabled them to cross symbolic and historical barriers of social separation.

As the structures of production tend to become stabilized, their impact on social stratification becomes slower and such stratification comes to depend more on the distribution of income, culture and power.

c) *The degree of autonomy in external economic relations*

In the years immediately after the war it was hoped that changes in production would make it possible to increase both the autonomy of the countries in their external decisions, and their technological and productive self-sufficiency.

By 1980, primary exports had been diversified and other exports of semimanufactured and manufactured goods had been incorporated. At the same time, there was a tendency to the elimination of imports of consumer goods, and many inputs and capital goods were substituted with national products. Exports still show a high proportion of primary commodities, however, and the supply of technology and of products which incorporate more advanced technology has depended very much on outside sources.

The expansion of the field of action of the transnational corporations added a new and less visible element to the external dependency of the Latin American production process.

The most notable change in the form of external relations took place during the 1970s in the financial field. Faced with domestic problems

and an ample supply of external financing, governments liberalized their international economic relations, although to very different degrees. Private banking and commercial sources channelled big flows of financing to the region. Loans from abroad came to play an active role in both investment and everyday activity; they greatly exceeded direct foreign investment in amount; they replaced or supplemented long-term loans from multinational financial institutions intended for big investments in physical and industrial infrastructure, which had now to be carried out with medium- and short-term loans; and they provided the external savings needed to close the balance-of-payments deficit.

Thus, the transnational banking system penetrated deeply into the economy of the Latin American countries. In many cases, governments lost control of the external financial flows as the degree of vulnerability of their economies increased. There was a noticeable increase in the asymmetrical nature of financial relations. The fixing of interest rates and decisions on the availability of funds moved increasingly out of the range of action of the Latin American countries' policies.

In short, although industrialization sometimes increased the autonomy of decision-making, generally there was no substantial change in the degree of technological dependence or in the asymmetrical nature of external trade and financial relations. The restrictions in these aspects became obvious at a higher level of development, however.

d) *The persistent heterogeneity*

The intensive changes typical of development processes, such as urbanization and the introduction of technical progress, normally generate great imbalances. In these circumstances, it is normal to expect great initial differences in productivity between the new and traditional activities and the emergence of social strata which are appreciably different from the traditional ones.

In the following sections, some factors which seem to be specially important in the generation and maintenance of the heterogeneity of the Latin American and Caribbean countries will be highlighted. This list, which does not pretend to

be exhaustive, in no sense gainsays the differences existing between the countries of the region or the consequent diversity as regards the relative weight and form of incidence of the factors in question in each case.

In the First place, the process of economic and social change comes within the framework of the centre-periphery relation, whereby the centre transfers to the periphery its habits of consumption and technology. In the periphery, the habits of consumption are adopted by many social groups, especially those of middle and high income, even though their per capita income is much less than that of the central countries. This transfer —stimulated by the advances in mass communication at the international level— is extremely dynamic and has meant a tremendous challenge for the peripheral countries. It presents great demands for imports and capital and creates difficulties for carrying out production on competitive conditions, because of the small scales involved. This means that industrial development based on this pattern is limited by the external bottleneck, by the shortage of savings, and by the difficulty in winning external markets, which would demand suitable competitive capacity.

Secondly, the capacity of the system to absorb the available labour depends on the magnitude and nature of the accumulation process, as well as on the growth and composition of the labour force. As already noted, the peripheral countries, through their imports of capital goods, absorbed the same type of technology prevailing in the centres, albeit with some delay and in a distorted and incomplete manner. The use of a common type of technology, based on automation, however, calls for a much greater effort of domestic saving in relation to income on the periphery than in the centre. This difficulty, of itself, militates against the reduction of heterogeneity on the periphery.

Thirdly, the industrialization process has not always been directed with a long-term view. On the contrary, it has tended to satisfy quite rapidly a level of consumption which has been depressed by external trade crises or else a slightly higher level whose consolidation in the medium term

depends on economic policy measures. The obstacle to the satisfaction of this type of consumption, increasingly inspired by that of the centres, lay in balance-of-payments problems or in the relative stagnation of the income and demand of the high and middle-income groups which guaranteed the profitability of industries producing consumer durables. This limited the capacity of the industrialization process to influence the employment structure with a sustained process of accumulation aimed at the intermediate and capital goods branches. Furthermore, the persistence of underemployment or even open unemployment reduced the possibility of a continued increase in income for working class groups. Thus, the changes in production have ultimately been guided by the established form of distribution of income and economic power, and groups which represent only a small percentage of the population have controlled the bulk of the increases in demand.

Furthermore, heterogeneity has been manifested not only in the division between modernizing and traditional social forces, but also frequently within the first-named of these; thus, in most cases the renovatory régimes have included traditional and modern elements, both in the social forces which served as their support and in their principles of orientation and action. This heterogeneity —aggravated by the number of social groups making them up— prevented these régimes from following a clear path; they always seemed to be overwhelmed by the need to solve short-term problems, satisfy pressing demands and reconcile opposing interests. This latter factor is clearly reflected in their industrialization policy, which, although constituting the backbone of their economic programme, never attained the impetus, permanence or time horizon necessary for definitively overcoming the old régime.

In short, there have been functional links between economic and social change, the dynamism of this, and heterogeneity.

Thus, incorporation and marginality, modernization and heterogeneity tend to be reproduced, and their coexistence becomes a permanent characteristic of the functioning of this style of development.

### 3. *The economic crisis from 1981 to 1984*

#### a) *Scope*

Between 1981 and 1984, Latin America suffered (and continues to suffer) from the severest and most prolonged recession since the great crisis of the 1930s. This situation was all the more spectacular because it occurred after four years in which the economic growth rate of the region had reached an average of 5.5%. As already noted, the fact is that this growth had had shortcomings, especially as regards income distribution, employment and the relative degree of autonomy *vis-à-vis* the exterior. Nevertheless, the region had managed to emerge from the oil crisis after 1973 with only a partial reduction in its growth (unlike the OECD countries, whose production actually declined).

Beginning in 1981, the real per capita income fell for three consecutive years, and finally bottomed out in 1984 at a level 8% below that of 1980 and only equivalent to that already reached in 1977. Although there were substantial differences between countries, there was a general decline in per capita income which affected 17 of the 19 countries of the region for which statistics are available. The crisis affected all types of countries: large and small, oil exporters and non-oil exporters, countries whose economies were relatively more centrally directed or which were oriented rather towards the market, countries with export-oriented development strategies or strategies mainly directed towards the domestic market.

When the period of profound recession began, the contraction in the gross domestic product was accompanied by serious financial imbalances which were reflected in the balance-of-payments current account, fiscal deficits and inflationary tensions. As from 1983, the external imbalances eased to some extent: the deficit on current account went down from nearly US\$ 40 billion in 1981 (i.e., over 40% of exports) to only US\$ 2 billion in 1984, and the trade balance, which showed a deficit of US\$ 2 billion in 1981, recovered to show a surplus of US\$ 38 billion in 1984. Although this result was heavily influenced by the performance of two countries—Mexico and Brazil—it nevertheless reflects the trends prevailing in most of the countries. The counter-

part to the improvement in the trade balance, however, was not only the above-mentioned recession—with its accompanying increase in open unemployment and underemployment—but also the trebling of the rate of inflation, which averaged almost 180% in 1984. As was to be expected, the economic recession, accompanied by unprecedented inflation, caused a sharp decline in real wages in most countries.

#### b) *Origins*

In the unleashing of the crisis, a part was played both by the long-term structural factors described above and the short-term ones associated with the external imbalance. The event that triggered off the crisis was the effort made to correct this external imbalance in too short a time. It was the region's inability to gain access to significant capital flows which prevented it from gaining time in order to promote an efficient adjustment based on a change in the structure of production instead of its limitation or reduction.

In order to understand why Latin America (with substantial differences from country to country) became so heavily indebted and consequently had so little room for manoeuvre it is necessary to look at the less immediate origins of the crisis. As already noted, the adjustment to the increased oil prices in 1973 and the subsequent world recession were gradual processes and were consequently expansive rather than sudden and recessive, and they were financed largely through the recycling of petrodollars. In some countries, the adjustment (although gradual) was complete; in others it was only partial or was even postponed. Two opposing orientations in economic policy carried special weight, in different countries or different periods, in the generation of the crisis: excessively expansive spending policies and monetarist-type policies based on extensive opening-up to the exterior. The prolonged application of these two orientations had a common element: excessive dependence of growth on external indebtedness. At all events, as the indebtedness had already been used to reduce the effects of external changes, the debt/export ratio was already dangerously high in 1979, when the second oil crisis took place.

Furthermore, the world recession was pre-

cipitated by the attempts of the industrialized countries to abruptly contain the resurgence of inflation to which the unexpected doubling of oil prices had contributed. There was thus a decline in the imports of the central countries and hence a weakening of the demand for the exports of the periphery, with a sharp fall in the latter's terms of trade. Moreover, as the stabilization of prices in all the OECD countries was centered on a very restrictive monetary policy, national and hence international interest rates rose.

Political pressures, or the belief that world growth would be maintained (1981) or that the recovery would soon begin (1982), led many countries to continue to increase their indebtedness or draw down their reserves in an attempt to prevent the adjustment from being entirely recessive, as had been successfully achieved in 1974. Even the oil-exporting countries, which did not face serious restrictions in their external relations, resorted to the expedient of increasing their indebtedness in order to achieve higher rates of economic expansion. Consequently, between 1980 and 1982 the region's debt grew by almost US\$ 100 billion (i.e., by nearly 50%). This indebtedness was frequently encouraged by the liberal supply of funds made available by the international banking system.

The abundance of external financing also made it possible to use exchange rates in order to control inflation instead of maintaining an external balance, or else to use them to finance unsustainable levels of fiscal expenditure. In general, the slowness of most of the countries of the region in adjusting their domestic economic policy to the changing circumstances of the international economy magnified the financial imbalances. Among many other consequences of the lag in the implementation of new policies was a considerable flight of capital, further encouraged by factors of non-economic origin in some countries. Furthermore, the loans obtained were not always well invested; indeed, in some cases they were not invested at all but were spent on imports of non-essential consumer goods and military equipment or else simply went back abroad to swell the private accounts maintained in international financial centres.

However, these phenomena are merely the superficial expression of deeper changes which have been gaining ground in the international

economy. The integration of markets, the remodelling of comparative advantages, or the emergence of new spearhead sectors, also at the worldwide level, are inevitably reflected in tensions and changes which have a disproportionately great effect on the developing countries.

Likewise, many of the economies of the region, apart from having exhausted the margins of manoeuvre available for the defence of domestic development in the face of extraordinary rearrangements of the international economy which took place in the 1970s, also faced long-standing problems due to the exhaustion of their old development patterns.

Consequently, the unexpectedly long duration of the recession in the central countries checked the growth of export volumes and reduced export prices to such an extent that by 1982 the debt/export ratio had reached three to one. Taking into account this decline in payment capacity, which was accentuated by the unexpected increase in the interest rates on international loans, the proportion between interest payments and exports doubled in only two years and came to nearly 40% in 1982. In some countries, this phenomenon coincided with unsustainable lags in the handling of exchange and financial policy, reflected in a chain of abrupt devaluations which increased the burden of servicing the external debt in local currency terms. In 1982, the temporary interruption in the servicing of the Mexican external debt, together with other factors, suddenly dried up the availability of outside financial resources.

As from 1982, Latin America abruptly became a net exporter of resources. This negative transfer was very heavy—of the order of 25% of the value of exports in the period 1982-1984—after having been positive at the rate of about 13% in the three previous years. It is difficult to exaggerate the unfavourable repercussions of this procyclical change which, to make matters worse, coincided with an average annual drop of 5% in the terms of trade.

#### c) *Reactions in the area of economic policy*

In the face of such a marked external imbalance, and in view of the impossibility of spreading the adjustment over a longer time be-

cause of the contraction in external financing, most of the countries of the region were obliged to save foreign exchange rapidly. Emphasis was placed on restricting global demand by applying traditional policies —reduction of public spending, restrictive credit policies, reduction of real wages— and greater priority was given to exchange adjustments and export incentives. In almost all cases, the governments applied both sets of policies together, and in a few countries changes were also promoted in the structure of investment in order to substitute imports and increase exports. Most of the adjustment programmes were worked out and put into practice under the auspices of agreements signed with the IMF.

Through the adjustment programmes and the renegotiation of debts the external imbalance was indeed reduced, but at the cost of a severe contraction in the level of economic activity. The current account deficit was practically eliminated in two years, and a substantial surplus was generated on the trade account (US\$ 40 billion in only three years). Obviously, however, an improvement of this magnitude in such a short time was more the result of a policy of reduction of imports (which caused a contraction in production)

than of a policy aimed at structural transformation favourable to development. In these two years, the volume of imports went down by 40%, which affected not only imports of luxury goods, but also the purchase of essential machinery and intermediate inputs.

Consequently, the reduction of the external imbalance has been unsatisfactory, since it was not accompanied by a substantial increase in the production of tradeable goods, either in order to increase exports or to substitute imports.

As already noted, the countries of the region acted in this way because they had already used up all the types of freedom of action at their disposal and because the interruption of the flows of finance prevented them from carrying out the rearrangement process more gradually. While it is true that the various rounds of debt renegotiations between 1982 and 1984 prevented an international financial crisis of disastrous proportions, they did not have the scope needed to facilitate the essential restructuring of the Latin American economies. Consequently, the advantages of the adjustment programmes largely benefited the centre, whereas the negative effects fell above all on the debtor nations.

## II

### Present constraints and future conditioning factors

#### 1. *The external context*

The foreseeable evolution of the international economy during the coming years would appear to offer fewer opportunities to the Latin American and Caribbean countries than during the period following the war, while in contrast it will bring with it serious restrictions. The intensification of technological change, alterations in the magnitude and structure of international trade and changes in the rules governing that trade have made the old international division of labour obsolete, without yet clearly indicating how the Latin American and Caribbean countries can be incorporated into the new scheme. Furthermore, it is to be expected that there will

be substantial restrictions on the availability of public and private financial resources. In short, it would be unrealistic to expect that the external context will offer sufficient dynamic stimuli to the region to attain growth rates comparable with those of the past; indeed, even taking advantage of the opportunities that this new environment may offer will call for great efforts on the part of the countries to adapt themselves to the changing circumstances of the international economy.

#### a) *The growth and economic policies of the developed countries*

Estimates by various institutions coincide in forecasting that the growth rates of the in-

dustrialized countries up to the end of the present decade will continue to be rather below the historical levels; that the rates of inflation in those countries will go down compared with those registered in recent years, and that the nominal interest rates in international financial markets could show a slight reduction. They also coincide in forecasting that the trade restrictions in the industrial countries will not undergo any significant relief in the years to come and may even get worse in certain branches of activity, such as steel, where several of those countries have been losing their capacity to compete. It can also be assumed that oil prices will not change much in real terms and that the terms of trade of the developing countries will in the best of cases show a slight improvement in 1984-1985 and afterwards remain constant up to the end of the decade.

It is estimated that the financing needs of the United States and other industrial countries will absorb a considerable part of the resources available on world financial markets. These resources, which may be smaller than those of the 1970s because of the change in the structure of the current account surplus between the various countries in the world, will only permit a very slight increase in the net financing supplied by the private sector to developing countries, in comparison with past experience. It is also estimated that official development aid will not grow in real terms, or will grow only very slightly and then only for certain countries of the region.

There appear to be important differences as regards the flexibility of each developed economy to adapt itself to the changes which are taking place in the international economy; this flexibility influences the capacity to compete and the dynamism of production and exports.

Today, the United States and Japan seem to be the countries with the best possibilities of modernizing and adapting their productive systems to the changes in the structure of demand and carrying out changes in the spheres of technology and production. In contrast, some European countries seem to show greater resistance to such changes, so that the modernization will be slower, with negative consequences for their capacity to compete.

In short, it seems reasonable to expect a moderate and less steady recovery of the developed

economies, with greater unemployment and with more accentuated protectionist tendencies than in the decades following the Second World War. For Latin America, this could mean an incomplete recovery of demand for its exports, accompanied by instability and uncertainty.

As regards the availability of international financial resources, it may be assumed that the amounts available will be considerably less than in past eras and that it will also be necessary to compete with the demand of developed countries and a probable predisposition to give preference to certain Asian countries whose levels of indebtedness are lower than those of Latin America.

b) *Changes in technology and production in the developed countries: alterations in historical comparative advantages*

A second phenomenon which is taking place in the developed countries and has important repercussions for Latin America is the rapid introduction of new technologies for the production of goods and services, with decided government support. This is taking place, for example, in such fields as microelectronics; robotization; computer control of production processes; data processing; long-distance transmission of information; biotechnology and genetic engineering; techniques, processes and equipment which make it possible to save energy or replace fossil fuels; and new light and strong materials.

These new technologies favour the production processes of the developed countries; the levels of their costs; the management and accounting of enterprises; the quality of the goods produced, and also the centralized management and control of branch enterprises, thus permitting greater expansion of enterprises into the markets of other countries and industrial integration on a worldwide scale.

In the long term, these same technologies reduce the advantages of countries which have abundant labour and natural resources, make it possible to bring lower-quality resources into production, and increase the precision and quality of manufactures.

The other important aspect of the changes which are taking place in the economies of the developed countries is the growth of services.

These include some connected with the so-called information technology, which help to raise productivity in both goods-producing activities and engineering services, banking, financial institutions and insurance. There is also rapid growth in some services connected with tourism and recreation. In contrast, some traditional services are tending to lose relative importance, especially retail trade in specialized lines, as a result of the competition of big integrated stores.

The developed countries show active interest in penetrating the markets of the developing countries with their service activities. The most notable case is that of the United States, which has taken a very firm position over the liberalization of international flows of services, calling for these to be incorporated in the GATT rules as a way of preventing the application of protection and promotion policies at the national level.

Although it is not yet possible to appraise exactly the impact of the new technologies on the competitiveness of Latin America and other developing areas, it is all too obvious that these technologies could reduce the comparative advantages of Latin America which served as the basis for the old international division of labour in production processes making intensive use of labour or natural resources. These considerations make it necessary to reassert the importance of the efforts that should be made at the national and regional levels in the coming decade in the area of technological development.

c) *Changes in the institutionality of international trade*

The third important aspect concerns the institutional changes in world trade. The problems of the recession, unemployment and the balance of payments favour some *de facto* changes in the rules governing world trade. They reduce the effectiveness of the application of the most-favoured-nation clause which is the basis of GATT (in the case of many goods which are of interest for Latin America, this clause tends to become the exception rather than the rule). Multilateralism and free trade are gradually being partly replaced by bilateral arrangements and managed trade (as has been sanctioned to some extent by GATT with the adoption of the Multifibres Agree-

ment). There is also an increase in the number of important negotiations and decisions connected with trade which are carried out outside the ambit of GATT, with the limited participation of specific groups of countries.

Protectionism is becoming a phenomenon with moveable limits: it does not cover just a fixed list of sectors, but keeps on incorporating others where the impact of the exports of the developing countries introduces unwanted competition into the markets of the developed economies. In addition to the immediate negative effects on Latin American exports, this phenomenon creates an atmosphere of great uncertainty as regards the policies of the Latin American countries covering production and specialization for external trade. In addition, there are the promotional measures which the developed exporting countries apply in branches which compete with Latin American products, and the application of the principle of graduation, whereby a number of countries of the region are receiving less favourable treatment than other developing countries.

d) *The transnationalization of the international economy*

Fourthly, the transnationalization of the world economy must be highlighted. In this respect, many important decisions are at least partially beyond the control of national governments. This phenomenon has various aspects: the great economic power acquired by the transnational corporations and their capacity to shift production activities from one country to another; the growth in linkages between countries which subject each of them to greater external influences and condition their possibilities of applying autonomous economic policies; the growing dispersion of industrial production, which has been split up among various countries through subcontracting; the formation of international financial markets, such as the Eurodollar market; and the leading role played by the great international banks, which considerably reduces the regulatory capacity of governments over a broad spectrum of financial operations.

The repercussions of the transnationalization of the economies of the developing countries

are complex. They will have to learn to operate in a less orderly world, with vaguer rules, than that governed by the Bretton Woods Agreement, with new risks—and opportunities—and greater uncertainty as regards the future. The transnational corporations are important agents for the transfer of technology to the Latin American and Caribbean countries and for giving them access to external markets, but at the same time they raise the problem of the articulation of their forms of action and operations with national development policies.

e) *Trends in the world power system*

In the last forty years there has been a diversification of the actors and of the levels at which international economic activity is carried on. The European countries, and even more so Japan, have become important economic competitors for the United States in merchandise trade, financial intermediation, technology, direct investment and services connected with production. The transnational corporations have acquired the capacity to take actions and decisions which are largely beyond the control of the economic policy of any individual country. In recent years, the competition of the newly industrialized countries of Asia and Latin America has become important in international manufactures markets.

National societies are becoming more diversified and pursuing an increasingly broad variety of objectives, many of which depend on what goes on in the outside world. The list of issues of international concern has become less clearly ordered and more complex. The State is losing part of its effectiveness in the handling of external relations, and new agents are beginning to intervene, bringing into play non-traditional power resources. The atmosphere of co-operation which inspired international relations in the 1960s has now faded away.

The trends at the various levels on which the world power system is analysed—economic, cultural, political and military—are acquiring new and more complex forms of mutual linkage, and they are affected by the projects put into effect by the large and medium-sized powers in order to increase their relative weight. The impression that steady progress was being made

towards a multipolar world has been subject to limitations on various planes, and situations have been observed in which the reassertion of multipolarity is accompanied by events which would seem to suggest a return to the previous bipolarity.

2. *The burden of the external debt*

The main immediate constraint on their economic reactivation which the Latin American countries have to face is the overwhelming burden of the external debt. The high debt/export ratio is one of the main features giving the Latin American economic crisis special characteristics compared with those of other developing countries.

The balance of the disbursed external debt of the countries of the region grew rapidly from US\$ 150 billion in 1978 to over US\$ 360 billion in 1984. Within it, financing from private banks on commercial conditions as regards repayment terms and interest rates has been assuming increasing relative importance. Due to the combined effects of the increased indebtedness, the deterioration in its structure and the evolution of interest rates, since 1982 the region has had to devote between 35% and 40% of the foreign exchange generated by its exports of goods and services to the payment of interest (in some countries, this proportion has even been over 50%). In view of the magnitude of the problem, most of the countries had to embark on negotiations in order to reschedule their commitments, thus deferring in time—but not eliminating—the heavy burden of debt servicing.

The adverse influence of this situation on economic reactivation is obvious. Even the countries which have achieved the most favourable conditions in their renegotiations have to devote a very significant proportion of the foreign exchange generated by their exports—sometimes nearly 50%—to the servicing of the external debt. Secondly, as long as this problem persists—and it must be expected that it will continue for many years—the possibility of gaining access to new financing is severely restricted. Thirdly, this has strongly conditioned the management of economic policy in most of the countries, even causing reactivation to be subordinated to the need to generate trade surpluses



in order to meet the debt commitments. Furthermore, this topic occupies a predominant place in the attention of those formulating economic policy, sometimes at the expense of other aspects which are closer to the subject of development itself. Finally, the debt problem introduces great uncertainty into the immediate and medium-term prospects, because of the different paths that the renegotiations could take or the different possible answers to the query on how to relieve the effects of the lack of outside financing.

In short, as long as the majority of the countries of the region continue to be obliged to devote a high proportion of their foreign exchange to debt servicing, any attempt at reactivation and development will run into formidable obstacles. Although there is a possibility that the problem may be somewhat relieved—at least in relative terms—in proportion as exports increase, there are no grounds (as already noted) for expecting a favourable external environment which would permit all the countries of the region to raise their exports at sufficiently rapid rates to bring about an appreciable reduction in the incidence of debt servicing.

### 3. *The domestic situation*

As well as the constraints of external origin described above, there are others of domestic origin. Prominent among these are a group of structural shortcomings (lack of articulation of production activities, inefficiency, technological backwardness, weakness of management, inadequate training of labour, unsuitable forms of insertion into international markets, etc.) which reduce the capacity of the Latin American economies to adapt to the crisis and find suitable responses to it. As a result, the crisis continues to grow deeper and to bring about a series of unfavourable effects, some of the most important of which (with natural differences from one country to another) are the erosion of real income and deficiencies in the supply of the most basic consumer goods to the population; the deterioration of levels of saving and accumulation; the repressed demand for imported inputs, and the narrowing of the freedom of manoeuvre of economic policy itself.

As regards the erosion of real income, it has already been noted that in the region as a whole the per capita gross domestic product went down for three years running (1981-1983) and virtually stagnated in 1984, so that it returned to the levels already registered in 1977. For many countries, the situation was even more dramatic: over half of them continued to register negative per capita growth rates in 1984, while in others the real per capita income sank to levels comparable to those of the early 1970s or even before. Other manifestations of the marked decline in material well-being are to be found in the evolution of urban unemployment, which, in most of the countries with statistical registers, doubled between 1978 and 1984 on top of the sharp fall in real wages, which in many cases amounted to over 30% during the last two years.

The deterioration in the standard of living of the Latin American and Caribbean population has economic, political and social repercussions. Even if a certain dynamism in the growth rate of the economies were recovered for a relatively long period, this would only make possible the gradual recovery of previous levels, rather than any significant increase in them.

Future trends in demographic dynamics, as regards population growth, structure and spatial distribution, are conditioning factors which cannot be left out of the reckoning when evaluating these possibilities. This is because of the inertia of demographic processes and because some aspects of these dynamics are already predetermined.

A second limiting factor for future development lies in the reduction in the flows of savings and investment, and even in the stock of capital. The regional investment coefficient went down from 25% in 1975 to 17% in 1984: a figure comparable to that registered in the 1950s.

Consequently, it is necessary to emphasize the vital importance, for the future development of the countries of the region, of restoring saving and investment to levels in keeping with the revitalization and adaptation of regional production capacity. Although it is true that in a first stage some reactivation could be promoted by using the existing production capacity to the full—while another potential asset is the deposits and investments abroad which are the counterpart of the flight of capital—the countries of the

region can hardly modernize and articulate their productive sectors without increasing the capacity for mobilizing savings and investing them in real priority activities. This is a difficult task in view of the unfavourable prospects for procuring significant amounts of external savings, while the mobilization of domestic savings will run up against the lags in consumption already referred to in previous paragraphs.

Furthermore, as a result of the contraction in the levels of consumption and investment, and possibly also of a deliberate import substitution effort, in recent years the region has managed to significantly compress its import coefficients. In some cases, especially in the large countries, these coefficients have dropped to minimal levels, so that it may be expected that any attempt at economic reactivation will be accompanied by a vigorous upsurge in import needs, thus once again creating restrictions on the growth capacity, unless at the same time there is an expansion in exports or an increase in external financing.

Finally, the above-mentioned limitations of internal and external origin have been reflected in a systematic narrowing of the room for manoeuvre in the handling of economic policy. Thus, the drop in the international monetary reserves, the burden of the external debt, and austerity in public spending have tended to weaken the leading role of the State and accentuate the vulnerability of the economies.

#### *4. Social tensions and the movement towards democracy*

Among the factors conditioning Latin American development, mention must also be made of the political context. Here, there are two diametrically opposed situations: in some countries (the majority), and in contrast to what happened

during the depression of the 1930s, the economic crisis coincided with or opened the way to a process of democratization reflected in the return to power of constitutionally elected civil governments. In others (especially in some Central American countries), the economic crisis coincided and was interrelated with a serious political and social crisis.

This latter phenomenon becomes a restriction, in the final analysis, since the recovery of certain norms of social coexistence is a requisite for restoring minimum levels of saving and investment, checking the flight of capital and even of human resources, and establishing the basic conditions to facilitate economic reactivation.

With the movement towards democracy, one of the longest-postponed aspirations for the modernization of the Latin American societies has been fulfilled. However, this has taken place at a time when it has not been possible to satisfy other objectives, such as growth, equitable distribution of income, and correction of external vulnerability. The recent democratization, which is the result of a complex set of interrelated factors of national and international origin, must be viewed as a development which is favourable from every point of view, which transcends the academic debate on the possible trade-offs between the individual objectives of development, and which also transcends the even more theoretical discussion on the most suitable type of political regime for the promotion of development. Consequently, another challenge which will have to be faced in the years to come is that of converting the process of democratization into a functional element of reactivation and development and seeking in these latter factors the support needed to consolidate and intensify the building of democracy.

### III

## Bases and strategy options for reorienting development

#### *1. Development objectives in the new conditions*

Economic growth, rather than a final goal for human effort, is a means of increasing well-being and facilitating the achievement of objectives of

personal and social development. It not only implies that the supply of goods and services should be increased, but also that the whole population should have effective access to these goods and that their right to obtain them should be institutionalized.

The development objectives commonly accepted are: a) the transformation of the economic structure and the achievement of dynamic growth; b) an advance towards more equitable societies; c) the enlargement of the degree of autonomy conducive to a more symmetrical system of external economic relations; and d) the increase and channelling of the economic and social participation of all the sectors of the population and the consolidation of democracy.

These objectives are often fostered by reciprocal support, since progress towards the achievement of some of them facilitates the prosecution of others. In specific national situations, however, it may be necessary to select priorities, and in such cases it is essential to reconcile goals and graduate the intensity of the pursuit of each. Thus, for example, the improvement of the conditions of the lowest-income strata and the overcoming of problems of social heterogeneity in which demographic dynamics plays an important part have to be reconciled with the capital formation needed to ensure dynamic growth and a sustained rise in future standards of welfare; the immediate redistribution of assets or income may, in certain circumstances, militate against current accumulation or, in others, be a requisite for the mobilization of resources and energies which would amplify this process and increase the efficacy of investment. Again, the content of investment and production must be such as to ensure the full use of resources in the long term and the satisfaction of the basic needs of the population. At the same time, autonomy and greater symmetry in external relations are facilitated if certain transformations are made in the style of living, the patterns of demand and the productive structure, and if creative elements are explicitly incorporated into the national cultures and into the handling of economic and social development decisions; but these processes should incorporate the exigencies of modernization and the emerging demands of increasing popular participation. The prosecution and consolidation of economic and social development, in view of its different aspects, must necessarily comply with a series of requisites if the process is to be stable and sustained.

The experience of countries which have carried out modernization processes in order to nar-

row the gap separating them from nations which had outstripped them over time suggests the adoption of social mechanisms which permit the incorporation of values, behaviour patterns and knowledge deriving from more advanced countries. An essential factor in the success of these processes is the incorporation of elements of national creation in carrying them out, bearing in mind the problems, characteristics, resources, traditions and cultural values of the societies undergoing modernization. Neither institutions nor life styles can be transplanted without adaptation, that is, without a local capacity to remodel its own development and technology.

Moreover, the achievement of a sound process of self-sustained development implies an increasingly inward-directed integration and articulation, both economic and social, in each country. Historically, in the currently developed countries, the dynamics of development was based on the creation of reciprocal demands, intersectoral and intra-sectoral, and has generated more homogeneous productivity levels throughout the whole productive machinery.

The stability of societies is not wholly dependent on economic development; there must also be progress in the correlative transformation of the social structures and in the procedures of political participation. If the pattern of growth excludes major sectors of the population, modernization becomes superficial and uncertain, and would fail to incorporate a decisive part of the energies of the population in favour of development.

At the same time, the harmonization of development objectives and the formation of criteria of social priorities require institutionalized mechanisms for ranking the demands of the different social groups. The Latin American societies cannot, overnight, solve all the problems of underdevelopment or establish the consumer patterns of more advantaged nations. Hence, it is vital to find ways of ranking demands, adapting their content and meeting them adequately so that they do not become a source of conflict which would disrupt the very process of development itself.

The harmonization of the objectives indicated entails the elimination of enormous conceptual and practical difficulties in fixing priorities. The way in which the various objectives are

combined will certainly vary from country to country, but a careful reading of the diagnosis of the previous chapter suggests as a common feature of all the Latin American and Caribbean countries the need to widen the very narrow national margins for manoeuvre in reorienting development. This basic imperative would imply giving special attention to measures which increase the degree of self-determination in national economic policies.

Nevertheless, the achievement of autonomy should not be pursued to the detriment of other development objectives. The aim should be to seek the integrated fulfillment of the goals of growth, improving income distribution, stimulating transformations, fomenting participative development and improving the national capacity for self-determination. The strengthening of control over the destiny of the countries of the region has obvious repercussions on the method of organizing the content and scope of economic policy and the mechanisms for reactivating the economies (growth), meeting the basic needs of the majorities (distribution), and consolidating the process of democratization.

The aim of reducing external vulnerability should by no means be identified with autarky. It means rather a dynamic, selective and diversified insertion in the international economy—not an indiscriminate "opening-up"—which will make the countries less dependent on the export of a limited number of products or on a small number of markets. The aim of increasing the margin for manoeuvre at national level is functionally linked with the socio-political objectives of improving income distribution and advancing towards more pluralist and participative societies. Nowadays States are not only prevented from using public expenditure as a mechanism of persuasion *vis-à-vis* the productive agents, but they face social demands increased by the overall loss of income, attributable to the economic depression. Thus one of the few ways open is to seek new social consensuses which imply an improvement of economic autonomy through the concertation of interests with different groups, incorporating them into the process of the formulation and taking of decisions. In the same order of ideas mechanisms will have to be set up which will promote equity both in the sharing of the burden of the economic recession and in the

distribution of the benefits of the future reactivation. The viability and capacity of concerting interests varies with the political régimes, the traditions and the institutional structure of each country, but in all cases there is a real possibility of achieving advances where the traditional measures merely lead to conflict and social fragmentation.

In brief, in order to combine the objectives of sustained growth in conditions of productive efficiency, full employment of resources, a more equitable distribution of the fruits of growth and the maintenance of an acceptable degree of autonomy in the international system, criteria of social efficiency must be applied in a dynamic context which takes sufficient account of the maturation periods of creativity and of resources, as well as of their interdependence. This cannot be regarded as the formulation of a technical problem—which would be difficult to solve—but as the stylizing of a political quest for social efficiency in the adverse conditions of the crisis facing Latin America and in a context of profound transformations.

## 2. Programme and criteria for reorienting economic development

Bearing in mind the restrictions associated with the external sector and with the availability of resources for investment, together with the aim of improving national autonomy, it is of interest to underline certain central aspects which should form part of the development strategies, without excluding consideration of other topics or prejudging specific solutions in each country.

### a) External resources

The external crisis confers special importance on the procurement and availability of foreign exchange. It is probable, however, that adjustment through the indiscriminate contraction of imports will continue to hamper growth. Even so, if import restriction is made selective, apart from reducing the external bottleneck it might reorient development towards a less imitative pattern of demand and one less vulnerable to external influence. The sustained improvement in the trade balance should be based, therefore, on the selective promotion of exports and

the efficient substitution of imports, both aimed at achieving an adequate capacity for international competition.

b) *Productive transformation*

Throughout this note emphasis will be laid on the necessity of transforming the directly productive activities, both in primary and secondary sectors. Thus, agricultural development re-oriented towards food security in conditions which gradually approach international competitiveness offers a wide field for economic growth with equity and the reduction of external vulnerability. In this case, it is probable that conditions will arise for a considerable expansion of the domestic markets in many countries of the region, both through the diversification of the linkages between agriculture and industry and by the substitution of imported foods and the development of the potential market through the satisfaction of the basic food and nutritional needs of the lower-income groups of the population.

The overcoming of the bottlenecks of the current industrialization pattern implies that Latin American industry must become internationally competitive, whether it directs its production to the domestic market or to export, since in both directions the capacity for competition will optimize the balance-of-payments, growth and well-being.

This would highlight the false alternative of opposing import substitution to export promotion. Historically, the substitution of imports has been a requisite for achieving industrial capacity to export. In the world today the newly developing economies can only consolidate the indispensable industrial capacity in so far as they proceed to establish —within a framework of specialization— articulated chains of activities (primary, industrial, technological and educational) which will strengthen the productive creativity of the community. Without this capacity import substitution ends by weakening the industrialization process, and competitive exportation becomes impracticable in the long term.

The promotion of industrial exports and the simultaneous protection of strategic activities for the creation of dynamic comparative advantages

should be related in a coherent industrial development strategy. Protection should be maintained and graduated in terms of the progressive increase of the capacity for competition in each activity. But it should also be an inducement for the improvement of the latter. Export promotion should have levels and modes which prevent the system of relative prices from discriminating against the competitiveness of industrial exports. From another standpoint, promotion should be differentiated, seeking to give priority to the activities which have a greater development potential and to create long-term incentives and programmes which will really tend to create comparative advantages and specializations to the benefit of foreign trade and domestic industrialization.

c) *Accumulation and resource allocation*

Resuming the path of growth and at the same time reorienting the style of development with the external restrictions foreseeable requires an increase in the efficacy of investment and of capital stocks. The contribution of external financing that can be expected in the coming years is slight, and in many cases net outflows will be produced in respect of interest payments on the debt. Hence domestic saving must play a leading part, although the depression itself makes it difficult to recover even the 1970 levels. A first endeavour would need to consist in reducing the consumption of the public sector and of the medium and high-income population strata, with a view not only to strengthening the flow of resources for investment but also to eliminating non-essential imports. At the same time the internal mechanisms for procuring funds would have to be improved and instruments designed to compete with those used in the exterior.

Another measure of prime importance would be to reduce the waste which frequently accompanies investment processes both public and private. Here there is no sense in copying specifications suited to more advanced societies or in embarking on non-essential undertakings or; for reasons of imitation, accentuating unnecessarily the capital intensity of works and projects. Similarly, a more intense and systematic exploitation of installed capacity and the promotion of technologies more adapted to the local

resource endowment should be a constant concern in the task of overcoming the present scarcity of resources.

There is also an evident need to increase tax revenues and to reorient public expenditure in order to cope with the burden of external debt contracted or taken over by the State, to promote development through strategic investments in infrastructure, to finance promotion programmes for the development of strategic activities, resources and technological capacities, and to meet the expenditure required by a necessary redistribution of well-being which does not occur through market mechanisms and which can only be slow and partial through the raising of the real wage.

At the same time it is imperative to strengthen the saving capacity of the private sector and, above all, the productivity of its investment. In this connection, the countries face the problem of maintaining adequate levels of interest rates in real terms, so that they reflect the relative scarcity of capital, and of promoting productive investment in activities which are crucial for development. It would be difficult to solve this problem without some degree of regulation of the domestic financial system and of the mechanisms which link it with the international financial market.

The limitation of investment funds and the scarcity of foreign exchange are of critical importance in resource allocation. This tends to favour: i) investment in labour-intensive activities which make use of the different specialities available in each country; ii) the development of small and medium-sized enterprises, which represent an important source of employment and of mobilization of organizational resources; iii) a better use of natural resources and ecosystems and of the existing infrastructure, with complementary or marginal investments which improve their overall effectiveness, and iv) the allocation of funds to productive activities and to support activities relating to the strengthening of interindustrial relations, technological promotion or new specialization for foreign trade.

Large projects, which may be indispensable in certain cases, must be considered with a selective criterion since they entail long periods of gestation. There is all the more reason to graduate or discourage, according to circumstances, investments directed to the non-essential con-

sumption of the higher-income strata. If the processes of productive modernization operate in a context of imitation, without corrections based on a broad concept of social efficiency, the disparities in the primary distribution of income—which result from the structure of ownership and the functioning of the productive system—will continue to create inequalities.

#### d) *The quest for equity*

The quest for equity in a process of growth which harbours marked elements of social differentiation always involves difficulties, particularly in market economies. In the past attempts have been made to achieve it through policies aimed at changing the conditions which determine wage distribution or consumption distribution, or through transfers of income to correct the forces of the market.

If in times of boom these policies were, strictly speaking, insufficient, it must be admitted that at present they are still more difficult to attain, especially when the initial task consists in trying to prevent the costs of the crisis from worsening the situation of the low-income groups of the population. Even so, within the limitations imposed by the crisis, there are measures which might be taken to improve the distributive effect of reactivation, particularly those designed to support the modernization both of peasant farming units and of small and medium-sized urban enterprises.

As regards the labour force, the object would be to train it and reorient it in the direction of the special skills required by the productive apparatus, including the provision of public services. Investment in education is the key to technological development and to sustained increases in productivity. It is also one of the means of changing income distribution in the long term, provided that the aim is to meet the educational needs of an employment structure adapted to local potentialities.

Respecting policy on wages, it would be expedient to put an end to the erosion of their purchasing power beyond that imposed by the reduction of the national income caused by the economic crisis.

In general, redistributive measures are made easier and less costly when they relate to the

sharing of income increases throughout the process of growth rather than to the redistribution—always traumatic—of property. This is valid in the case of land, although admittedly there is a need to reform the agrarian systems in order to achieve the optimum utilization of resources.

In the case of the distribution of private consumption, for reasons of equity and to generate investment surpluses it would be well to discourage ostentatious consumption and to move towards patterns of greater austerity.

Even so, in view of the marked elements of social differentiation contained in the pattern of foreseeable growth and given the magnitude of the social deficiencies accumulated, the road towards reasonable equity will call for corrective measures by the State which would be adapted from time to time in accordance with the evolution of the basic social consensus.

These measures range from the subsidized or free provision of essential goods to selected groups (or their provision by way of the State), covering the innumerable possible systems of technical and financial assistance directed to mobilizing communities towards self-help in construction and the provision of community services or the co-operative production of essential goods, and including unemployment insurance, subsidies and means for retraining and minimum employment programmes with communal aims, to the strengthening and expansion of basic and collective public services, which will enable them to be effectively extended to the whole of the population, substituting through public services items such as, for example, transport, the private provision of which excludes broad groups of the population because of the high unitary social cost.

### 3. *Short-term economic policy and transformation policy*

The external adjustment of the period 1981-1984 was severe and costly and is far from having been consolidated. As already observed, the substantial reduction in the external imbalance which took place between 1981 and 1984 was mainly due to the enormous and abrupt contraction of imports. It was not surprising that it was accompanied by a persistent decline in economic

activity up to 1983 and by its partial and insufficient recovery in 1984. What is more, this process has been aggravated by unusual inflation rates. Consequently Latin America is faced today with its greatest challenge since the Great Depression of the 1930s. In fact, to begin to overcome the structural deficiencies of the prevailing style of development and the negative impact of the crisis on the levels of employment, consumption and investment it will be indispensable not only to reactivate the economy and re-initiate the process of growth, but also to modify the pattern of development. Nevertheless, these objectives must be achieved while maintaining the precarious external balance attained in 1984 and reducing inflation.

This three-fold task eliminates to some extent the traditional distinction between the economic policy of the short and the medium-term; in fact, if a real solution to the immediate problems is to be reached, the application of radical structural reforms cannot be postponed. It must be borne in mind that for the reasons indicated in other parts of this paper, the rates of future economic growth will probably be lower than those observed in the early decades of the postwar period. Hence there should be no indulging in false hopes. Henceforward, the problems will have to be solved with the limited means at hand and with an acceptance of the costs and maturation periods required by the structural modernization of the economy and society.

#### a) *External adjustment with growth*

All in all, however arduous and complex the task, it is still feasible. Precisely because the adjustment to the external imbalance was recessive and favoured the financial sphere at the cost of the real, there is at present ample productive capacity for initiating reactivation. In other words, it is today not only necessary but also possible to replace the recessive adjustment, based on the contraction of imports, by an expansive adjustment founded on the increase of exports and the efficient substitution of imports.

Naturally, the viability and cost of this process will depend in no small measure on the external situation and especially on the extent to

which this enables Latin America to increase its exports and procure financial resources. But the possibility of an expansive adjustment will likewise depend on the degree in which, through renegotiation processes different from those conducted hitherto, the countries of the region succeed in sharing the costs of adjustment more equitably between themselves and the banks, and on the degree in which the structure of their production changes in favour of internationally tradeable goods (exports and import substitutes) and the composition of domestic expenditure changes in favour of non-tradeable goods.

b) *The exchange rate, tariffs and export promotion policies*

A basic element of economic policy is the maintenance of realistic and slightly undervalued exchange rates. This would mean raising the price of tradeable goods (both exports and import substitutes) in relation to non-tradeable goods, stimulating their production and discouraging domestic expenditure on these goods. Thus, in contrast to tariffs or export incentives, which stimulate the production of one group of tradeable goods as against another, devaluation favours all equally.

Most of the countries of the region have already carried out exchange-rate adjustments. Their effects depend on the stability and maintenance of the policy, since structural changes in production (from non-tradeable to tradeable goods and from domestic to external markets) are costly and inevitably slow.

Consequently, the main modifications made in the exchange rate should be reserved for reducing external deficits caused by permanent changes in the terms of trade or in the capital account or to correct obvious cases of overvaluation. Conversely, it would be preferable for the deficits caused by cyclical changes in external conditions to be compensated by temporary corrections of the tariff levels and of export incentives, which do not affect the differences in the necessary selectivity of the policies of protection and promotion of the various activities.

Again, it would be useful to ensure that the cost of saving foreign exchange through the substitution of imports fomented by tariffs was equal to the cost of generating foreign exchange

through the promotion of exports induced by the incentives. The fact that the adjustment in the period 1982-1984 was based much more on the reduction of imports than on the expansion of exports suggests that if the incentives for exports had been applied more decidedly a large part of the productive capacity which now remains idle through lack of imported inputs and a restrictive demand policy might be activated and oriented in part towards the export markets. Not only could idle capacity be mobilized but also its impact on supply increased by the introduction of a second or third shift in the factories with only marginal increments in investment.

c) *Price and subsidy policies*

In order to establish the recovery and transformation of tradeable production it seems advisable to change the relative prices in favour of exportable production and likewise the composition of domestic expenditure in order to increase the volume of the output available for external sales and to reduce the demand for imports. A major contribution can be made in this respect by correcting the price and subsidy policies.

This general type of orientation should be combined with the distributive measures indicated in the previous section, especially in the short term. Thus, for example, as the consumption of food products in the poor strata of the population is proportionally higher than their consumption of energy, it might well be decided to eliminate the subsidies to energy rather than those assigned to food.

At all events, the distributive measures should increasingly abandon global subsidies (or support for prices) which benefit all groups, rich or poor, and incline towards income transfers more directly oriented to the less favoured groups.

d) *Investment and public expenditure policies*

In the short term it is desirable that the increase in tradeable goods should be based on the fullest possible use of existing capital stock. Even so, there are limits to the output of non-tradeable goods that can be transferred to tradeable, or to the output of tradeable goods previously des-



tined for the domestic markets which can be shifted to exports. In the medium term, the increase in exports and in the substitution of imports, and consequently in the share of tradeable goods in the GDP, entails: i) changes in the structure and orientation of investment; ii) increase in domestic savings to an extent compatible with the minimum growth of consumption, and iii) a better allocation of investment.

The diversity of national situations is so broad that it is only possible to indicate some general guidelines. In the first place, it is essential that investment, whether in construction, infrastructure or equipment, should concentrate in preference on increasing exports and on import substitution. In the second place, investment which has less need of imported components (for example, hydroelectric dams as against thermal power stations) and greater density of labour should be given priority. In general, and especially in the short term, this suggests a change of orientation in the traditional adjustment programmes, since these, in order to reduce the fiscal deficits, tend to cut back investment rather than current expenditure. Thus investments in public works and housing figure among the first to be reduced, despite the fact that construction generally has a low import component, is labour-intensive and has a low opportunity cost because the real resources it liberates cannot be readily transferred to the production of tradeable goods.

Of course, not every type of construction is socially or economically desirable. For investment in construction not only to serve employment but also to contribute to structural adjustment and transformation, it is necessary to give decided preference to projects which facilitate exports or the substitution of imports (for example, irrigation projects, hydroelectric dams, expansion of ports, construction of access roads to land rich in agricultural possibilities or natural resources) as compared with those which merely improve the quality of life of particular urban zones (for example, underground railways, highways, urban infrastructure).

In the third place, it would be preferable to assign priority to investments with short gestation periods and to those where external credit can be more easily obtained. In fact, as long as capital inflows remain constrained and while re-

strictive monetary policies continue to be applied, the domestic interest rates will inevitably be high, which signifies a fail in the social profitability of investment projects with long gestation periods.

In the same way, as long as the scarcity of foreign exchange persists it will be necessary to give priority to those projects for which it will be easier to obtain external credit.

#### e) *Stabilization*

In the context of high and persistent inflation, where almost all the values —wages, rents, taxes, interest rates, exchange rates, debts— are indexed formally (through contracts) or informally (through market forces) in relation to inflationary expectations, the main rigidity to overcome, in order to reduce a recession to the minimum, is precisely that of the aforesaid expectations.

The issue is one of great complexity which, in many cases, has to be tackled with priority if the countries of the region are to reactivate their economies. Above all, it must be pointed out that no stabilization policy can be based solely on a restrictive monetary and fiscal policy, because the variables that are not controlled will certainly depart from the norm and produce an unnecessarily severe recession. It would be better to impose a policy of decelerated indexation by virtue of which the nominal values of all the key variables of the economy (not only of some) —wages, exchange rates, interest rates and prices— would be adjusted in accordance with the programmed inflation implicit in the monetary and fiscal policy adopted. In this way, in contrast with the traditional anti-inflationary programmes, prices would be controlled or what is known as an incomes policy would be applied during this initial period of stabilization, to prevent the free fluctuation of prices in response to uncontrolled inflationary expectations.

Nevertheless, in contrast to the traditional programmes of price control, decelerated indexation would tend not to restrict inflation through the fixing of artificially low prices, but rather to bring prices more quickly to their rate of equilibrium. In further contrast with the traditional price controls, these directives would concentrate on price control in sectors where the producers avail themselves of larger margins in

order to incorporate their inflationary expectations in the prices (there would be control of oligopolies, the industrial sectors that fix prices, but not so much of agricultural producers, who tend to live in competition).

Finally, from a logical standpoint, inflation is not determined merely by inertia, but it is necessary to correct some key relative prices which have a disproportionate effect on other variables, such as the fiscal deficit, the balance of payments, and the distribution of income. Hence some of these basic prices may have to be corrected in order to make the stabilization programme effective without upsetting other macro-economic equilibria. But since the adjustment of these prices is almost always upwards there is a risk of provoking inflationary expectations (when the private agents interpret the correction as an indication of coming inflation rates rather than as a once-for-all change in relative prices); hence the corrections must be limited in number and magnitude to the indispensable minimum. Again, the success of any stabilization programme depends also on the recovery of confidence in government policies. This goes beyond technical considerations and enters the field of socio-politics and concertation, which will be discussed later on.

#### 4. *Articulation of the structure of production*

##### a) *General considerations*

We present here some thoughts on a structure of production that will help to overcome external constraints (and thereby recover the capacity for sustained growth) and to develop creative potential, both individual and in specific activities. To this end we shall concentrate on two aspects of the internal content of the industrial sector and four areas of its external relations. The former relate to the motor-vehicle and capital goods sectors; the latter to the linkage of industry with agriculture, the energy sector, mining and services. It is considered that through these aspects a summary can be made of the main characteristics of the industrial pattern outlined here, together with the insufficiencies, omissions and distortions of the previous industrial scheme. This does not imply a disregard for the importance of other industrial branches; it is

thought, however, that these areas may act as focal points for the consideration and definition of the concept of efficiency, thus making it possible to characterize it in a synthetic and schematic form.

The food products branch, incorporated in the analysis of the relation between industry and agriculture, is regarded here as the main branch of non-durable consumption. In its turn, the motor-vehicle industry is raised to the category of main branch of durable consumption and an analysis is also given of the production of capital goods. The food products branch represents the linkage between industry and agriculture; the motor-vehicle branch represents the industrial pattern which has inspired Latin American industrialization, while the capital goods branch reflects the truncated technological character of the local version of the original industrial pattern of the advanced countries.

Consequently, action on these aspects identified as strategic has, in the first place, an important influence on the capacity to overcome the external bottleneck. In the second place, the aim would be to develop the capacity of adapting products and processes to local conditions, in addition to converting them into a source of training of skilled manpower in the industrial sector as a whole.

For example, a basic feature of the urban/motor-vehicle industrial pattern has been precisely the rapid and unplanned growth of urban conglomerates, together with the ensuing speculation in real estate. Among the multiple consequences of this phenomenon there are two that directly affect the possibilities of advancing towards a new industrialization: first, the high profits obtained from these activities, which discourage the channelling of private investment resources into productive activities, and second, the marked deterioration of the quality of life of the urban population in general in respect of housing, environmental hygiene and transport. To some extent the high profitability of financial intermediation, real estate and commerce appears to be the yardstick for defining the protection needed to obtain profits in industry which are not markedly inferior. Consequently, far from applying the protection needed for infant industries, we are coming very close to that protectionism which, instead of concentrating on

domestic learning, led merely to reconciling inefficiency with high rates of profitability.

These aspects present a major obstacle to the advance towards a new industrialization and are clearly linked with the need to find formulas which will lead to an allocation of resources in accordance with the national strategy options.

b) *Special considerations in the case of small countries*

In the case of the smaller countries, the concepts of industrialization should begin with the recognition of the presence of a larger proportion of rural population, an incipient industrial infrastructure and a heavier concentration on a smaller number of traditional export products.

The modernization of agriculture should be a major fulcrum both for the raising of rural living standards and for the quest for relative food self-sufficiency and the generation of foreign exchange. Not only should promotion be given to the traditional export lines, but also, as far as possible, to dairy products, meat, fruit and vegetables and the range of processed products derived from these, together with the vast array of pharmaceutical goods, toiletries and chemical inputs of vegetable origin, which should reach increasing levels of complexity. This implies the articulation of a range of technological support services for agricultural industrialization with the different branches of application of chemistry to agriculture and with the activity of the metalworking sector.

The other sectors associated with the integral industrialization of natural resources are forestry, mining and fishing, which, in addition to exploiting natural resources, should be able to take advantage of the potential of the international markets. In the three cases this would signify advancing both forward (final products with increasing degrees of processing) and backwards, promoting the metalworking support sector. The specificity of this new industrialization of natural resources might be justified by the conviction, amply corroborated by international experience, that what makes the exploitation of natural resources important and permanent is precisely the local capacity to make advances in industrial activities connected with them. An extreme example of this potential is found in those

countries which, lacking natural resources, compete in the international markets solely because of their creative contribution in the different phases of their processing.

Agro-industry and construction could be articulated in a growing and selective degree with the metalworking sector. This last industry, in addition to the components already mentioned (implements, equipment and installations for agro-industry, repairs, manufacture of small vessels, metal structures and products for construction) might include the assembly of certain transport equipment and the production and repair of parts and components. Taken together, the production of these simple capital goods represents the output of the metalworking sector and would be complemented by the production of durable consumer goods destined for mass consumption. The magnitude and importance of the metalworking sector could be rapidly increased in terms of its contribution to the training of manpower and the selective substitution of imports.

The main function of agro-industry (including the traditional crops of the region) would be to generate surpluses and purchasing power abroad, at least during an initial period, as well as guaranteeing self-sufficiency in food. The construction and metalworking industries would internalize the effects of the investment and of the increased level of domestic activity. Both—together with the incipient electronics sector, if it exists—would be the basis for raising productivity in the medium term.

c) *Linkage between the industrial and services sectors*

There has been some diffusion of the notion, proper to the developed economies, of a historical transition—not without upheavals—from an era governed by the industrial sector to a future in which this role would correspond to the services, thus completing the sequence agriculture-industry-services. On the basis of this simplistic idea policy recommendations have been formulated in Latin American countries which, in the event, have favoured the dismantling of industrial plant to accelerate the arrival of the new era. Various comments can be made in this connection which, taken together, change the lineal

image of a chronological sequence from agriculture through industry to services. From the arguments advanced it will be clear that, far from being faced with a rigid relationship between increase in income and demand for services, we are witnessing an economic and social transformation which simultaneously modifies the industrial sector and a wide range of services associated with it.

To the extent that the industrialization of low-productivity services continues to receive increasing support from information processing, the contribution of these activities to the growth of employment will tend to decline. The services with high and growing productivity (communications, financial services or wholesale trade) are characterized by their high degree of industrialization and a notably lower level of employment, which also grows at a slower rate than that of the low-productivity services. If one had to identify the sector with greatest drive, one would find it at the intersection of those industrial sectors that produce the equipment for information technologies (microelectronics, computation, telecommunication) and the service activities which transmit, process and disseminate information. On the basis of these sectors, the current technical change spreads, at different rates and in different forms, to the whole set of activities producing goods and services. It is a question of the leadership of what might be called the "information system", which includes an increasingly symbiotic combination of equipment production and of activities linked with its programming.

This makes it necessary to incorporate into the medium- and long-term analysis of the new industrialization the changes that are taking place in the industrial sector, the growing complementarity between this and the services sector, the trend towards the industrialization of activities previously classified as tertiary, the emergence of the leadership of the information system, articulated around the axis of communications, and the resulting importance of the capacity for competition of the manufacturing sector in determining Latin America's insertion in the international economy.

d) *The environment and natural resources*

In Latin America and the Caribbean in

general insufficient attention has been given to the problems relating to the management and use of natural resources and to the appropriate handling of the problems of the environment. This has led to the emergence and aggravation of phenomena such as deforestation; erosion, salinization and loss of soils; sedimentation and pollution of inland and coastal waters; desertification; loss of species of flora and fauna, especially tropical and marine; contamination and lack of basic services in the cities. All this has adverse effects on living standards and the productivity of resources and investments.

The pattern of development in force during the postwar period frequently leads to an abusive use of natural resources and, at the same time, the neglect of potential resources. This implies in certain cases the depletion and deterioration of natural resources; the need to make imports which might be reduced or avoided; and the loss of export possibilities.

Energy is a case in point. When the prices of energy products were low their excessive use was encouraged, which not only posed a problem for the energy sector but also for external equilibrium and dependence and the general pattern of life, which fosters consumption and technology highly intensive in capital goods and imported forms of energy. With the rise in energy prices some modifications in its use have been introduced but, notwithstanding the growing use of fuel alcohol, there has not been sufficient correction of the patterns of energy demand incorporated in the structure of supply.

One of the chief means of integrating natural resources into economic exploitation has been the execution of great infrastructure projects. These will continue, although probably to a lesser extent than in the past. In a period of scarcity of means of investment and of balance-of-payments problems it is important to give careful attention to the utilization of investments and to the efficient administration of the projects implemented and of the resources already incorporated. A region as extensive and as varied in its geography as Latin America has a great wealth and diversity of ecosystems. It is necessary to take account of their peculiar characteristics and apply a pattern of development and administration of the resources and ecosystems which will be adapted to the special features of each case. This implies the

incorporation of creative elements, since the attributes of the Latin American ecosystems are often different from those of the industrialized and developed countries where the known technologies are created.

It would be a case of improving the utilization and management of the ecosystems not only to exploit the traditional resources of water, land, climate and others, but also to take into account the interaction between all their elements—flora, fauna, human presence, and the rest—and their capacity to reproduce and maintain themselves. This calls for an innovative policy of scientific, technological and environmental research which will consider the ecosystem as a complete and integrated unit.

e) *Agriculture*

There are two great and pre-eminent goals in agricultural development. The first is the eradication of rural poverty, which forms part of the general problem of poverty and is associated with problems of unemployment and also with regional development. The second is the significant reduction of external vulnerability in lines of demand for agricultural products, as in the case of foods.

It may be said that both objectives form part of another and greater goal; namely, food security. This calls for the establishment of national food systems which would incorporate the following main requirements:

i) to be sufficient, in the sense of generating domestic supply, in conditions of efficiency, which in volume and composition will satisfy basic needs (which does not mean that there must be autarky in each country);

ii) to be stable, in the sense of possessing mechanisms which will neutralize pronounced cyclical fluctuations;

iii) to be autonomous, in the sense of reducing to a minimum external vulnerability in the attainment of sufficiency and stability in the domestic supply;

iv) to be sustainable in the long term, in the sense that the said objectives must not be achieved at the expense of an overexploitation of natural resources and the deterioration of the environment, and

v) to be equitable, which means that they

must be capable of meeting the demands of all the economic and social sectors and, in particular, those of the lowest-income strata.

With regard to future agricultural development, it would be necessary in the first place to intensify the reduction of productive heterogeneity through the reinforcement of the peasant economy. To do this the peasantry must be given preferential access to productive resources (land, water, inputs and implements) in magnitudes and conditions which will meet the needs of the production and marketing processes of the peasant economy itself.

Secondly, there should be a process of selective reorientation of the transfer of surpluses. This implies not only the retention of the surpluses generated in agriculture, but also the transfer of surpluses from non-agricultural sectors and from the modern agricultural sector to that of peasant agriculture.

Thirdly, it would be necessary to stimulate the industrialization of agriculture and a reevaluation of rural space, by setting up in agricultural areas and in rural zones a series of complementary activities linked with the processing of agricultural products and with the production of agricultural inputs, thus helping to solve the problem of unemployment.

Fourthly, there should be an attempt at a progressive reduction of the asymmetry in Latin America's international insertion so that agricultural products could be exported for which international demand is more elastic in the world markets and which are capable of incorporating a greater value-added.

Fifthly, it is also necessary to diminish technological dependence by means of a greater adaptation of technologies in order to make them consistent with the local resource endowments and with the needs of national development itself. In this connection the role of the State is highly important. Instead of importing integral technological packages and of using technologies which require the acquisition of imported inputs and means of production which may not correspond to local conditions, there would be an attempt to make a more selective incorporation. At the same time, it would have to be adapted to the local medium, placing the accent on those aspects which respond better to the special needs of each country. For example, if

there is a plentiful supply of labour, scarcity of capital and a certain tendency to shortage of land, preference should be given to technologies which increase the yield per hectare and at the same time make less intensive use of capital. This applies to those technologies which have to do with genetic procedures and improved seeds, with the application of pesticides and fertilizers which help to increase the yield per hectare and with farming processes which improve the same yield.

Sixthly, measures should be taken to promote the recuperation of natural resources and curb their deterioration. Peasant agriculture is concentrated in marginal regions of low productivity. This leads to the deterioration of the natural resources, a process which must be halted and reversed. The rapid natural growth of the rural population is a factor contributing, through the subdivision of the farms, to an increase in the demographic pressure on the land.

In all these outlined projects the extension of action to the whole of Latin America would enable the requisites put forward for achieving a complete food system to be more easily and efficiently fulfilled. Latin American co-operation in all the phases of the food chain is possible and desirable.

##### *5. industrialization and technological development*

###### *a) Challenges and structural change*

In the coming years the countries of Latin America and the Caribbean will have to face, among other problems, two challenges in which industrialization is directly involved. The first is to correct the disequilibria in the domestic structure of production, along with the social needs built up and postponed during the previous period of rapid growth; this task—which is one of medium term—has to be reconciled with the urgent need to defend the productive capacity threatened by the recession of recent years. The second is the need to adjust to the current industrial and technological restructuring in the advanced countries, which might notably reduce in some sectors the capacity for international competition of the production of the various Latin American and Caribbean countries.

###### *b) The technological and industrial restructuring of the advanced countries: implications for Latin America and the Caribbean*

It is vital for Latin America and the Caribbean to realize the speed and efficacy with which the industrialized countries have adapted themselves to the new conditions of energy supply, which is an important but partial manifestation of a more complex and radical process of technological and industrial restructuring currently in process. The political will to adapt to a challenge of this magnitude, together with the flexibility to modify social behaviour and make technological innovations, reveals the superiority of situations where endogenous creative capacity prevails over uncritical imitations.

Independently of institutional mechanisms and the differences of emphasis placed on State intervention, it is empirically observed that the public sector of the industrialized countries is making a systematic and wide-ranging effort to stimulate, in close articulation with the private sector, the development and incorporation of the most advanced technologies in national productive activity. It is agreed that the comparative advantages in international trade in the decades to come will be achieved precisely through measures undertaken at national level and, in the case of Europe, complemented by regional action in specific areas.

These current processes can have numerous implications for the Latin American countries; the following will suffice as examples.

i) As stated above, the advanced countries are preparing and supporting a process of transition towards a new technological and industrial pattern with a view to creating a new cycle of growth. This implies that Latin America and the Caribbean will presumably be faced with an international situation which, in the short and medium term, offers little potential for dynamism, and yet the Latin American economies need to make exceptional efforts to achieve technological adaptation, since otherwise they could be left behind in the new international organization of labour;

ii) Some of the sectors in which the most important projects of certain countries of the region are found coincide with those in which technological transformations may occur at in-

ternational level. This applies to the motor-vehicle industry, petrochemistry and capital goods;

iii) The foregoing shows the decisive importance of regional co-operation initiatives which will enable a forecast of technological change to be systematically incorporated into international negotiations. Otherwise the industrialized centres might simply shift to the developing countries manufacturing technologies and equipment already outdated by technological change;

iv) Some of the sectors in which the countries of the region have made a concentrated effort in respect of industrial exports make intensive use of labour. Here, as a result of developing automation, profound transformations may take place which will have a radical effect on the capacity to compete of the national products. This might apply to the textile and clothing sectors and to the varied range of assembly industries. Again, the systematic effort of the developed countries to increase efficiency in the use of energy and, in general, of imported raw materials might reduce Latin American exports in lines which imply intensive use of natural resources, and

v) In the areas of spearhead technology it is evident that the Latin American and Caribbean countries must make a supreme effort for which subregional co-operation is indispensable.

c) *Efficiency, growth and creative capacity: the concept of the endogenous technological dynamization nucleus*

One of the predominant features of industrialization in Latin America and the Caribbean has been its rapid growth since the Second World War. This growth has been accompanied by a relative lack of creation, although this does not mean that there have not been certain areas of excellence in most of the countries. The combination of growth and scant creation explains the dearth of labour opportunities and the growing external constraints characteristics of the regional pattern of industrialization.

Creation is a complex process which involves a wide range of agents and motivations, including entrepreneurs, workers, researchers, industrial plants, technological institutes, basic sci-

ence institutes, organizations for training personnel at different levels, mass communication media and the ministries and institutions which define policies and norms. It is in the interaction of these agents and motivations that creation takes place.

When communication, interaction and smooth articulation between agents, agencies and levels of decision-making are consolidated as a matter of daily routine at the national level, there arises what will henceforth be described as the endogenous technological dynamization nucleus. Part of this concept is the positive value placed by those exercising leadership on the national significance of satisfying domestic needs and of favouring a sound insertion into a world economy characterized by increasing transparency and intercommunication; a method of functioning characterized by smooth communication and articulation between the different agents and economic and social sectors taking part in production, on the basis of environmental resources and a widespread social appreciation of creative activity and of the entrepreneurial function, irrespective of the forms of ownership.

The value assigned to creation implies an open attitude towards events in the rest of the world, both as regards the process of learning and assimilation of knowledge and as regards the identification of those activities in which the country can achieve levels of excellence which will enable it to meet external and domestic needs.

After all, the special feature of creativity is that it reinforces the historical patrimony, the aptitudes, forms of organization and knowledge associated with unique local conditions. This process of modernization facilitates insertion in the international markets because it adds value, originality and efficacy to the designs, processes, techniques and forms of organization of production. A modernization which ignores the local heritage and favours the mere transplanting of forms of production achieves at most the ephemeral duplication of those forms, at a cost in foreign exchange which is difficult to finance, and without intrinsic potential for competition.

Finally, creativity implies a constant concern for training the population (through formal methods, through specialized institutions and

the mass communication media) and detailed study of local potential, both in terms of natural resources and of the possibility of modernizing traditional forms of organization and techniques.

In the characterization of the endogenous technological dynamization nucleus no emphasis has been placed on the size of the markets or on the volume of the endowment of natural resources. This is because historical experience has shown that there is no clear correlation between leadership and economic and social articulation on the one side and size of market or natural resource endowment on the other. This does not deny the importance of economies of scale in certain activities, but it seeks to underline the decisive importance of the pattern of productive activity as a reflection of domestic creative effort. It is in this sense that reference is made to the endogenous aspect.

The need to be competitive, coupled with the limited size of the domestic market and the requisite process of learning, must necessarily be reflected in more specialized types of production than those existing in the advanced economies. Some research and development activities, and even training in certain specialized fields, require minimum scales which exceed the possibilities of some countries of the region. In these cases, the endogenous nucleus can only be established through regional co-operation. The same is true of certain activities in the fields of natural resource prospecting, communications infrastructure and international marketing. Hence regional co-operation is a factor which goes far beyond the limited concept of intra-regional trade.

Support for small and medium-sized enterprise might be another element in the quest for domestic articulation and international competitiveness. The selective and integrated development of small and medium-sized enterprise is important not only because it may achieve high levels of international competitiveness, but also because, in certain sectors, it tends to create more employment and a greater value-added per unit of investment than large-scale enterprise.

Support for small and medium-sized enterprise should include three elements which are mutually complementary: purchasing power, deriving basically from large productions or dis-

tribution enterprises; technical assistance and financial aid.

d) *The false dilemma: import substitution strategies as opposed to export-oriented strategies*

To say that in Latin America and the Caribbean import substitution strategies have failed and that the phase of export-oriented strategies is now dawning is to oversimplify this issue and the real economic situation. In the first place, it is a basic fact that the so-called export-oriented strategies are markedly industrial in character, a feature which is reflected both in the high rates of growth of manufacturing output and in the speed of the changes in the structure of production achieved and promoted by the industrial sector. In Japan, Korea and Taiwan, average annual industrial growth rates during the 1950s and 1960s were approximately 15%, i.e., double those of the most dynamic countries of our region, Brazil and Mexico. The intense industrial expansion in the export-oriented countries, associated with the domestic learning process, led to a 'virtuous circle' of growth, increase in productivity and technical progress, and growing participation in the world market for manufactured goods. It must be stressed that the penetration into the international markets could not be understood without the industrial dynamism and technical progress achieved.

Secondly, there is sometimes a tendency to oversimplify in using the expressions 'import substitution' and 'orientation towards the domestic market' (which gives the impression that the dynamic effect of the expansion of the domestic market is determined by the intensification of import substitution). This leads to the conclusion that if the possibilities of increasing import substitution appear limited, the international market becomes the only option for growth. Nevertheless the domestic market can be a dynamizing factor in production even if import substitution is not intensified or even if it is reduced.

The foregoing, apart from establishing the importance of a careful use of the expressions 'import substitution' and 'domestic market', and evidencing their different contribution to the dynamism of production, suggests a third aspect



relating to the existence of a chronological link between import substitution and orientation towards exports which contradicts the view that they are exclusive options. The recent increase in Brazil's industrial exports, for example, would be incomprehensible without the previous effort to construct a really sound industrial base.

A fourth aspect worthy of consideration is the level of aggregation at which the analysis is conducted. In fact, since import substitution is measured, for analytical purposes, by means of the variation in the import coefficients, it may happen that an import substitution process appears positive at one aggregation level and negative at another, which is explained by the variations in the composition of domestic demand. But more important than this 'optical illusion' is the significance for policy interpretation and design of the analysis of the modifications in the structure of production, where as much importance should be given to the sectoral as to the global level of analysis of import substitution and export promotion.

To illustrate the combined effect of the different aspects mentioned, the case of Korea may be quoted. Taking the period 1955-1973 as a whole, the increase in exports appears to be the engine of growth in local production, accompanied, in the second place, by the expansion of domestic demand and then by the contribution of import substitution, marginal but positive. When the analysis is broken down into three subperiods a closer approximation to reality is obtained with different indications for interpretation purposes: in the period 1955-1963 the growth of the domestic market, strengthened by the dynamic effect of import substitution, accounted for close on 90% of the growth of the industrial output; in the period 1963-1970 the domestic market remained in the lead, now followed by the increase in exports, and the import substitution process was found to be negative; it was only in the final period (1970-1973), the culmination of the preceding process, when the rise in exports became the engine of growth, followed by the domestic market and by import substitution which was negative for the economy as a whole. If the sectoral dimension is added to this chronological breakdown a new approximation to reality is obtained. Thus, even though in the period 1966-1970 import substitution

appears as negative in the economy as a whole, in 14 of the 25 productive branches the substitution of imports was intensified. Even more significant is the fact that the main effort of import substitution was concentrated in branches which are strategic from the standpoint of the transformation of production in Korea: petrochemistry, iron and steel and transport equipment. In the two last, the contribution of import substitution to the growth of industrial production was higher than that of exports in the respective branches. In the following period (1970-1975) import substitution declined in the petrochemical and iron and steel industries, and increased in the branches of non-metallic minerals and metal products, while a great effort was initiated in the substitution of imports of capital goods.

If the findings which emerge from the aggregated analysis are contrasted with those of the chronological and sectorally disaggregated analysis, it will be seen to what extent methodological simplifications can create distortions in the resulting recommendations. The situation is aggravated when the subject to be investigated serves as the basis of argument for designing a model supposedly for universal application. In countries in which the endowment of particular natural resources was generous, the achievement of excellence, even in the case of small domestic markets, signified an intellectual contribution which improved both the manufacturing techniques and the equipment employed, and was accompanied by the development of multiple uses and new designs associated with the processing of these natural resources. This is the case with the Scandinavian countries which have a large share of international trade in manufactures associated with their natural resource endowment.

At a given stage in the industrial development of a country, the accent will have to be placed on a number of branches directed to the domestic market, if nascent productions are involved and the countries have relatively large national markets. In activities which are already at more advanced stages of development, the emphasis can be transferred to exports destined for regional or international markets. There will also be cases in which sectoral development will have to be conducted from the outset in a combination of domestic and international markets,

as in the manufacture of some metallurgical or chemical goods based on natural resources. Small countries will probably have to place more reliance from the outset on international markets and particularly subregional markets, to avoid inefficiency in production.

In conclusion, the protection and promotion of the exports of a given sector need to be interrelated as regards the levels and forms of application. Protection is necessary at the inception of the development of each activity, to be subsequently reduced as competitive capacity increases. In their turn, the incentives to foreign trade should be at a level which does not discriminate against exports. The degree of protection and promotion must also be influenced by the international situation. Today most of the countries of the world apply considerable tariff and especially non-tariff restrictions which in many cases are increasing. Hence the policy of a country could not be determined on the assumption of a world of perfect competition and free movement of goods and information.

A common trait in the achievement of international competitiveness by societies that are very different in many respects is the fact that, by different routes and with different institutional systems, they have advanced in the gradual attainment of consensus; they have consolidated and legitimized domestic leadership; they have established minimum norms of equity and solidarity and have achieved a clear articulation between State and society; in this context they have created and strengthened what was defined above as an endogenous technological dynamization nucleus which ensures the continuity of the process of assimilation, learning, adaptation and innovation in terms of the satisfaction of needs and the utilization of potential, combining selectively, sectorally and chronologically the substitution of imports and the generation of sound export flows based on a genuinely internalized technological patrimony.

From this it can be deduced that the assignment of strategic priority to export development and to the rationalization of the inherited structure of production—a requisite for the achievement of the aforesaid objective (on which there is agreement)—should be carried to its extreme consequences. It must be understood that the task undertaken is one of national dimensions,

transcending by far the sphere of trade policy and even that of the economy. It is a question of adopting a new style of development which will favour both inward-directed articulation and the increase of capacity to compete abroad. International experience suggests that it is not a question of antagonistic options, but of requisites which strengthen and reinforce each other.

e) *Elements of technological policy design*

The experience of the advanced countries and more recently of the countries of Southeast Asia shows that the dynamism and soundness of the industrialization process is indissolubly linked with the development of scientific and technological capacity. The instability of Latin American industrialization reflects and at the same time is explained in part by the technological backwardness which, with varied intensity, is present in all the countries of the region.

The spreading of a sense of vocation and of interest in technological activities is a more complex task than the physical expansion of production. In the postwar period Latin America's headlong industrialization and technological backwardness fully corroborate this statement.

At this point it is of interest to consider the subject on various overlapping planes. The first relates to the group of spearhead technologies around which the future technological and industrial pattern will be articulated at the international level. The second embraces areas in which some Latin American countries have succeeded in setting up groups with an adequate critical mass, integrated with productive activity and with a certain capacity for international competition. Finally, there are several sectors in which there is a manifest lag both in scientific and technological infrastructure and in its incorporation into production.

The spearhead technologies are the basis of the future comparative advantages in the international market; on this account alone, the Latin American countries should not fail to study them, since the new scientific and technological base will not only have projections in international trade but, what is more important, in the forms of organization of society and the satisfaction of its basic needs.

Various considerations suggest, as a strategic

option complementary to the capacity to compete in international markets, the articulation of the spearhead technologies and the basic social services through which the development of the scientific, technological, technical and manufacturing base might be produced around a dynamic nucleus of national private, mixed and public enterprises. It would be largely a question of articulating a vigorous development of genetic engineering with the national health and nutritional needs, and of intensifying the use of the mass communication media in education, from the standpoint both of methodology and content. For this reason it is extremely important to link education with the communication media and with science and technology.

The consolidation of technologies in Latin America is conditioned by the capacity to absorb the impact of the technologies being developed in the world centres. The consolidated technologies include some agronomic specialities and certain disciplines linked with the energy sector and with civil engineering. Here there exists a critical mass of knowledge and personnel teams, an acceptable degree of integration with production and localized expressions of a capacity for international competition. In these areas it would be appropriate, in the first place, to strengthen the existing nuclei, favouring the use of the present technological base by the productive machinery. The linkage between research and production in the agricultural sector seems to require a decided effort of articulation in which an important role can be played by the regional and national development banks.

In these three fields —agronomy, civil engineering and energy— it would also be necessary to undertake systematic international promotion activities which take into account both external policy and the economic and trade relations of the countries of the region.

Finally, a part of Latin America's technological backwardness is concentrated in the industrial sector. Here it would be expedient to direct attention to certain areas where there is a very wide gap between the physical capacity for production and the technological support infrastructure. Outstanding among these areas are the food, chemical and capital goods industries.

In relation to the activities and instruments of technological policy, it would be advisable to

rely on the experience built up in Latin America in the last decade with its combination of achievements and frustrations, together with that of other countries, especially the advanced countries and those of Southeast Asia. Solely by way of illustration, some priority fields are mentioned below:

1) The strengthening of scientific infrastructure (research and post-graduate training) and technology (establishment of norms, metrology, quality control, information systems, technological training and research). The scarcity of foreign exchange and public funds has limited the resources destined for these activities, despite the fact that they tend to promote the articulation of the demands of the productive system with the technological infrastructure. This very fact may incite the various agents who are encountering technological obstacles to have recourse to solutions available in the region at much lower cost.

2) The substantive and institutional integration of technological policy instruments into the sphere of industrial policy, with the promotion of the direct presence of the entrepreneurial sector, both public and private. In particular, there should be an abandonment of the practice, frequent in Latin America, of isolating the institutions and ministries responsible for the sectors producing goods and services from the functions of co-ordination of science and technology.

3) Reform of the educational systems and the mass communication media with a view to setting a higher social value on domestic technological innovation, at the same time amplifying and disseminating information on world scientific and technological advances. The quest for functional solutions to local needs and potential should become one of the guiding criteria of social communication. In this sphere there is abundant room for subregional and regional co-operation which may yield valuable by-products for consolidating the usefulness and prestige of Latin American integration.

4) The reduction of the costs of technological activities through credit instruments and fiscal incentives which will include both the research and marketing phases.

5) The reduction of the risks inherent in technological activities through the creation of risk capital, the selective protection of the domes-

tic market and support for the placing of locally developed designs, processes and manufacturing techniques on the international markets.

Finally, measures should be adopted with a view to reducing the emigration of scientific and technical personnel.

### 6. *The financing of development*

The crisis of the international economy and the crisis of Latin American indebtedness have completely changed the basic conditions in which the major problem of the financing of development was handled during the postwar period.

In effect, from the end of the 1940s, with the creation of the multinational institutions of the United Nations and the Truman doctrine concerning bilateral relations, financial aid for development was consecrated as a basic principle of international co-operation. In this connection, the Alliance for Progress, the creation of regional banks and of systems of (financial) evaluation of national plans, introduced at the beginning of the 1960s, did no more than reaffirm a pattern already established in international relations.

The aims of these and other financial mechanisms were not only to foster the development of the backward zones, but also to create a necessary climate of stability in the monetary system and in the international exchange-rate policies. Credit flowed towards the periphery, but it was always limited and subject to strict rules, in which the aims of development were subordinated to the exigencies of the equilibrium of the financial and monetary markets.

All this regulated arrangement began to change with the establishment of the floating parities which were to replace the Bretton Woods system, after the United States government abandoned the fixed ratio between the dollar and the price of gold. As a matter of fact, the weakening of the old financial order took place earlier and it would be true to say that one of its first institutional manifestations was precisely the emergence of the Eurodollar market. In its origin, this market signified a way of escape from national regulations and a decisive step towards the integration of the financial markets outside the normal standards imposed by governments individually or through multilateral agreements.

To say nothing of the non-fulfilment of the development goals of the first and second decade as regards financing, the 1970s were characterized by the industrialized governments' abdication in favour of the international private banks of their responsibilities in providing foreign exchange for the developing countries. The new role of the commercial bankers provided a ready solution to the complex problem of the recycling of the petrodollars, and Latin America welcomed a mechanism which freed the authorities from the red tape, supervision and conditionalities of the previous credit systems, in a decade in which there was a marked fluctuation in the currents of international trade and in which the changes and floating interest rates confused the exigencies of external development financing.

Nonetheless, the flows from the commercial banks soon succumbed to the pressures of the international recession caused by the second rise in oil prices (1979). The crisis of indebtedness came to a peak in 1982. This was the culmination of a cycle in which the Latin American countries had access in the first instance to bilateral and multilateral financial aid and, later, to the liberal contributions of the transnational banks. It may be that the flows of direct investment are increasing, though they will hardly be able to replace in character and volume the other sources of net funds. In the 1980s Latin America faces a total, or almost total, retraction of the contribution to its development of external saving, as a result of a radical change in the conditions of the international economy. It would be illusory to expect these circumstances to change in the short and medium term. The determining factors are of a structural nature and will take time to produce the adjustments needed at world level for a return to a régime similar to that previously in force. Hence the most probable development—and the Latin American governments should be forearmed—is that the balances on the balance-of-payments capital account, instead of providing a relief, will be an additional charge on the efforts at capital formation in the region.

Hence it seems inescapable to restate the whole policy of future financing for the Latin American economies. The main bases will have to be found in the mobilization of domestic saving and in the introduction of investment pat-

terns much more austere and much more closely related to national priorities. It must be admitted that from abroad the most that can be expected will be a modest mobilization of net funds from official sources, coupled with the possibility of improving the conditions of the renegotiation of the debt and of repeating again and again the rounds of negotiations.

This is not the occasion to describe the reorientation of financial strategies. Suffice it to go more deeply into some proposals of a general nature. In the first place, the mechanisms for obtaining domestic savings must be modernized. This would involve not only the creation of incentives for the formation of surpluses —among which the fixing of passive interest rates at positive levels is a first requisite— but also the completion of the domestic financial circuits, that is, the improvement of the institutions and instruments of financial intermediation. The mobilization of savings implies, on the one hand, an increase in the proportion of those which are collected and redistributed by the modern financial sector and, on the other, a strengthening of the habits of insurance and saving. From this standpoint, it would be useful to improve the banking and extra-banking mechanisms which assist the savers and the treasuries of enterprises in the handling of their liquid funds. Again, the actual instruments of collection would have to be modernized with a view to guaranteeing the purchasing power of the savings and of making them competitive with those offered in the international financial markets. This would be a step towards the reconstruction of the financial circuits which formerly were completed with the intervention of the foreign banks. It would also help to retain in the countries of the region the resources which escape owing to the enormous facilities for flight created by the integration of the money and capital markets, and perhaps also to repatriate part of that previously sent abroad. As regards the task of transforming the national systems of financial intermediation, just as support was given in the past to industrial development, now priority would have to be assigned to the changing of those systems. Naturally this would not only have a national dimension, but might also have effects at the regional and sub-regional level. It is not difficult to conceive the formation of integrated credit networks favour-

ing interzonal trade or promoting investment based on the Latin American manufacture of capital goods. The linkage of the stock markets, the organization of credits in consortiums, the issue of regional savings bonds, or the creation of zonal systems of insurance and guarantees are other possibilities that should be systematically explored.

Even so, it is highly probable that the financial bottlenecks will be one of the most serious obstacles to development in the immediate future. This gives rise to the other requisite which should be met in the designing of a realistic financing strategy: rigorousness in allocation and austerity in the use of investment funds. In this field there are several criteria that should not be ignored. One calls for reduction of the waste that frequently accompanies both public and private investment projects. The building of cities of monstrous size and the opulent installations of social security, the construction of administrative offices and residential areas which sometimes exceed in luxury those of the industrialized countries, are obvious examples of the magnitude of the waste. Similarly an effort would have to be made, with a discipline perhaps unknown before, to establish a stricter order of priorities in the distribution of funds for the new investment, mainly that of a public nature. Here there is no longer room for manoeuvre. The crisis compels the choice of that which will most readily reactivate the economies and restrain inflation. The projects would have to be well assessed, and integrated in groups which would facilitate labour absorption and the rapid growth of supply. The care and protection of infrastructure and capital goods already installed would also have to be a primary concern, along with the greatest possible use of the installations available. The specifications in construction and in the building of works of infrastructure should be based on local standards, those of countries short of capital, instead of adopting the norms of rich nations. Technological effort in respect of capital goods should be directed to the manufacture of equipment in which for the first time the deliberate aim would be its adaptation to the domestic factor endowment. In short, Latin America will have to learn to do more with less, and to make better use of the surpluses of the economic systems which always arise from current social sacrifice.

### 7. Intra-regional co-operation

Intra-regional co-operation and the deepening of subregional integration may play an important part in enlarging the margins of manoeuvre in the conduct of economic policy and in the transformation of Latin America's productive capacity on the bases of greater efficiency and competitive power.

In the present situation, integration and co-operation may help to overcome the crisis through instruments which will make greater use of installed capacity and human resources, reducing to a minimum the use of the scarce convertible foreign currency in the region. The increase of regional trade, without diminishing exports to third countries, and import substitution on a regional scale are two of the basic mechanisms for restoring the economic activity levels lost in the crisis.

In the medium and long term, integration and co-operation may help to generate conditions for a more autonomous, stable and rapid development through the creation of an economic space more extensive than the national space of each country. Thus, for example, joint initiatives may be undertaken to eliminate the sectoral disparities caused by an incomplete process of industrialization, and to improve the articulation between productive sectors. Again, support may be given to the development of branches and activities which have lagged behind, such as that of capital goods. In the same way it will be possible to give real substance to co-operation in the field of food and energy security if there is a community view of the need to overcome the risks produced by dependency in those sectors, and of the urgency of this task.

Furthermore, through co-operative effort at regional and subregional level Latin America and the Caribbean will be in a better position to cope with the adverse factors deriving from the international economy and to take advantage of the opportunities that this will continue to offer. Thus, for example, there are obvious advantages in continuing the interchange of information and in increasing consultation regarding the restructuring of each country's external debt, or the concertation of negotiating positions *vis-à-vis* the industrialized countries in respect of adjustments to the standards regulating trade and the

international financing and monetary flows. Intra-regional co-operation can also facilitate the development of new export lines to third countries, not only through the efficiency gained by virtue of the economies of scale of the enlarged markets created by integration commitments, but also as a result of associated multinational efforts in support of the production and marketing of tradeable goods.

It should be noted that it would not be a question of restoring conceptual schemes from the past which favoured a gradual and progressive integration of several economies ending in the formation, within predetermined periods, of a single regional economy. The idea is to promote joint action to solve common problems, which offers a wide and fertile field for putting intra-regional co-operation at the service of reactivation and development. The task would be simplified if an impulse were given, first, to the relatively homogeneous groups of countries which have already shown a certain will towards integration—the Central American Common Market, the Andean Group, the Caribbean Community, and the large countries associated with ALADI—and, then, to the strengthening of links among the groups or units of integration.

Co-operation should not be limited to the industrial sector. In agriculture, mining and natural resources there are likewise co-operation possibilities which cover the production, processing and marketing of goods. Similarly, in technology and in the more advanced sectors, such as information processing and others, there are increasing opportunities for joining forces in the solution of some basic problems. Lastly, as has been indicated above, there are also possibilities of stimulating co-operation in the financial sphere.

Among the mechanisms or procedures designed to promote subregional integration the following may be mentioned: tariff preferences, which under ALADI have been negotiated and fixed at a low level and which can be employed on a wider scale; the elimination or limitation of non-tariff restrictions; the channelling of a proportion of State purchases towards the region; the improvement and interlinking of systems of compensatory payments and reciprocal credits, and in general of the financial mechanisms associated with intra-zonal trade; the promotion

of partial agreements and, when applicable, of compensated trade, and the strengthening of the subregional and regional institutions which, in one way or another, give support to integration.

Finally, it should be noted that, if integration is conceived as a process in which all the social, political and economic agents play an active part, the existence of democratic systems of government becomes an important element in the deepening of intra-regional co-operation.

### 8. *The State, planning and democracy*

#### a) *ECLAC's conception of the role of the State*

In face of the economic, social and political challenges of the present crisis, the demands on the State by civil society appear to be multiplying. From the start, ECLAC saw the State as one of the leading actors in the development process. There were many areas of the economy in which it considered State orientation and intervention necessary, particularly in the following: first, in the conception of a global and long-term view which would be systematically reflected in the plans destined to transform the existing structures for the formation of a modern industrial economy; second, in the orientation of action in decisive areas of this transformation plan, such as the promotion and support of capital accumulation, the protection and development of industrialization, the reduction of external vulnerability, the creation of infrastructure, or the stimulus and orientation of technological change, and third, in close relation to the two preceding areas, the prevention and control of the economic imbalances which inevitably accompany structural change.

The aim of this conception was to find a balance between the public and the private sector, between the State and the market, which would take advantage of the positive aspects of each, facilitate their complementation and avoid the negative consequences of the excessive predominance of one over the other and the impression of conflict between their respective roles. This balance was conceived as the expression of an institutional framework which would combine the fundamental principles of a market economy with the indispensable action of the State. In this particular combination, the State's

action tended rather to complement and sustain the market than to transform it radically.

In brief, KCLAC advocated a planning State which, guided by a development plan and using monetary, fiscal, exchange and tariff instruments, would urge all the economic agents to satisfy determined aims. The final result of the creative interaction between the activity of private agents and the action of the State should be the strengthening of the economy as a whole.

#### b) *Considerations on State action*

Recent decades have provided rich and varied experience on the virtues and defects of the economic action of the State and of the market, and have led to the widespread view that neither one nor the other, by themselves alone, can ensure efficient and equitable economic development. The unilateral programmes, which derive from the predominance of one or the other, do not appear to find viable solutions. Hence the problem remains of finding new and agreed equilibria between the public and the private sector.

During most of the 1960s and 1970s it was assumed that in Latin America the State was in a position to fulfil the role assigned to it by the development strategy. However, the opposite was frequently the case. In fact, the position of the State from an institutional, administrative and socio-political standpoint was not always in line with its assumed capacity to guide the process of development.

These assumptions were submitted to severe criticisms, both from a theoretical and practical point of view. For example, it was pointed out that the State apparatus had not the internal unity and coherence that had been assumed and that it was rather a complex structure in which, in the midst of a task of increasing magnitude, multiple agents tried to promote their particular interests. Moreover, the orientation of State action was often not the result of the autonomous and imperative application of a certain technical rationale but the consequence of complicated processes of decision-taking affected by the interaction of power groups with different lines of reasoning. Again, the technical and administrative efficiency of the State could not be merely assumed, but had to be regarded as a problem of

difficult solution. Lastly, State control of economic relations with the exterior became increasingly limited in the context of an international economy which was becoming rapidly transnationalized. In these circumstances, the State was frequently unable to undertake all the tasks which had been assigned to it or to fulfil them efficiently. Intense criticisms arose, some sufficiently sound to make a profound impact on the conventional form of criticism applied to political questions in general and to the State in particular. When these issues are reformulated from the standpoint of current needs, the decisive question seems to be how to formulate and carry out strategies aimed at development, autonomy, equity and democracy without the support of ideal States, the existence of which was previously taken for granted.

Paradoxically, at the same time as a more realistic view was being adopted of its capacity, the State was expanding and diversifying its structure to assume ever wider functions which were imposed on it by the economic, social and political circumstances, along with the weaknesses and deficiencies of the other economic agents.

Some of the chief causes of the expansion of the Latin American State in the economic and industrializing process originate in the underdeveloped and peripheral character of the societies of the region. The local private agents are weak in comparison with the power of their counterparts abroad. The relative weakness of some and the strength of others, in the framework of growing economic, financial and technological demands, impose ever increasing functions on the State. In some of these cases, the State has tried to attract or control foreign agents while favouring the development of the national private sector. In fact, it has frequently fostered the activity of the latter by offering it opportunities for investment, credit, protection against external competition and certain internal risks, as well as ensuring it a stable demand (through the State purchasing power), granting it access to low-priced inputs, guaranteeing it profitability, etc.

At the same time, State action in the social field originates in part from the fact that Latin American economic growth has manifested tendencies towards social and regional con-

centration of power, income and wealth. These trends result in disequilibria which, in some cases, have been aggravated by social and political activities and aspirations directed towards mobilization and democratization. In other cases, the State has had to settle difficult social conflicts arising from the growth and expectations of the population itself, as well as from the demands coming from the groups that emerge with economic progress.

Finally, as regards the political process, the State has also had to face opposing trends. Besides the functions relating to its internal and external consolidation, the State has on the one hand had to guarantee the maintenance of an institutional order whose dynamism accentuates the growing concentration of economic power. On the other hand, it has had not only to represent a régime of global rationality binding together individual interests, but also to create a flexible institutional ambience which will incorporate all the social forces activated by the development.

These are, in brief, some of the main reasons why the State has expanded its action in the economic, social and political fields. The concrete forms which this expansion has assumed have been very diverse, as also have been the priorities established in each concrete case.

The functions of the State have varied over time and in recent years as a result of the economic crisis and the processes of democratization. The dilemma consists, not in clarifying whether the State should or should not act, because obviously it will do so, but in perceiving what should be the characteristics of this action in present-day Latin America and in view of the set of objectives directed towards democracy, autonomy, growth and equity.

The State is faced with new challenges made more pressing by the crisis. This reduces the degrees of liberty, limits internal and external resources, and slows down the growth rate, which makes it more difficult to settle conflicts and take up options which will reduce the differences between the social strata. To meet these challenges a vigorous—but not overgrown—State is required which can gradually increase its technical and administrative efficiency, its political capacity and its economic and financial solidity.



The increase of the technical and administrative efficiency of the State apparatus is an objective which could be universally accepted, always provided that it is not placed above the other objectives which should guide State action. In effect, Latin America has reached the point where it is evident that efficiency should be subordinated to the social efficacy of the global action of the State, an efficacy deriving from the coherence of State action with the various objectives which should guide it.

The State's political capacity basically relates to its willingness to exercise its authority over all the social groups. Nonetheless, a strong or effective State of this nature cannot be based solely or primarily on the use of the coercive power characteristic of an authoritarian political organization, but must rely on the principles which give legitimacy to its mandate. Within the political culture prevailing, this legitimacy can only be attained through the revalidation of democratic political principles. In other words, in principle and apart from other requisites, legitimacy will be accorded to the authority which emanates from a democratic State. This is the only way to attain the level of responsibility and individual and collective discipline which will serve as a firm foundation for a State political capacity that is vigorous and stable.

The economic and financial power of the State is closely allied to its political capacity, since the two attributes support each other. This power is expressed and exercised in various ways, but its central nucleus is built upon two main aspects: on the one hand, the capacity for leadership and concertation, which enables the State to unite people's wills behind collective economic aims; and, on the other hand, the capacity to control and guide the process of capital accumulation. It is difficult to decide on the most suitable procedures for consolidating this latter capacity, but the most familiar are the good use of economic policy instruments, direct investment of a productive type and the control of financial mechanisms both public and private. Only concrete circumstances can indicate which combination of these is the most appropriate.

c) *Planning and crisis*

To increase the capacity of the State in most of the Latin American countries there is no need

for an enlargement of its functions and attributes but merely for the adequate exercise of those which it already has. Here once again planning plays an important role as an instrument of rationalizing State action. It is not necessary to repeat the familiar theoretic elements which are the bases of planning, but it is indeed of interest to point out certain problems which have not been solved, at least in practice, such as the compatibility of aims and policies in the medium and long term or the combination of goals of growth and equity.

Again, the articulation of the management of the principal State entities, such as the central administration, the public enterprises and provincial administrations, is also a matter of special importance. In many Latin American countries, above all in those where inflation is intense, public investment comes to have an importance which it could scarcely have acquired in earlier conditions. In some countries over 50% of investment is public and it continues to be the basic source of the infrastructure needed for development, which justifies in itself the need for long-term planning.

d) *Democratization*

The main political aim of a development strategy should be the establishment and consolidation of democratic forms of social organization. This objective is justified for three main reasons: for the intrinsic value of democratic principles; for the role that democratic mechanisms of articulation of interests can play in the stabilization and institutionalization of the political process, by permitting the participation of all the social groups; and for the relation between the existence of both the above elements with the objectives of social equity. These aspects, summarized in terms of participation, liberty and equity, form a delicate balance, which should exist if one is to be able to speak of a genuine democratization.

Democratic forms are manifested institutionally in three main mechanisms. The first consists of instruments proper to liberal democracy, based on the aggregative and representative functioning, freely exercised, of the political parties, through parliamentary elections and institutions, and on the civil and political

rights on which these instruments are founded. Some of the obstacles in the way of the full application of these instruments in many Latin American countries, and the regressions that have taken place in a number of them, indicate the difficulty of the future task and the incompleteness of that hitherto realized, while at the same time the renewed strengthening of democratic movements indicates the persistence of these political values.

Secondly, there are important nuclei of economic power whose articulation, indispensable for stabilizing and orienting the political and economic processes, is not fully achieved by the traditional democratic mechanisms. Outstanding among these nuclei are the entrepreneurial associations and the trade unions, which in their wide variety pluralize and at the same time complicate the aforesaid processes. This situation has given rise to procedures of social concertation among these groups and with them, which frequently succeed in becoming institutionalized as economic and social councils. Although they have had a precarious existence in Latin America they represent a promising path for the establishment of forms of harmonization and concertation of interests. They should by no means replace the traditional democratic mechanisms, but they can certainly help to achieve a greater coherence between the political parties that they represent.

In the third place, liberal-democratic mechanisms and procedures of concertation do not exhaust the process of democratization, since the growing concentration of State and private economic power entails a search for ways of diffusing and controlling this power. It is a question here of deepening the democratization of the public and private enterprises, which constitute the current supreme examples of concentration of economic power. This deepening can assume various forms, implying different degrees and modes of participation, such as the participation of employees in the capital, or even in the management, of enterprises; the self-government and strengthening of co-operatives, etc. In several Latin American countries co-operatives are being reinforced. Experiments in participation in private and State enterprises should be encouraged and improved, since they seek to overcome the dilemma presented by the

present co-existence of two opposing trends: economic concentration in large organizations and the urge towards democratization.

All the democratization mechanisms indicated require as an indispensable foundation the existence of a democratic society, that is to say, a society which accepts the legitimacy of the institutional mechanisms through which the diverse interests are organized, expressed and reciprocally influenced. Mechanisms are empty forms if they have no social base to legitimate them, but this social base must necessarily reach some degree of agreement conducive to the democratic discipline which is an essential component of a State having sufficient authority to carry out decisions reached democratically. Indeed, democratic régimes have to be firm in exercising their authority, since the existence of democracy must not be confused with the absence of authority. The same firmness that they apply in the defence of democratic procedures and the taking of decisions should be used to insist on the observance of the latter. The recent history of developing countries has many examples of the negative implications for democracy itself of an unwillingness to exercise the power possessed by the democratic régimes; they should reconcile economic reality with arbitration between the key forces of society, in order to achieve a sufficiently wide combination of support to guarantee the survival of the régime itself and certain advances in general well-being. Their viability depends on the structural changes they introduce into society and the economy, on the evolution of the external sector and on the receptivity and flexibility of the forces capable of making themselves heard. This last factor is undoubtedly one of the most important for the future of these régimes; that is, to achieve the support of the different political parties and of the social groups and classes or their representative organizations, which should try to express themselves through their parties in the existing organs of power. This support requires of the different sectors of society that they should formulate realistic responses to the options before them and help to put these options into practice, displaying a sufficient capacity for overcoming undetermined issues and for combining the vigorous defence of their own interests with the patience and ability to arrive at an agreement.