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LATIN AMERICA AND THE INTERNATIONAL DEVELOPMENT STRATEGY:  
FIRST REGIONAL APPRAISAL

Part One

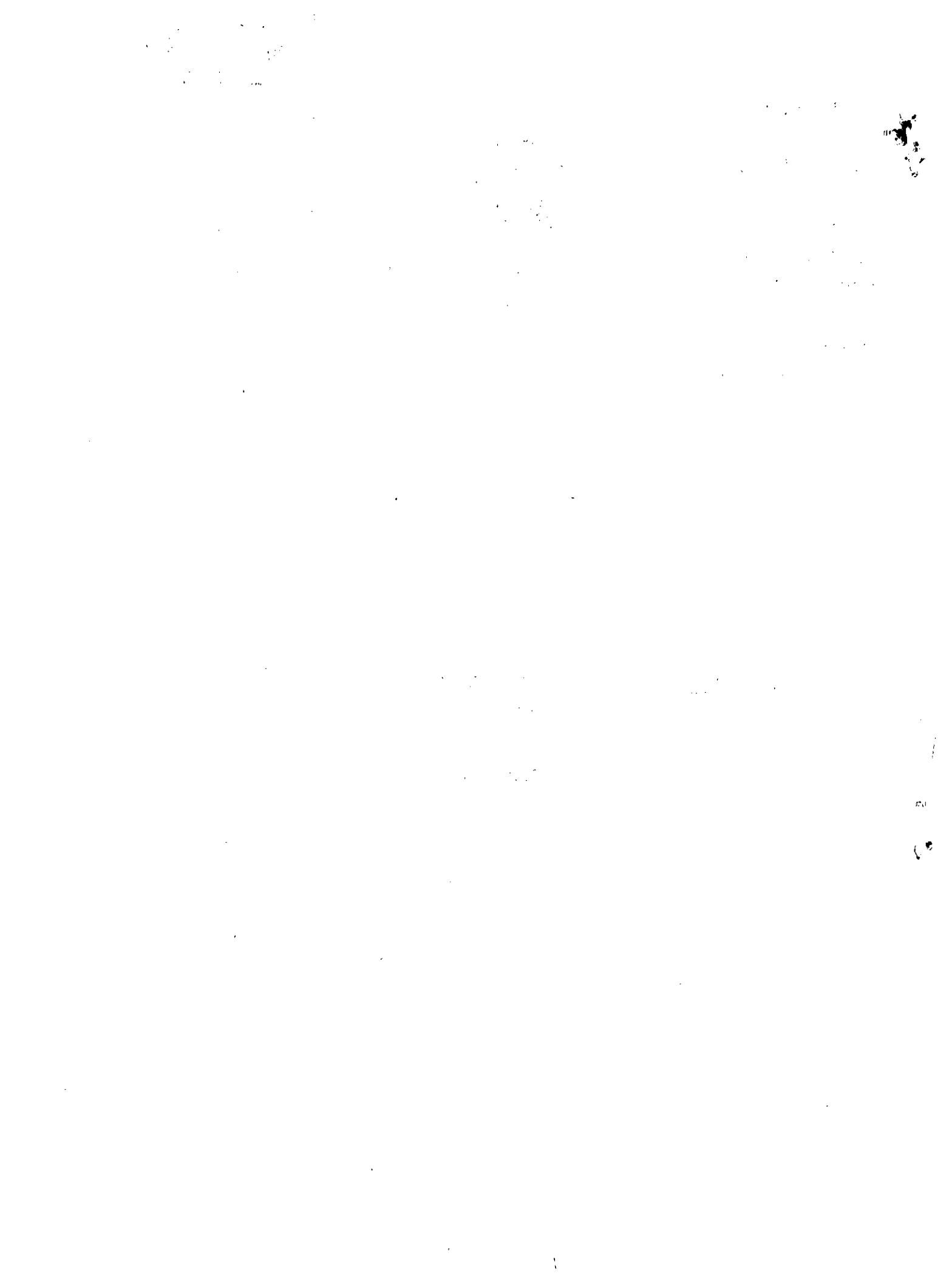


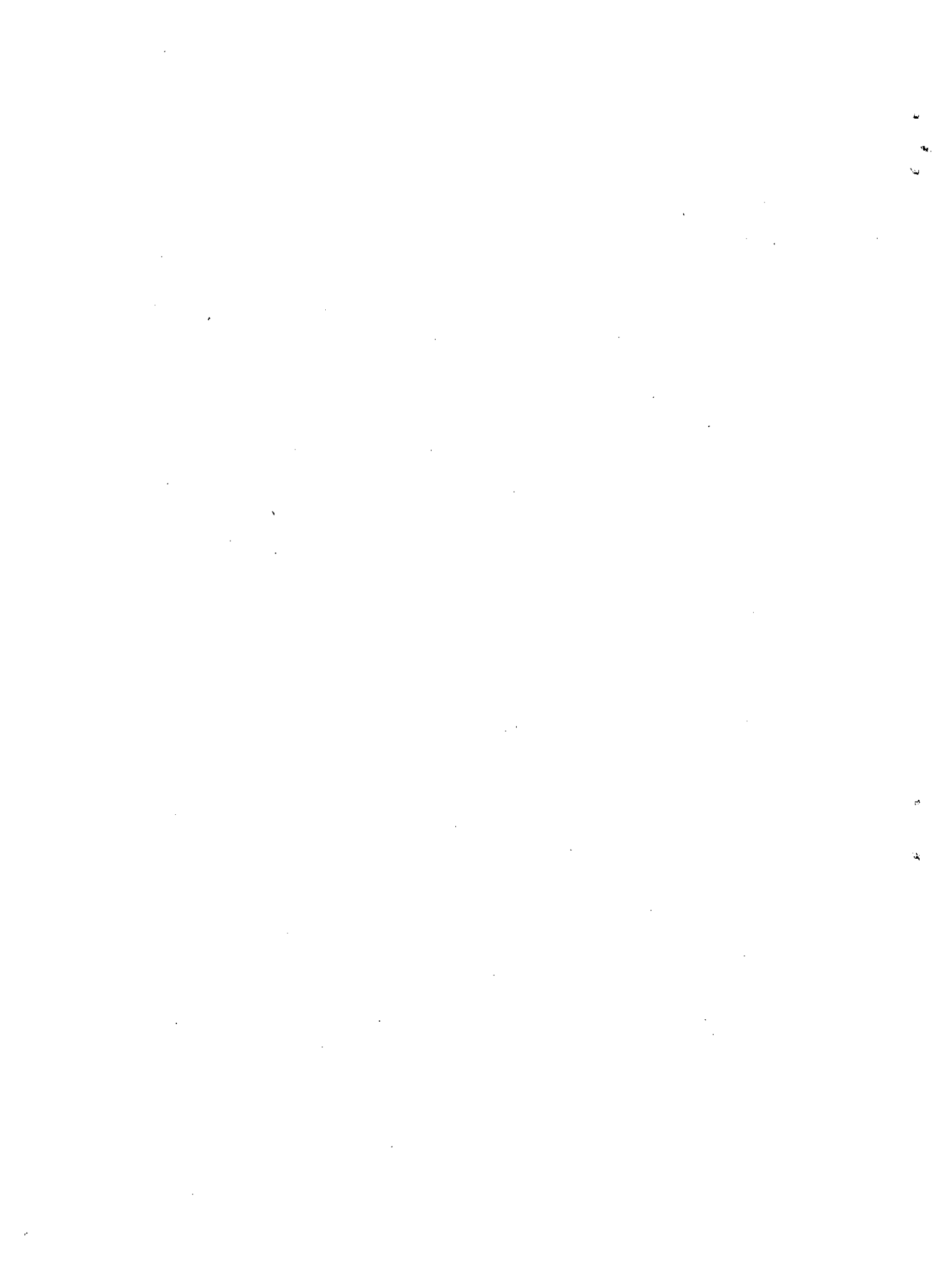
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## INTRODUCTION

### 1. The role of ECLA in the regional appraisal of the International Development Strategy

#### (a) Background

After long and intensive technical studies and deliberations in the United Nations, the General Assembly approved on 24 October 1970, (the twenty-fifth anniversary of the founding of the organization) an action programme to speed up the economic and social progress of the developing countries. This was the International Development Strategy (IDS).

At its fourteenth session (Santiago, Chile, April-May 1971), ECLA reviewed the significance and scope of the IDS in relation to the Latin American countries and adopted resolution 310 (XIV) which made recommendations to the Governments and to the secretariat on various basic aspects of the promotion, instrumentation and periodic appraisal of the Strategy and set up a Committee of High-Level Government Experts, composed of representatives of the developing member countries of the Commission. The ECLA secretariat has convened the first meeting of this Committee for 26-28 February 1973 so that it can consider the first regional appraisal as explained below, and has proposed this topic as the main item on the agenda of the fifteenth session of the Commission, to be held in Quito from 20-31 March 1973.

#### (b) The system laid down for the review and appraisal

In essence, the International Development Strategy is an agreement by Governments, drawn up at the highest political level of the United Nations on the action which should be carried out systematically in various fields during the present decade with the immediate aim of stepping up the economic and social progress of the developing countries. It indicates the minimum targets and objectives to be attained, and the measures and policies which should be applied internationally and nationally. The objectives are described in detail, while the measures to be taken to achieve them are naturally dealt with in more conceptual terms, since it is considered that the definition of the national policies of the developing countries is the exclusive concern of their Governments.

This action programme thus has two important features because (a) it is linked with the achievement of specific targets and objectives and (b) it establishes machinery for the review and periodic appraisal of the operation

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of the Strategy in order to assess the progress made, to determine short comings in the process, and to identify the factors responsible for them. All this is directed towards the study and recommendation of new measures and policies as needed, (paragraph 79 of the International Development Strategy).

Paragraphs 79 to 83 of the IDS lay down that these appraisals should be made at different levels and with the participation of the developing and the developed countries.

At the national level, each developing country will make its own reviews and appraisals; at the regional level, the main responsibility will devolve upon the regional commissions of the United Nations, and at the sectoral and functional level the work will be carried out by UNCTAD, UNIDO and the specialized agencies of the United Nations. Lastly, the General Assembly, through the Economic and Social Council, will make the overall appraisal on the basis of the foregoing reviews and the comments and recommendations which the Committee for Development Planning may make. These appraisals will be made biennially, and the second will have the nature of a mid-period review.

The secretariat has prepared the present report for consideration at this first biennial appraisal, and it will be presented at the first meeting of the Committee of High-Level Government Experts and later at the fifteenth session of the Commission.

Both meetings provide the member Governments of ECLA with the opportunity to review in the context of the IDS, among other matters which may be considered relevant, the following:

- (i) the progress made in the economic and social development of the region, especially during the last two years;
- (ii) the results of international economic, financial and technical co-operation in the light of the objectives, measures and policies laid down in the Strategy;
- (iii) the extent to which the decisions which the international community took in the resolution adopted by the General Assembly are being adopted and applied;
- (iv) the efficacy of these measures and policies, and

/(v) the



- (v) the possible formulation of new proposals on international co-operation in the light of the experience accumulated and the conditions and prospects observed in the evolution of the problems of Latin American development and in the framework of international economy and trade.

## 2. Scope and limitations of the first regional appraisal of the IDS

### (a) Sources of information and analytical studies

A regional appraisal study naturally calls for a very extensive compilation of statistical and technical information and analytical work on the various aspects of economic and social development evolution and policy, international trade, external financing and problems of science and technology, in each of the countries individually and for Latin America as a whole.

To prepare this document, the ECLA secretariat has made an exhaustive search of all the traditional sources of information. Direct contacts were established with the Governments of the member countries and quantitative and qualitative data were collected on national plans and policies and external aspects by means of a questionnaire specially designed for this purpose. Mention should be made here of the willing collaboration received from Governments and the value of the contribution which they made to this work.

The secretariat has been especially concerned to secure maximum co-ordination of its work with that of other international regional bodies in order to avoid unnecessary duplication of activities.

The questionnaire sent to Governments was designed taking into account the information also being requested by the United Nations Headquarters Centre for Development Planning, Projections and Policies (CDPPP), so as to facilitate the subsequent exchange and co-ordination of concepts and methodological concepts and procedures.

Considerable use has been made of the material available in the regional organizations - particularly the periodic appraisals made by CIAP - the IDB, IBRD and IMF studies, and the various studies made by specialized agencies of the United Nations.

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Within the secretariat itself a great effort has also been made to organize the systematic compilation of the minimum basic information required. This report will have a special technical annex to include a group of tables giving the main statistical indicators used, data for the 1960's and each of the years of the two-year period 1970-1971, and the little statistical data available for 1972.

In brief, the work done has shown up the serious shortcomings and limitations which exist as regards information and the obvious need to intensify efforts to secure co-ordination with other institutions, notwithstanding the real progress which has been achieved over the past few years. The progress to be made in studies of this kind will undoubtedly depend basically on the improvement of national statistical services and those of the international organizations, on the carrying out of analytical work and the creation of mechanisms which will effectively ensure that better mutual use is made of information, and on the research being carried out in the various regional and international organizations.

(b) General aspects of the present document

In nearly all its chapters, this document presents a summary or synthesis of the conclusions of the many analytical studies which have been made in the ECLA secretariat, a number of which will be published separately as they are completed during 1973.

It should be stressed that it has not been possible to consider here all the topics dealt with by the IDS. Various circumstances have dictated these omissions: lack of information, inadequate knowledge or lack of adequate technical staff. Generally speaking, it was decided to concentrate on important topics where something useful could be contributed to the debate, avoiding aspects which were too well known or which did not justify the same attention as other IDS proposals because they were expressed in very general terms.

The delay in the availability of statistical data has been a serious obstacle to the execution of this appraisal, and the situation for 1972, is distinctly critical. A short document on the economic development of Latin America in 1972 is being prepared for presentation at the fifteenth session of the Commission; it will contribute additional data on variations in production, external trade, the balance of payments and external financing. This will allow the evaluation appearing in the present document to be supplemented in important aspects and will enable more definite conclusions

/to be

to be reached on the experience of the first two years of the Decade. This lack of recent data is particularly marked in the review and appraisal of the internal and external areas of the economy, since changes in situation and trends are slower in the social and demographic fields.

The analysis of recent developments is generally presented in relation with the events of the last decade, especially during its latter years. It has been considered expedient to apply this procedure because it brings out the main features of the internal structural conditions characterizing the situation of the Latin American countries at the beginning of the 1960's and in the context of their own development. Future appraisals can concentrate more on the analysis of the actual period in which the IDS is in operation. These references to the past also help to form a sounder view of the significance and scope of recent changes and the form and extent in which the conditions of Latin American development improve, remain unchanged or deteriorate.

In short, it may be considered that this document - despite the limitations which affect some of its aspects because of the lack of data and of analytical studies - contributes a systematic set of data, analyses and conclusions which are of undoubted value for an appraisal of the general experience of the first two years of operation of the IDS, the economic and social process in Latin America, and the extent to which the proposals and policies of the Strategy have been adopted and applied in the various areas of international co-operation: trade, shipping, other invisibles, external financing and regional integration.

This first attempt at an appraisal has made possible the accurate identification of practical and technical aspects and problems which require solution. In this connexion, the first meeting of the Committee of High-Level Government Experts and the fifteenth session of the Commission will give the ECLA secretariat an opportunity to receive suggestions and recommendations from Governments for the improvements and orientation of its future work.

(c) The content of the document

It was decided that it would be appropriate to present this review and appraisal by major topics which in fact correspond to the main sections of the IDS document. This method was preferred because it provides an opportunity to arrive more easily - but without prejudice to the peculiarities and variations stemming from the marked heterogeneity of structure to be found in Latin America - at the conclusions of regional scope called for by the machinery which has been set up, and because it facilitates a more organic treatment of the subjects considered in the various paragraphs of the IDS.

This document as a whole was planned in two parts: the first three chapters review the evolution and problems of social development, economic growth and the internal effort to make use of production resources, while the last four chapters deal with the main topics connected with the external relations of the region: the links with the main groupings or members of the industrialized and socialist countries, external trade, maritime transport, insurance and tourism, external financing and regional integration.

The following section sums up and condenses the content of each chapter, placing it in relation to the proposals of the IDS and underlining certain aspects which give an idea of the special nature of the topic under discussion and help to point to some significant conclusions.

3. Human development and social change  
in Latin America (Chap. I)

Paragraph 1B of the IDS - which emphasizes the social aims of the development process and the functional relationships that should exist between economic growth and qualitative and structural changes in society - forms the basis for an examination of social development in Latin America in relation to the terms of the paragraph in question and those of the special section of the IDS on human development (paras. 65-72).

The chapter begins by contrasting the fundamental ideas of the IDS with the actual situation in Latin America, and raises certain basic issues of particular importance for the appraisal.

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It then goes on to examine the main features of human development at the beginning of the 1970's, noting that Latin America will continue to experience - and on an increasing scale - important processes that had been forecast earlier, particularly as regards population growth, the speed of urban concentration, the extreme inequality of income distribution, and the inability of the economic system to offer productive employment and proper living conditions to a large proportion of the population. As the characteristics and relative weight of each of these factors vary throughout the region, the examination is conducted and the general conclusions are drawn in respect of three groups of countries.

As regards the social objectives established in the IDS, the first issue dealt with is the marked overall progress made in quantitative terms in education and, to a lesser extent, in health, health services and social security, contrasted with the markedly unequal distribution of such services between sectors, social groups and rural and urban areas. Mention is made of the growing cost and low level of efficiency of these services, pointing up the need for improving planning, revising priorities, and increasing popular participation. The second point tackled is the comparative lack of progress in the nutrition and in the supply and quality of housing. The salient aspects of these issues are examined in their relation to the limitations of production and the low level of family purchasing power resulting from the distribution of income and levels of remuneration and employment. The conclusion is drawn that large segments of the population are not able to satisfy their minimum needs for housing. Mention is also made of the marked shortcomings that exist and the improvised solutions that are being adopted.

The chapter ends with an examination of the situation as regards planning and the adoption of social policies and demonstrates that, although objectives for human development similar to those established in the IDS have won generally acceptance, in most cases there is a lack of specific policies and programmes aimed at correcting income distribution, eliminating extreme poverty, and providing human potential with a bigger role in the various aspects of development activities. In brief, it stresses the need to apply in Latin America in the immediate future the same unified approach sought by the IDS for diagnosing, planning and undertaking activities to promote development.

#### 4. Economic growth (Chap. II)

The International Development Strategy (paras. 13-15) establishes minimum average growth targets for the developing world in the 1970's. These targets relate to the total and per capita product, and agricultural and industrial production. The IDS also includes a number of proposals for the diversification of production and the development of productive sectors and the infrastructure (paras. 73-77).

The ECLA secretariat, in a document submitted to the Commission at its fourteenth session <sup>1/</sup>, examined the significance of these targets from the standpoint of Latin American development and indicated, among other matters relating to the structure of growth and its social implications, that it is necessary to set appreciably higher targets for the economic growth of the countries of the region, because of the urgent need to achieve certain objectives, including employment objectives reasonably quickly, and because of the potential for growth that exists in the region.

This chapter examines in separate sections the trends of economic growth; savings, investment and consumption; the sectors of production; and economic growth in relation to the external sector. Unfortunately, for statistical reasons, the examination only goes up to the year 1971. The report on trends in 1972 will help to complete the diagnosis of overall growth for the first two years of the Second Development Decade.

Before examining individual trends, the chapter notes that the pluralism and heterogeneity that characterize Latin America make it impossible to take one standard model as a point of reference for the regional appraisal. There are, for example, differences in the patterns of development that countries have adopted - in some cases slight, but in others affecting the very roots of social organization - and there are also substantial imbalances as between countries, regions and sectors.

In 1971, the overall growth rate of the product in Latin America as a whole exceeded the target set in the IDS, but only six of the countries considered met the target individually. Mention is also made of the difference in the impact of the figures in the light of the absolute level

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<sup>1/</sup> See chapter I of the Economic Survey of Latin America, 1970 (E/CN.12/868/Rev.1) (United Nations publication, Sales No E.72.II.G.1), pp. 1 et seq.

of the product in each country. Thus, for example, the target of 3.5 per cent growth set in the IDS for the per capita product would mean an addition of only 3 dollars per year for each Haitian but 35 dollars for each Argentinian.

The chapter notes that domestic savings formation did not change much in the region as a whole, and that gross domestic investment was equivalent to 20 per cent of the product, with a significant increase in the share of public investment in the total. Consumption continued to grow at much the same rate as in previous periods, although in some of the countries considered there was a drop in the proportion spent on foodstuffs and a rise in spending on consumer durables and semi-durables.

From the sectoral standpoint, the chapter looks in detail at industry, agriculture and natural resources and energy.

With respect to agricultural production, it is noted that in the second half of the 1960's the annual growth rate (3.5 per cent) was below the target set in the IDS (4 per cent). For 1971 there are some serious discrepancies in the data available. According to the value added figures from the national accounts, overall growth was about 4 per cent, but according to the FAO index the level of production remained unchanged. A more extensive inquiry is obviously called for in this respect. Apparent per capita consumption of agricultural products in 1971 improved owing to increases in imports but not in production, according to national accounts statistics. In some areas, however, there has been a significant rise in productivity with an increase in consumption of fertilizers and the use of agricultural machinery.

The chapter ends with an examination of the relations between economic growth and the external sector, the conclusion in this respect being that in recent years there has been a change in the structural relations between the growth of the product and the expansion of the volume of exports and imports.

5. The internal effort to make use of production resources (Chap. III)

Several of the provisions of the International Development Strategy are based on the concept that economic and social progress is the common and shared responsibility of the entire international community (paragraph 10) and that the primary responsibility for the development of developing countries rests upon themselves, as stressed in the Charter of Algiers (paragraph 11). Two sets of proposals are therefore made: those relating to co-operation in trade, finance and international technology, and those referring to the tasks for which the developing countries are responsible (paragraph 41). The Strategy further considers other aspects connected with administrative planning and organization (paragraph 78), institutional reform (various sections), and sovereignty over and utilization of natural resources (paragraph 74).

This chapter concentrates on all these internal aspects, beginning with a review of the main changes and tendencies in the evolution of planning systems. In doing so, it draws attention to the differences in the progress made in each country, the real influence of planning mechanisms, and the extent of the field covered. With some exceptions, recent data point to a strong tendency to give planning a new technico-political slant emphasizing structural change and the social repercussions which ought to accompany the process.

A second section highlights major transformations that have recently occurred at the institutional level. Although the nature and purpose of such measures vary from country to country, certain clear patterns do emerge. On the one hand, there is a desire to ensure domestic sovereignty or control over certain basic resources; moreover, definite progress has been made in the search for agreements and mechanisms capable of protecting exports of primary products in the international market. Another development is the increased extent and degree of internal organization of the public enterprise sector, known in certain countries as the "area of social ownership".

Important advances have been registered in agrarian reform, but its evolution has also brought its share of problems. Two main approaches can be distinguished, one of a modernizing nature and the other committed to thoroughgoing changes in the system of ownership and social organization in the rural sector. Major changes have likewise taken place in the administrative and instrumental structure of economic policy, of which Brazil provides an outstanding example.

/Finally, the



Finally, the chapter contains sections on the expansion and adjustment of the systems of financial intermediation and the evolution of the public sector. The main feature of the former is the reorganization of the financial systems and the growing importance of a variety of new agencies that are coming into being in order to meet unprecedented demands arising from recent development trends. The section on the public sector draws attention to the continued expansion of public enterprise and corresponding changes in taxation, composition of investment and fiscal expenditure. The overall picture suggests a definite move towards the diversification of public activity which has expanded beyond the traditional areas of administration to take on new responsibilities and objectives.

#### 6. Latin America and international economic relations (Chapt. 10)

This chapter deals with the evolution of Latin America's relations with the United States, the European Economic Community (EEC), Japan and the socialist countries. Emphasis is placed on trade flows and, to a lesser extent, on financial aspects which are treated from a global standpoint in a later chapter (VI).

The chapter begins with the series of changes that have been occurring in the system of international relations, the new political and economic structure that is taking shape in the world as a whole and among the industrialized countries in particular, the discriminatory preferential verticalization that is becoming increasingly apparent in the EEC, the events of 1971 in the monetary field, and the agreements reached on the multilateral trade negotiations scheduled to begin in 1973. The solutions that are adopted with regard to the last two points, it is noted, will set the pattern of the new system of international relations. Consequently, a number of questions arise as to the role that the developing countries, and Latin America in particular, are to play in the system and the problems they face.

The analysis of Latin American trade with the United States reveals that the annual growth rate of exports was fairly low during the 1960's (3.5 per cent), while that of imports was somewhat higher (5.9 per cent). As a result, trade deficits were exceptionally high towards the end of the decade. The situation became still worse in 1970 and 1971, when the annual average deficit rose to over 1,300 million dollars. Although Latin American countries - through the Special Committee for Consultation and Negotiation of IA-ECOSOC - endeavoured to improve their access to the United States market during this period, nothing of any significance came of their efforts, owing to that country's increasingly protectionist tendencies. These tendencies also explain why the United States is the only developed country not to have fulfilled its undertaking to introduce a general system of preferences.

/The chapter

The chapter then goes on to consider the negative effects, whether real or potential, of the enlargement of the EEC. Trade with the six-member Community during the 1960's showed an annual growth rate of 6.2 per cent in exports and 5.8 per cent in imports; on the whole, therefore, Latin America's trade balance was positive. In 1971, however, the region recorded its first trade deficit with the EEC, owing to the decline in value of its exports and a sharp increase in imports. The most serious problems stem from the Community's enlargement. The adoption of the common agricultural policy and the common external tariff by the new members will aggravate the marked world-wide trend towards protectionism and self-sufficiency. In addition to accentuating trade discrimination against Latin American and other developing countries, the considerable extension of the preferential trade arrangements through the system of association which is being offered to developing countries that used to trade primarily with Britain as part of the British Commonwealth introduces new sources of friction that will affect the unity and identity of interests of all Third World countries. Finally, the replacement of the preference schemes of the new members by the more limited EEC scheme will reduce even further the possibility for Latin American countries to promote their exports of manufactures, which will also suffer from the free trade in industrial products that has been established with other European countries, former members of EFTA, which did not join the EEC.

The main features of the region's trade relations with Japan are the rapid annual growth rates - 13.4 per cent for exports and 12.8 per cent for imports - and the more or less balanced terms of trade, with a slight advantage for Latin America. In 1971, however, the region showed a substantial deficit in this trade for the first time. The data so far available on Latin American exports to Japan which benefit from concessions under the Japanese general preference scheme are not very promising, owing to the fact that the quota system is very restrictive and that a large proportion of Latin America's exports are of primary products on which no concessions were granted.

The chapter concludes with an analysis of trade with the socialist countries. Exports of all Latin American countries except Cuba increased annually by 3.2 per cent, while imports rose by 2.6 per cent, both figures being fairly low compared with other areas. Latin American exports (again excluding Cuba) mostly originated from three or four countries of the region and their total fluctuated erratically. Imports have remained consistently below exports for a number of reasons, one of which is the lack of suitable arrangements to alleviate the excessive rigidity of the bilateral agreements.

7. Foreign trade, maritime transport, insurance  
and tourism (Chap. V)

The International Development Strategy deals in two special sections (paragraphs 21 to 38 and 53 to 55) with a detailed group of measures relating to the trade of developing countries (basic commodities and manufactures), maritime transport, insurance and tourism.

This chapter begins with a review of the evolution of total exports, by countries of the region, and a comparison of the growth rates attained in 1971 with those of the first and second half of the past decade. On the whole 1971 was an unfavourable year for exports because their current value rose by only a little over 3 per cent in Latin America as a whole: one of the lowest rates since 1961. World commodity prices are analysed with particular attention to the drop in prices recorded for many commodities in 1971 on account of the uncertainty prevailing in the world markets during the dollar crisis and the instability of the principal foreign currencies up to the end of that year, when an agreement was reached regarding the realignment of monetary parities.

The growth target established in the IDS for exports from developing countries as a whole was not attained by the Latin American countries, which fell still farther short if the percentage increase in the current value of exports is adjusted in terms of their capacity to import. The inflationary trend in the industrial countries was partly responsible for this, since it caused a rise in the unit value of Latin American imports which resulted in a deterioration in the terms of trade - a deterioration which is even more marked if Venezuela is left out of the overall calculation.

An examination of the measures agreed to in the IDS with regard to basic commodities shows that, generally speaking, there really is little that can be pointed to as an advance or evidence of progress in its implementation. In the field of trade liberalization, for example no important developments were recorded, while the policy of international commodity agreements is meeting with the opposition of some developed countries and dissatisfaction is being shown by some of the developing countries participating in such agreements. Nevertheless, after 16 years of effort, the negotiation of the first international cocoa agreement was finally successfully concluded.

/Pricing policy

Pricing policy for commodities has not been translated into specific action for improving export prices. Lastly, in reaction to most of these measures, there is doubt as to whether the decision to embark on new multilateral trade negotiations will not mean that all action in favour of developing countries will once again be postponed while the major industrial countries come to an agreement concerning what and how they are going to negotiate.

The chapter then goes on to deal with the recent evolution of exports of manufactures, and it is pointed out that, despite the high growth rate recorded in the last few years, the importance of such exports in absolute terms is still not impressive, although in some countries it is fairly significant. Attention is drawn to the limitations of the general systems of preferences, but it is noted that no data are available on how they are being implemented, except for some partial figures for Japan which have already been referred to.

As regards maritime transport, it is considered that the IDS provisions do not seem to have been sufficiently elaborated, at least as regards the interests of the Latin American countries. The greatest concern of these countries lies in the need to increase their participation in the transport of their own foreign trade, which would serve, among other objectives, to lessen the impact of outflows under the head of freight rates on their balances of payments. At the same time, however, a rapid process of technological change is taking place in maritime transport which makes the prospects and competitive conditions of the Latin American countries somewhat more difficult.

The last part of the chapter deals with insurance and tourism. As regards the former, it is noted that there is no clear idea of how to reconcile different objectives - the expansion of the domestic insurance market, greater participation of national enterprises, a reduction in the new outflow of foreign exchange - and attention is drawn to the fact that the possibilities of regional action in this field have only recently begun to be explored.

Tourist flows in the northern Latin American countries and the Caribbean are compared with those in the South American countries, and it is pointed out that the latter are not gaining full advantage from the world boom in this new industry.

## 8. External financing (Chap. VI)

The IDS (paragraphs 42 to 52) lays down in precise terms in some cases and in more general terms in others, the main guiding principles which should govern the co-operation and financial relations between the developed countries and the Third World. Although these provisions are applicable to all the developing countries, an attempt is made here to analyse the subject in relation to the development and situation of Latin America.

First, the volume and terms of flows of financial resources to the developing countries (paragraphs 42 to 47 and 49 of the IDS) are examined, and it is clearly shown, *inter alia*, that the limitations as regards flows of official assistance from the developed countries have had a particularly serious impact on Latin America. As a result, Latin America has been compelled to resort increasingly to borrowing from private sources, which has led to a rapid worsening of the average terms on which new external resources can be obtained.

Secondly, some special aspects of development financing are analysed, in particular the machinery for supplementary financing and the establishment of the "link", both of which are dealt with in paragraphs 51 and 52 of the IDS. The progress made towards the realization of both these objectives has been relatively slow and insufficient, in spite of the Group of 77's prolonged efforts to negotiate on these matters and the support given by a few industrialized countries. For the Latin American countries, which have been subject to frequent and significant fluctuations in their exports and have also received only a meagre flow of foreign loans on relatively soft terms, it is a matter of urgency to bring these two mechanisms into operation.

The next question analysed is the external debt (paragraph 48 of the IDS), a problem which has been aggravated and become more widespread in Latin America, particularly as a result of the above-mentioned deterioration in the basic conditions of external financing. It is noted at the same time that there has been little improvement in the developed countries' policies in the direction of solving this problem: for example, whenever renegotiations have been necessary they have been primarily of a business character.

Lastly, attention is given to foreign private investment and its relation to development, which is the subject of paragraph 50 of the IDS, and it is observed that it is significant that the countries of the Third World, particularly in Latin America, have started to define, more

/precisely than

precisely than in the past, principles and rules governing the terms on which foreign investment can be made, so that this can provide a better contribution to their development.

### 9. Regional integration (Chap. VII)

In paragraphs 39 and 40, which relate to trade expansion, economic co-operation and regional integration among developing countries the IDS states that these countries will continue their efforts to negotiate and put into effect schemes for regional and sub-regional integration or measures of trade expansion among themselves.

This chapter reviews the development of the various integration processes in Latin America, analysing the progress achieved, their main prospects, and the problem they have been facing. Before making a separate study of each of the four regional integration movements - LAFTA, the Andean Agreement, the Central American Common Market and the Caribbean Free Trade Association (CARIFTA) - some considerations are raised regarding the method of evaluating these processes. One possibility considered is to examine the progress made in implementing the integration commitments contracted by the various countries; another is to analyse the impact of integration itself on the economies and the development of the participating countries. A synthesized picture is also presented of recent trends and prospects on the basis of these considerations.

As regards LAFTA, the first point which is noted is that trade liberalization - which was considered the most important aspect at the beginning of the 1960's - yielded its place to complementarity agreements. The significance of these agreements lies not so much in their impact on total intra-area trade as in the effect they have had in increasing trade in the products of some industries of particular importance for the development of the member countries, especially the metal manufactures, machinery and chemical industries. The existing drawbacks of these agreements may be ascribed to the fact that they were concluded in respect of a limited number of sectors and goods and, particularly, that they relate almost exclusively to goods which were already being produced, instead of covering important new investment and production activities.

In addition, it is pointed out that intra-regional trade balances have been favourable or stabilized for the largest countries, while several of the medium-sized relatively less advanced countries have systematically shown deficits in their intra-area trade. The largest countries have also participated much more actively in complementarity

/agreements than

agreements than the rest. This shows that it is clearly possible for countries at differing stages of industrial development to take advantage both of trade liberalization and of complementarity agreements.

This section of the chapter brings out the importance of the decisions that may be taken in 1973 in order to overcome the lack of momentum of the LAFTA integration process and to orient it towards a substantial improvement in national and regional development.

With respect to the Andean Group, the progress made in trade liberalization is considered. The questions examined include the first agreement on industrial programming to be approved, which covers a highly important group of industries in the metal manufactures and machinery field producing capital goods and some consumer goods, the statute on foreign capital, and the decision relating to multinational enterprises in the sub-region. These enterprises are of particular interest as an experiment at orienting the participation of foreign investment in an integrated development process. In a different connexion, special attention is drawn to the case of Bolivia and Ecuador, and to the Andean Group's concern regarding the problem of achieving a balance between countries as regards development. The studies on a strategy for combined development and integration which are being carried out by the Board of the Cartagena Agreement are described and analysed.

In the case of Central America, it is shown that in some important sectors of industry Central American trade already absorbs a substantial proportion of production. This trade is largely responsible for the development of these sectors and for the degree of import substitution achieved since the establishment of the Common Market. Consideration is given to the problems hindering this process, which lie mainly in the crisis that has affected it. Those problems include the difficulty of achieving in the last few years a balance between countries, inadequate programming of the integration process, the lack of evaluation machinery to foresee problems before they reach a critical stage and aspects of the policies of some countries which prevent them from taking advantage of the integrated market. Reference is also made to the establishment of the Normalization Committee which is responsible for guiding the action designed to restructure the bases for trade between the countries of the region.

The questions examined with regard to CARIFTA include the process of automatic liberalization of intra-area trade; the problem of the least developed countries; the target of the adoption in 1973 of measures which will convert the Association into a common market, and the efforts being made to harmonize the policies of the member countries. The relationship between CARIFTA and the enlarged European Economic Community is also discussed.





Part One

Chapter I

HUMAN DEVELOPMENT AND SOCIAL CHANGE IN LATIN AMERICA

1. The social challenge of the International Development Strategy and the realities of the Latin American development process

The International Development Strategy defines the basic objective of development in the following words:

"As the ultimate purpose of development is to provide increasing opportunities to all people for a better life, it is essential to bring about a more equitable distribution of income and wealth for promoting both social justice and efficiency of production, to raise substantially the level of employment, to achieve a greater degree of income security, to expand and improve facilities for education, health, nutrition, housing and social welfare, and to safeguard the environment. Thus, qualitative and structural changes in the society must go hand in hand with rapid economic growth, and existing disparities - regional, sectoral and social - should be substantially reduced. These objectives are both determining factors and end-results of development; they should therefore be viewed as integrated parts of the same dynamic process, and would require a unified approach". (International Development Strategy, paragraph 18).

The Strategy then proceeds to derive from this bold proposition a series of more detailed objectives and policy recommendations, necessarily expressed in non-quantitative terms of "improvement", under the heading of "Human Development". In view of the emphasis on a "unified approach" it is clear that any appraisal of directions of change in social structures, levels of living access to public services and other aspects of the styles of development prevailing in Latin America at the beginning of the 1970's should try to combine several viewpoints:

First, from the viewpoint of human welfare and social justice: Are the increases in per capita production observed in most countries of the region being translated into rising levels of living? Are the phenomena of extreme poverty and economic and social voicelessness of wide strata of the population being alleviated or reduced in scale? Is distribution of incomes and wealth becoming more or less uneven?

/Second, from

Second, from the viewpoint of the capacity of different population strata to function as "human resources" for development: Are the constraints on production and societal participation deriving from undernourishment, disease, illiteracy and the traits of marginality and insecurity becoming more or less severe? Are the culturally and psychologically determined attitudes of the various social classes towards work, consumption, innovation, scientific reasoning and co-operative effort changing in directions favourable to development? Are unemployment, underemployment, and other forms of faulty utilization of human resources growing or declining in importance?

Third, from the viewpoint of the ability of the national societies to continue functioning and "developing" without breakdown or violent transformation: Are existing power structures compatible with the kind of development envisaged in the Strategy? Are the expectations, demands, and capacities to exert organized pressure of the different classes and interest-groups becoming more or less reconcilable within a coherent development strategy? Are there important elements in the societies whose interests or possibilities of survival are radically incompatible with existing styles of development, or with styles corresponding to the objectives of the International Development Strategy? If so, are such elements growing or declining in importance, and what changes are taking place in their composition and demands on the societies?

Fourth, from the viewpoint of the capacity of the State, representing the interests of the society as a whole, to formulate and apply coherent policies directed toward "human development": To what extent have the propositions of the International Development Strategy been paralleled in national policy declarations? To what extent do the resource allocations, programmes, services, and legal provisions undertaken in the name of development and human welfare correspond to the declared purposes of the State? To what extent do these activities mutually support or contradict each other? Are they reaching higher proportions of the population than formerly? What is their real meaning for the lives of the groups they reach?

Attempts at broad socially-oriented evaluations of development (or under-development) in Latin America are not new 1/. Throughout the past decade and earlier a formidable mass of documentation has presented

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1/ See, in particular, Social Change and Social Development Policy in Latin America (United Nations Publication, Sales no.: E.70.II.G.3); the chapters on Latin America in successive United Nations Reports on World Social Situation; and the annual reports on Socio-economic Progress in Latin America of the Inter-American Development Bank.

disquieting answers to questions such as the above. Warnings and denunciations have predominated. Spokesmen of different disciplines and ideological positions have concentrated their attention on the rate of population increase; on the concentrated pattern of urbanization; on the highly uneven distribution of incomes, wealth and power; on educational, physical and psychological traits of the labour force; on systems of values; on the consequences of dependence on the world centres; and on various other factors. Although presented in many different variations, the only alternatives posed have been societal transformation or total breakdown. The existing patterns of economic, social and demographic change and growth have been repeatedly appraised as neither viable nor acceptable over the long term, but there has been no progress towards consensus on the factors that require priority attention, on the feasibility of planned orderly reforms as against revolutionary change, or on suitable tactics for either of these strategic orientations. In fact, various quite different solutions are taking shape.

If one compares the situation in the early 1970's with the diagnoses and predictions made earlier, a few general conclusions seem justified:

First, certain phenomena and directions of change that have been visible and predictable in overall terms for at least two decades have persisted and grown enormously in scale. This includes phenomena that deserve a positive evaluation on balance (e.g., growth of education), ambivalent phenomena (concentrated urban growth) and undoubtedly negative factors (extremely uneven income distribution).

Second, the proportions of the national populations feeling the impact of societal change and uneven economic growth have expanded to include practically the totality. Traditional ways of earning a living are rapidly becoming impracticable. While important parts of most national populations have presumably gained from the change processes, others are victims of change rather than agents or beneficiaries of it. The available indicators of employment, levels of living, and coverage of services confirm that groups increasing in absolute numbers are excluded or virtually excluded from the benefits of change.

Third, while the relative importance of different phenomena has changed and important qualitative shifts are demonstrable, the enormous quantitative changes have not given rise to generalized qualitative changes of equivalent importance. Such changes - while remaining quite possible in each specific national society - do not seem any more imminent or inevitable than two decades ago. In other words, most of the national societies have shown

/a remarkable

a remarkable degree of resilience and stability underlying continual surface instability and the continual growth of phenomena that might be expected to make their viability more precarious. In particular, concentrated urban growth and the associated growth of underemployed "marginal" population groups have not had catalytic or catastrophic consequences to anything like the extent previously predicted.

Fourth, it remains as difficult as ever to derive sound generalizations on recent changes in social structures, levels of living, participation and distribution from available data. Information on population characteristics, income distribution, employment, and coverage of public services is sufficient to draw the boundaries of broad problem areas and indicate medium-term trends, but major areas of uncertainty persist as to the real situations of different population groups and the ways in which these groups participate in change. The time lag in availability of most social statistics is relatively great: data for years more recent than 1969 or 1970 are scarce, and only a few countries have as yet published full data from the 1970 round of censuses. The lack of very recent data is not so important as it would be in economic analysis, since the social and demographic phenomena change relatively slowly, within structures that permit satisfactory medium-term projections once accurate historical series are available, although such projections should not, as often happens, be treated as if they represent independent new information. A more serious deficiency that in many areas important to social analysis and policy the only available quantitative data are of limited value in that they either refer to a few countries or a few localities whose representativeness can only be guessed at, or they are based on studies made in the 1950's or early 1960's, or they consist of national aggregates that throw no light on internal distribution. Moreover, a close look at the sources of most social indicators and at their internal anomalies leaves the impression that they serve mainly to support conclusions that would seem plausible even without them. When they reveal something unexpected with regard to trends, internal distribution, or international comparisons, it is usually an open question whether this reflects an undoubted reality or simply incompleteness and lack of comparability in the statistics.

A true appraisal of the progress made during the 1970's toward the objectives of the International Development Strategy relating to "qualitative and structural changes in the society" and to substantial reduction of "existing disparities" cannot yet be made. Previous surveys suggest that formulations falling back on a "growing awareness" of the needs for action should be used sparingly: awareness, as represented in public declarations, have been conspicuous for some time. The most that can be done within the scope of the present chapter is to review the salient features of change in

the Latin American countries and the evidence bearing on recent changes and new policy approaches, while attempting to relate these features, in their differing combinations, to the range of national situations or styles of development found in the region 2/.

2. Salient features of human development in Latin America at the beginning of the 1970's

(a) Population growth and its concomitants

Because of the progress made in demographic research, the possibility of checking different kinds of data against each other for consistency and the improbability of very rapid shifts in the major determinants, generalizations concerning population traits and directions of change during the 1970's can be made with more confidence than those concerning most of the other areas which are of interest in the appraisal of the progress made towards the objectives of the International Development Strategy. Table 1 sums up the main features.

For Latin America as a whole the rate of population increase rose slightly during the 1960's and is now a little over 2.9 per cent. The rate has probably reached its peak, will remain steady for a few more years, and should begin to decline around the end of the 1970's. In absolute terms, the rate meant an increase of 50 million people during the 1950's and 69 million during the 1960's, and will mean an increase of more than 90 million during the 1970's, giving a regional population of 210 million in 1960, 279 million in 1970, and 372 million in 1980.

The regional figures conceal quite different trends in the individual countries, depending on the behaviour of their fertility and mortality rates (international migration is now of negligible importance as a contributor to population increase in Latin America). In practically all countries fertility rates are declining to some extent, but in some the declines are quite striking while in others they are too slight to indicate any significant trend. For the region as a whole, the birth rate declined from 40 per 1,000 population in 1960 to about 38 per 1,000 in 1970. In most countries, mortality rates are also declining: the regional crude death rate fell

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2/ This chapter draws upon a series of studies of different aspects of human development carried out by the ECLA secretariat during 1972. Some of these studies will be revised and published during 1973; all of them are expected to serve as a basis for further research leading to a more systematic appraisal of human development for the second International Development Strategy appraisal.

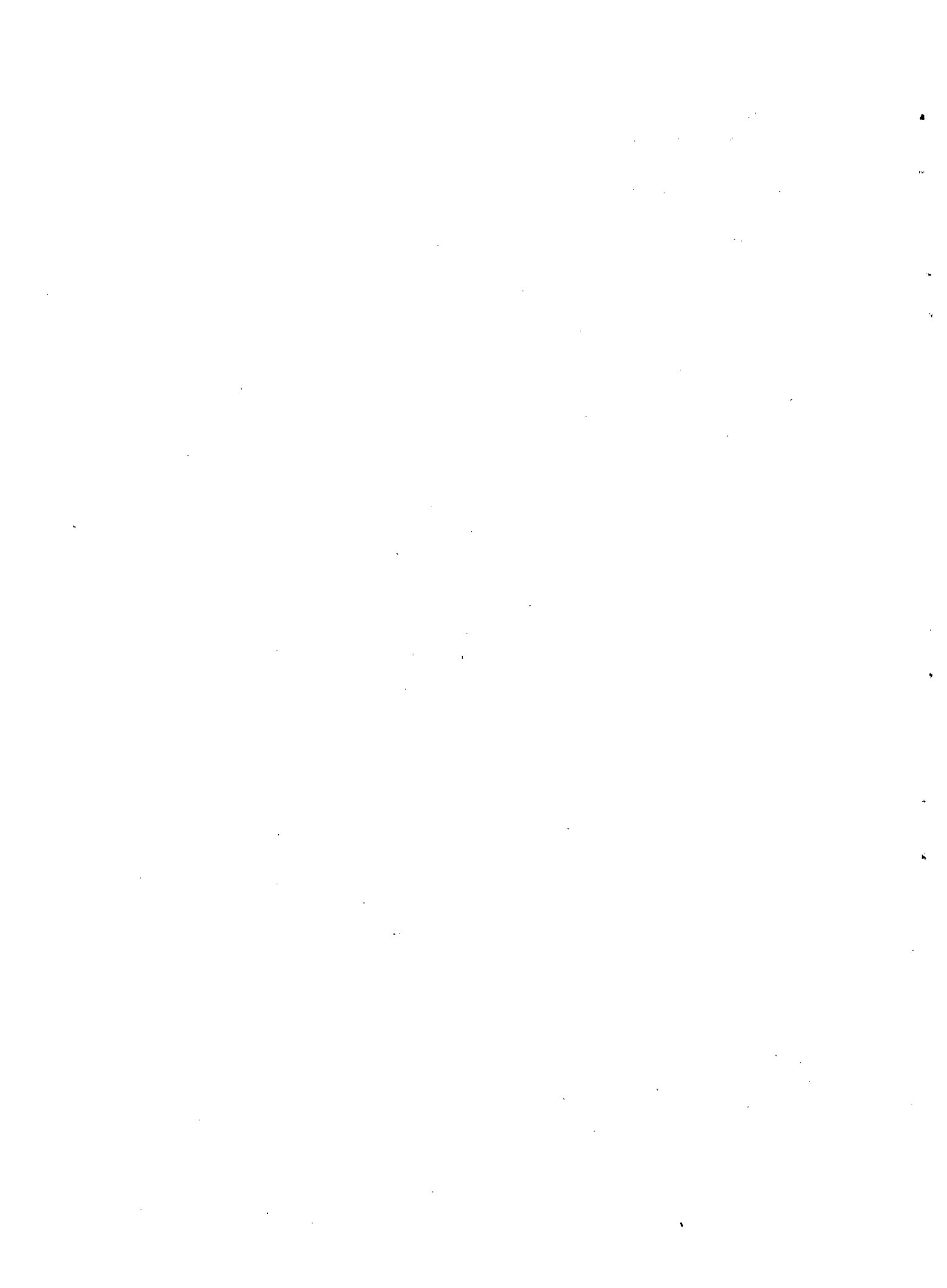


Table 1

LATIN AMERICA: DEMOGRAPHIC INDICATORS 1960-1970

Country	Total population			Density	Annual average growth rate 1960-1970	Birth rate		Death rate		Life expectancy at birth		Percentage of urban population <sup>a/</sup>		Percentage of urban population in cities of more than 100 000 inhabitants		Percentage of total population by age group in 1970		
	1960	1970	1980			1960	1970	1960	1970	1960-1965	1965-1970	1960	1970	1960	1970	0-14	15-64	65 y más
Argentina	20 850	24 352	28 218	8.7	1.57	23.3	22.9	6.7	7.7	66.0	68.2	57.3	66.8	84.5	82.1	29.3	63.4	7.3
Bolivia	3 696	4 658	6 006	4.2	2.35	44.0	43.8	21.0	19.2	43.8	45.5	22.0	23.3	52.4	73.5	42.6	54.4	3.0
Brazil	70 327	93 245	124 000	10.9	2.87	39.8	37.3	9.5	8.5	58.2	61.3	29.1	39.3	75.0	75.9	42.0	54.5	3.5
Colombia	15 877	22 160	31 366	19.5	3.39	45.0	44.0	12.1	8.9	56.3	57.9	30.0	43.0	70.8	78.8	47.0	50.4	2.6
Chile	7 683	9 717	11 461	12.8	2.38	38.3	27.4	13.8	7.8	58.5	61.4	50.0	57.0	69.5	72.6	39.0 <sup>b/</sup>	56.4 <sup>b/</sup>	4.5 <sup>b/</sup>
Ecuador	4 323	6 028	8 440	21.3	3.38	46.0	45.0	13.7	10.9	54.3	57.7	25.5	32.9	70.4	66.8	46.9	50.2	2.9
Paraguay	1 740	2 419	3 456	5.9	3.35	45.0	45.0	15.5	9.7	57.3	60.7	16.6	20.9	100.0	91.6	46.5	50.3	3.2
Peru	10 024	13 586	18 527	10.5	3.09	43.0	41.0	14.5	9.6	54.0	58.0	26.0	32.5	69.8	76.4	45.0	51.9	3.1
Uruguay	2 542	2 889	3 251	15.5	1.29	22.0	21.1	8.1	9.0	67.9	69.4	56.5	70.1	79.2	74.5	28.2	63.2	8.6
Venezuela	7 741	10 755	14 979	11.8	3.34	43.4	40.6	7.5	8.0	61.0	64.1	42.4	56.4	65.2	72.3	45.2	51.9	2.9
Costa Rica	1 249	1 736	2 281	34.2	3.35	48.0	34.5	9.1	5.3	63.4	66.4	22.3	32.3	100.0	78.6	45.6	51.3	3.1
El Salvador	2 512	3 441	4 904	160.8	3.20	47.6	46.7	19.5	12.3	50.9	55.4	17.0	19.5	57.5	55.3	47.1	49.9	3.0
Guatemala	3 965	5 282	7 018	48.5	2.91	47.6	42.5	18.8	13.7	48.7	51.9	12.7	17.7	92.3	82.4	44.9	52.2	2.9
Honduras	1 849	2 583	3 661	23.1	3.40	46.7	48.3	15.5	15.8	46.8	48.4	11.0	15.4	62.1	85.6	46.7	50.9	2.4
Nicaragua	1 501	2 021	2 818	15.6	3.02	47.0	46.4	16.5	15.2	61.4	63.3	18.8	24.6	68.8	70.9	47.1	49.8	3.1
Panamá	1 021	1 406	1 938	18.6	3.25	42.1	39.8	11.1	7.2	45.4	50.2	34.9	39.5	76.8	76.4	44.7	51.7	3.6
México	36 046	50 718	71 387	25.7	3.48	45.0	44.0	11.8	9.0	60.2	62.8	32.3	40.5	72.8	75.4	46.4	50.3	3.4
Cuba	6 819	8 341	10 075	72.8	2.04	31.5	28.0	7.3	8.0	64.3	66.8	45.8	47.5	70.9	50.5	34.5	60.5	5.0
Haiti	4 138	5 229	6 838	188.1	2.37	44.0	44.0	22.0	18.6	42.0	44.7	6.0	6.9	78.0	78.2	42.5	54.5	3.0
Dominican Republic	3 129	4 348	6 197	89.2	3.35	49.1	48.3	16.9	13.2	49.6	52.0	18.2	27.6	65.0	68.8	47.6	49.9	2.5
<b>Subtotal (20 countries)</b>	<b>207 032</b>	<b>274 914</b>	<b>366 821</b>	<b>13.7</b>	<b>2.88</b>	<b>40.1</b>	<b>38.2</b>	<b>11.1</b>	<b>9.2</b>	<b>57.6</b>	<b>61.2</b>	<b>32.2</b>	<b>41.4</b>	<b>74.6</b>	<b>75.2</b>	<b>42.4</b>	<b>52.2</b>	<b>3.7</b>
<b>Other countries of the region</b>																		
Barbados	233	254	263	635.0	0.87	39.5 <sup>d/</sup>	20.5 <sup>d/</sup>	9.1 <sup>e/</sup>	8.1 <sup>d/</sup>							37.0	55.9	7.1
Guyana	564	745	995	3.5	2.82	42.9 <sup>d/</sup>	36.3(1968)	9.5 <sup>d/</sup>	7.6(1968)					26.5		45.6	50.7	3.6
Jamaica	1 629	1 996	2 382	181.4	2.05	42.0 <sup>d/</sup>	34.4 <sup>d/</sup>	8.8 <sup>d/</sup>	7.6 <sup>d/</sup>					23.6 <sup>d/</sup>		46.0	49.3	4.7
Trinidad and Tobago	831	1 067	1 255	209.2	2.53	39.1 <sup>d/</sup>	23.2 <sup>d/</sup>	7.9 <sup>d/</sup>	6.5 <sup>d/</sup>					14.6 <sup>d/</sup>		41.0	55.0	3.9
<b>Total other countries</b>	<b>3 257</b>	<b>4 062</b>	<b>4 845</b>	<b>17.5</b>	<b>2.24</b>											<b>44.1</b>	<b>51.5</b>	<b>4.4</b>

Sources: Total population: CELADE, Boletín Demográfico N° 10 (July 1972); birth rate and death rate: estimates based on censuses, vital statistics and CELADE population estimates and projections; life expectancy at birth: articles by Carmen Arretz and José Pujol, "La mortalidad en América Latina en el período 1965-1970", and by Jack Harewood, "El nivel de mortalidad por sexo y edad en el Caribe Británico en 1965" published in the records of the Conferencia Regional Latinoamericana de Población (México, Unión Internacional para el Estudio Científico de la Población, 1970), Vol. 1, pp. 30 and 36, and Jorge Somza, Mortality in Latin America (London 1969), vol. 2, pp. 889-902; percentage of urban population: ECLA estimates; percentage of urban population in cities of more than 100 000 inhabitants: ECLA estimates; percentage of total population by age group: CELADE, Boletín Demográfico N° 8.

a/ Urban population defined as that living in cities of over 20 000 inhabitants.

b/ Figures taken from the 1970 census corrected by the National Statistical Institute.

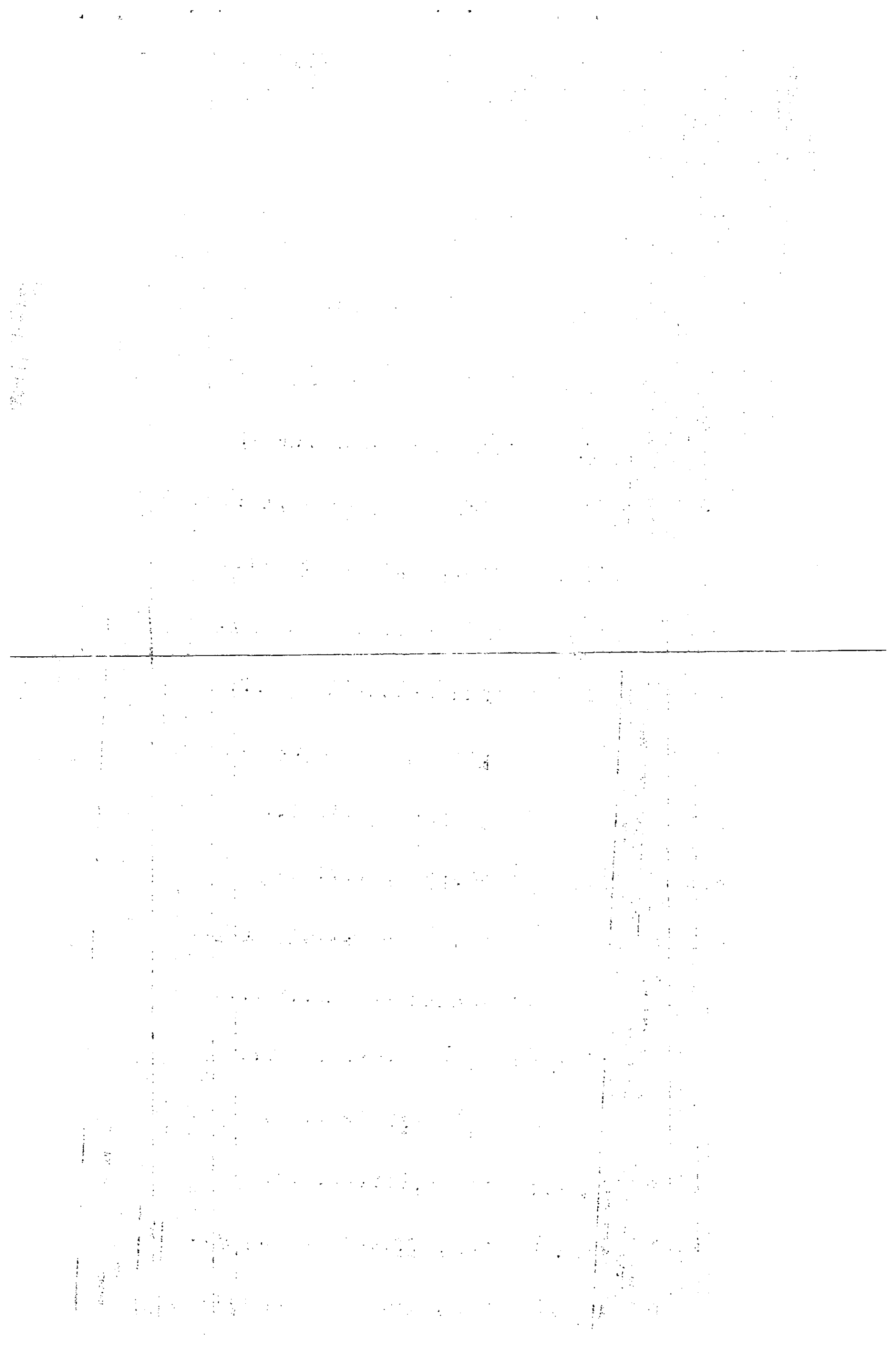
c/ United Nations, Demographic Yearbook 1965.

d/ United Nations, Population and vital statistics report, Series A, vol. XXIV, N° 1 (January 1972).

e/ United Nations, Demographic Yearbook, 1966.

f/ Refers to 1964-1966.

g/ United Nations, Demographic Yearbook 1970.





from 11 to 9 per 1,000 population between 1960 and 1970. The decline in fertility rates is a relatively recent phenomenon, and in at least a few countries it is gaining momentum. The decline in mortality is of much longer duration and slowed down during the 1960's; since crude death rates in many countries are reaching relatively low levels (partly because of the youthfulness of the population) the overall decline will probably be still slower during the 1970's.

In their combinations of fertility and mortality trends and the resultant rates of population increase, the countries fall into several groups. For the present purposes, the coincidences of these groups with the socio-economic traits of the countries and recent indications of shifts from one group to another are of particular interest.

Two countries, Argentina and Uruguay, have completed a demographic transition similar to that of the European countries: moderate and declining fertility rates combine with low but slowly rising (because of population aging) death rates to produce 1970 population increase rates of 1.5 and 1.2 per cent respectively. Two other countries, Chile and Cuba, are well advanced in a similar transition, with population increase rates declining to around 2.0 per cent at present. While these countries differ widely from one another in many respects, all four have levels of per capita income, education, and urbanization well above the regional average. Two of the five largest countries of the region, Brazil and Venezuela, where urbanization has advanced rapidly and economic growth has been dynamic although unevenly distributed, there have been small but statistically significant declines in fertility combined with continuing declines in mortality. In Brazil, the combination of trends produced a very slight decline in the overall rate of increase - from just over 3.0 per cent in 1960 to just under 2.9 per cent in 1970. As might be expected, trends differ sharply by internal regions: in Brazil the decline in fertility was greatest in the Southeast, which already had a fertility level significantly below the rest of the country in 1960, whereas in the impoverished Northeast fertility remained at a high level, declining only slightly, and in the sparsely settled Northern region the fertility rate actually rose. In Venezuela, the rate of population growth declined from 3.6 to 3.3 - still very high. In the other three countries with large populations and comparable urbanization and economic growth processes (Colombia, Mexico and Peru) the decline in fertility was too small to be significant and population growth accelerated slightly to rates of 3.6, 3.5 and 3.1 in 1970.

/Among the

Among the smaller countries the case of Costa Rica is particularly interesting. The Costa Rican levels of income and education have for a long time been closer to those of the first group of countries named above than to the regional average; the level of urbanization has been relatively low but rising. Up to 1960 Costa Rica had rates of fertility and population increase among the highest in the world. During the 1960's, however, the Costa Rican birth rate has undergone an exceptionally rapid decline - from 48 per 1,000 population in 1960 to 35 in 1970. Although mortality also declined, the final result was that the rate of population increase fell from 3.9 in 1960 to 2.9 in 1970. The fertility decline derives from consistent changes in the reproductive behaviour of women throughout the childbearing age span; it has not been appreciably influenced by rising ages of marriage or other variables. While Costa Rica began active support of family planning activities in the mid-1960's, the drop in fertility began to gain momentum before these activities could have had an appreciable effect, and seems to derive directly from family decisions influenced by a spontaneous change in values concerning family size. Although the Costa Rican population is too small to weigh significantly in the regional averages, the trend supports two important hypotheses: (a) that fertility transitions much more rapid than those experienced in the past are quite possible in other parts of Latin America, if appropriate preconditions are present; and (b) that levels of consumption, education, and other aspects of modernization are more important preconditions for such a transition than public policies and programmes, although the two are complementary.

Most of the smaller countries of Latin America experienced some acceleration of population growth during the 1960's, although only one, Honduras, showed a rising birth rate. The acceleration in El Salvador and Paraguay was particularly striking - from rates well under 3.0 per cent to rates over 3.4 per cent. In Bolivia and Haiti, countries in which combinations of high fertility and high mortality previously added up to moderate rates of increase, mortality reductions brought the rate of increase up to around 2.5 per cent. This is still well below the regional average, and further acceleration as mortality rates continue to fall is foreseeable.

Altogether, the trends in different groups of countries confirm the hypothesis that rates of population growth and probabilities of future acceleration are inversely related to the capacity of the countries to cope with population increase. Generally speaking, the smaller and poorer countries have present rates of increase no higher than those of the large countries, but their relatively high mortality rates and the absence of any significant downward trend in fertility make it probable that their

rates of increase will continue to rise for some years, whereas in the larger countries, taken as a group, stabilization followed by slowly declining rates is probable and more rapidly declining rates are possible. Development policies in the 1940's and 1950's did not foresee and take into account the rapid drop in mortality and consequent acceleration of population growth. It would be unfortunate if the rapidly changing age structure resulting from drops in fertility were also to take the policy-makers by surprise.

Policy measures deliberately designed to bring down rates of increase, as envisaged in paragraph 65 of the International Development Strategy, have not as yet had a significant impact on trends. Public Health and related policies aimed at the lowering of mortality rates have naturally not been influenced one way or the other by their expected impact on population increase. All of the countries either support or tolerate family planning programmes, but they can be divided into three groups in their attitudes towards them: (i) a few (Colombia, Dominican Republic, Guatemala, Honduras and some of the English-speaking Caribbean countries) envisage reduction of the birth rate as a specific objective of their national family planning programmes; (ii) a larger number of countries (Chile, Costa Rica, Cuba, Ecuador, El Salvador, Haiti, Panama, Paraguay, and very recently Mexico) give official support to family planning activities within health services, with declared objectives (family welfare, reduction of infant and maternal mortality, prevention of illegal abortions) other than fertility reduction; (iii) in still other countries (Argentina, Bolivia, Brazil, Peru, Uruguay, Venezuela) semi-official policy positions regard high rates of increase as desirable, or as a problem to be solved eventually by overall social and economic development 3/, but allow private

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3/ "The Brazilian Government does not take any measures that might influence the rate of population growth. It is expected, however, that the increasing process of urbanization and economic development, coupled with constant concern to raise the level of education of the whole population, will inevitably lead to a reduction in the future rate of population growth" (translated from "Estrategia da Segunda Década para o Desenvolvimento. Informacoes sobre o Brasil", Ministry of Foreign Relations, Brasilia, 30 October 1972.

family planning activities to expand and receive training and other assistance from publicly financed universities and hospitals. The first group is composed mainly of small countries with high rates of natural increase, but otherwise no consistent relation is visible between population trends and public policy. With the exception of the English-speaking Caribbean countries, the countries whose family planning programmes have attained a scale indicating a probable significant impact on fertility (Chile and Costa Rica) are in the second group rather than the first. The explanation presumably lies in the differing resources of the national health services administering the programmes and in the differing extents to which these services have really identified themselves with the declared national policies.

Declining mortality in recent years has brought about rising life expectancies in all Latin American countries. The most recent calculations refer to the period 1965-1970, but the trend is expected to continue through the 1970's. Life expectancies show an inverse relationship to the grouping of countries according to population increase trends, with a very wide gap between the countries farthest advanced in the demographic transition and the countries in which both mortality and fertility remain high. In 1965-1970, there were eleven countries (including four English-speaking Caribbean countries) where the life expectancy for males was over 60 years. In nine countries male life expectancy was between 50 and 60 years, and in two countries it was below 50. As far as the life expectancy of females was concerned, in three countries this was over 70 years, in eleven between 60 and 70, in eight between 50 and 60, and in two countries it was less than 50 years. The gap between the highest national life expectancy and the lowest was 23 years for males and 27 years for females. Life expectancy at birth is closely correlated with probability of death before the age of five, since the higher the mortality rate of a country and the lower the life expectancy, the greater the proportion of deaths that will occur among young children. It has been estimated that about one million of the 2.5 million deaths that occurred in Latin America between 1965 and 1970 corresponded to children under five years of age.

In four countries in which the demographic transition is farthest advanced, pronounced shifts in age distribution continue: the percentage of the population in the dependant age group 0-14 shrinks, the percentage of working age (15-64) remains more or less stable, while the percentage 65 years and over grows. The overall dependency ratios are relatively low but increasing slightly in Argentina and Uruguay with the growing importance of the aged. Elsewhere, the continued high fertility and high rates of population

/increase have

increase have offset the rising life expectancies, so that the predominantly youthful character of the population has grown more pronounced and the proportion of aged persons remains very small. In the larger countries, the high rates of dependency should begin to decline during the 1970's.

(b) Urbanization, population mobility and spatial concentration of development

Urbanization has been one of the most conspicuous features of societal change in Latin America since the 1940's, and indeed much earlier in a few countries. Recent information mainly confirms the continued cumulative growth of phenomena that have been often described.

"Urbanization", in its strict sense of the increase in the proportion of the total population living in urban areas, slowed down considerably during the 1960's, to an estimated annual rate of 2.2 per cent for the region as a whole. The percentage of the population living in localities with 20,000 or more inhabitants rose from 33 to 41 4/. Since urbanization in this sense is an inherently finite process, the slowing down is not surprising. It must also be kept in mind that, while certain "developed" countries attained higher rates of urbanization in the past, this was accompanied by rapid shrinkage of the rural population, while Latin America's rural population has continued to grow in all except a few countries.

An examination of "urban growth", or increase in the number of persons residing in "urban" localities, gives a more adequate picture of the dimensions of the transformation. Between 1960 and 1970, the region's urban population (that is, people living in localities with 20,000 or more inhabitants) rose from 68 to 114 millions, while urban localities,

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4/ The dividing line of 20,000 now conventionally used by demographers, while convenient, considerably understates the real extent of urbanization in sociological or occupational terms. A high proportion of the population in centres under 20,000 is for all practical purposes urban (the "urban" percentage in 1970, of course, includes the population of centres that passed the 20,000 dividing line during the 1960's and were thus classified as "rural" at the beginning of the decade). For diagnostic and policy purposes, moreover, "urbanization" must be viewed as not merely a process of population concentration in urban centres, but also as a process of modernization of pre-existing urban patterns under influences disseminated from abroad, and of increasing urban economic, social and cultural dominance over the whole society. As Latin America becomes more urbanized in the narrow sense, it also becomes more urbanized in the other two senses: even the rural-agricultural economy begins to take on "urban" traits (see Anthony and Elizabeth Leeds, "Brazil and the Myth of Urban Rurality", in Arthur J. Field, Ed. City and Country in the Third World: Issues in the Modernization of Latin America (Schenkman Publishing Company, Inc., Cambridge, Mass. 1970).

which housed one-third of the region's population at the beginning of the decade, absorbed more than two-thirds of the population increment. Moreover, previous trends toward concentration in large cities continued: in 1970, 56 per cent of the urban population lived in cities with 500,000 or more inhabitants, as against 52 per cent in 1960. Another feature of urban concentration for which Latin America is notorious - primacy of a single great city in each country - has declined, however, largely because of the dynamic growth of secondary centres in the larger countries (especially Argentina, Brazil, Colombia and Mexico).

The Latin American countries fall into three broad groups in regard to their urbanization processes, and these groups, as might be expected, correspond roughly with their grouping according to overall population growth patterns. The four countries with moderate or declining population growth rates are also countries of early urbanization. As of 1950, more than one-third of the population in each of these countries lived in localities with 20,000 or more inhabitants. The combined percentage rose to 55 in 1960 and 61 in 1970. In the latter period their rate of urban growth was about 3 per cent annually, about half the average rate of the other countries. At the same time, the rural and small-town population diminished in Argentina, Uruguay and Chile, so that the cities absorbed a greater number of people than the total population increase. The second group includes the five largest countries apart from Argentina 5/. All of these countries have experienced an acceleration of urban growth: in 1960 between 26 per cent and 42 per cent of their populations lived in centres of 20,000 or more inhabitants; in 1970 between 33 per cent and 56 per cent. Their urban populations grew at an average annual rate of more than 6 per cent during the decade, while the rest of the population grew at the rate of only 1.5 per cent. The urban areas absorbed some 33 million persons during the period in question: nearly 70 per cent of the total population increase. The third group includes most of the smaller countries. In 1960, slightly less than one-fifth of their combined population lived in centres of 20,000 or more, while in 1970 the proportion was less than one-fourth. During the decade their combined rate of urban growth was over 5 per cent annually, but the rest of the population increased at a rate of over 3 per cent, and the urban localities absorbed only 37 per cent of the total population increase. In the countries at the bottom of this

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5/ One of the large countries, Peru, is really in an intermediate position between the second group and the third, with accelerated urban growth coming somewhat later than in the other large countries. Costa Rica, Ecuador and Panama are also in an intermediate position.

group - Bolivia, Haiti, and El Salvador - the level of urbanization changed little during the 1960's. Concentration of urban population in one major city is particularly pronounced in this group of countries; in all of them (excluding the intermediate case of Ecuador) more than 50 per cent of the urban population lives in one city. Whatever the cause and effect relationships, the incipient character and moderate pace of urbanization in these countries is an additional reason for expecting any demographic transition to come later than in the countries of the second group.

Since there is no reason to doubt that rates of natural increase in rural areas and small towns of Latin America are equal to or higher than those in the urban centres, it is clear that the trends summarized above must mean an enormous movement of migrants from the former to the latter, particularly in the larger countries of the second group. For the region as a whole it is safe to estimate that about half of the rural and small town natural increase is being transferred to the larger centres and accounts for one-third to one-half of their total growth. Moreover, since migration streams are formed predominantly of young adults who spend most of their fecund age-span in the cities, the natural increase among migrants after arrival accounts for an additional major contribution to urban growth.

It does not follow that the migrants to the larger urban centres consist mainly of uprooted peasants - a generalization that continues to appear in discussions of urbanization in Latin America, although it has been repeatedly challenged. The few local inquiries bearing on this question - referring mainly to low-income districts in the larger cities - reveal almost invariably that the majority of migrants come from smaller urban centres. Naturally, as the national level of urbanization rises, the proportion of migrants of urban origin also rises. Available evidence remains too limited to support any conclusions on the relative importance of stepwise migration (in which migrants move from rural areas to the smaller local urban centres and later to larger cities) and replacement migration (in which migrants moving from the smaller centres to the larger are replaced in the former by rural migrants), but both phenomena are probably significant. Fragmentary evidence of various kinds suggests that spatial mobility of the population in most countries is high and also that there are many different currents: temporary as well as permanent, rural-urban, inter-urban, from the older agricultural zones to newly opened areas for settlement, etc., the predominant current being from smaller to larger centres. The only migratory currents captured by the censuses are those in which the migrant at the time of the census is living in a different administrative district from his birthplace or his residence at the time of a previous census. In Mexico, for example, 5.2 million persons or 15 per cent of the total population were

registered in 1960 as having changed their residence from one state to another at some point of their lives. In 1970 the percentage was the same, but the absolute number rose to 7.2 million. These percentages would not include intra-state migration, temporary migration in search of employment (well known to be of great importance in Mexico), and movements in which the migrant had returned to his state of origin by the time of the census. In Chile, about 23 per cent of all males and 24 per cent of all females were registered as inter-provincial migrants both in 1960 and 1970, while the absolute number increased from 1.7 million to 2.1 million people. Of these, 600,000 persons, equivalent to 28 per cent of all migrants and 8 per cent of the total population, had migrated during the five-year period preceding the 1970 census. In Brazil, according to the 1970 census, one-third of the total population had changed residence across municipal boundaries at some point during their lives, and 19 per cent had made such a move during the 1960-1970 decade. These percentages are not fully comparable with those of Chile and Mexico, since the municipalities represent smaller areas, but it is noteworthy that 28 per cent of all migrants had changed their residence from one of the ten Brazilian macro-regions to another. Altogether, the census data for these three countries suggest that the ratio of migrants to national population did not change greatly during the 1960's, but that volume naturally increased with population growth. The data confirm that the larger cities continue to be the principal focus of attraction. In Chile, 40 per cent of all migrants and 35 per cent of those moving between 1965 and 1970 were residing in the metropolitan area of Santiago at the time of the census. In Mexico, 32 per cent of all migrants enumerated in 1970 were in the Federal District; 48 per cent of these had arrived during the 1960-1970 period. In Brazil, 6.7 million of the 13.3 million persons who had moved from one macro-region to another were living in the highly urbanized region formed by the states of Sao Paulo, Guanabara, and Rio de Janeiro.

Since rapid and concentrated urban growth and accompanying uneven spatial distribution of development in Latin America first attracted attention, two opposing evaluations and policy conclusions, each with several variants, have been debated. One current of opinion has viewed concentrated urbanization as a necessary stage in development - a catalytic force for modernization of the societies affected, for the dissolution of outworn political, economic and social structures, and for the stimulation of productivity, participation and mobility. The other current of opinion has pointed to the enormous infrastructural and other costs of the metropolitan centres, to their role in the growth of consumption demands incompatible with needs for saving and investment, to the lack

/of correspondingly



of correspondingly vigorous industrial growth, to the parasitic aspect of the relations of the metropolitan centres with the hinterland, and to the differentially rapid growth of an apparently inassimilable underemployed "marginal" population.

In practice, the enormous urban agglomerations of today function badly, with many tensions, crises, and assaults on the well-being of their people, but it does not appear that they function worse or have more unmanageable crises than did the smaller agglomerations of twenty or thirty years ago. Deficiencies in housing and public transport are more serious than before; air pollution has rapidly risen to prominence among urban problems; the consequences of mass automobile use are increasingly disruptive. Other aspects of urban living, however - water supplies, health services, schools - seem to have improved in most of the large centres. The cost of urban growth to the State are undoubtedly extremely heavy, but no serious studies have been made to demonstrate whether such costs would be more manageable with different patterns of population distribution.

Recent ECLA studies have documented the very wide gap in incomes and in access to services between the metropolitan centres and the remainder of the country, and they also indicate that distribution of incomes is somewhat less uneven in the cities than elsewhere, although more concentrated than in European cities. Calculations for the metropolitan areas of five Latin American countries for various years during the 1960's show that the poorest 20 per cent of their populations received 5 per cent of personal income, against 3.1 per cent in the country as a whole. Per capita income levels for this group in the metropolitan areas ranged between US\$ 130 and 300, against incomes between US\$ 50 and 110 for the same group in the whole country. In some countries the average income for the poorest group in the metropolitan areas was equal to the median income for the country as a whole 6/.

Facts of this kind throw a good deal of light on the much-discussed problem of the urban "marginal" population. Undoubtedly, the number of underemployed, ill-housed, and ill-fed people in the large centres have increased even more rapidly than the populations of these centres. The economies seem no more capable than previously of absorbing them into productive well-paid employment. Nevertheless, the marginal strata have

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6/ See Chapter on "Income distribution in selected major cities of Latin America and in the respective countries", Economic Survey of Latin America, 1971 (E/CN.12/935/Add.2, 12 June 1972).

been much less visible and less menacing to existing structures than had been expected. Violent uprisings in which marginal groups played an important part were fewer and less disruptive in the 1960's than in the 1940's and 1950's. Populist political movements continue to attract support, but it does not seem that the greater size and degree of concentration of the marginal strata have made them more effective. On balance, urbanization seems to have acted as a safety-valve for relief of tension in the poorer, more rural parts of the countries rather than as a source of tension. The migrants to the large centres feel that they have made gains, within the continuing context of poverty and insecurity. New patterns of social control and limited participation have emerged, with mass communications, school systems, welfare programmes and subsidies to consumption, police repression, ideological politics and "bargaining" politics (trading of votes for favours), etc. playing roles of varying importance in the metropolitan centres of different countries. The opportunities of the marginal strata to gain something from these mechanisms, however limited, are much greater in the metropolitan centres than in the smaller cities and towns. Moreover, the acceptance of low incomes by the marginal strata enables the middle strata of the urban population to benefit from cheap artisanal goods and services and from domestic services that their incomes would not otherwise enable them to buy.

Under these circumstances it is no wonder that urban concentration and uneven spatial distribution of development continue as predominant trends. Public policy pronouncements have in general shifted in the direction called for by the International Development Strategy - towards reduction of internal regional inequalities and fairer treatment of the more rural zones. Underlying appraisals of the situation and the actions taken seem to be more ambivalent, however. On the one hand, the consumer-goods industries, construction enterprises, urban land speculators and other interests exert effective pressures on behalf of continued concentration, while on the other hand the urban middle strata, the organized workers and even the marginal strata can exert more effective pressures to obtain services and subsidies than can their counterparts in the smaller towns and rural areas. Hence, in determining allocations of public resources, distribution of services, incentives for location of new economic activities, etc., the various kinds of metropolitan pressures are likely to outweigh a rather hesitant public commitment to more even spatial distribution of development.

It remains an open question how far present urban growth trends can continue, or whether they can continue indefinitely, without becoming non-viable for economic, political, or environmental reasons. Despite previous high rates of urban growth, the volume of urban growth was 65 per cent

/greater in

greater in the 1960's than in the 1950's. During the 1970's, the increase will be at least 65 per cent greater than in the 1960's, amounting to 75 million persons, 40 million of whom will be absorbed by cities that will have passed the one-million mark by 1980. During the 1980's, urban growth is sure to be even larger in dimensions, as the population base expands, even if its rate changes and it is distributed over a wider urban network. The potentialities for urban growth are particularly formidable in the larger countries of the second group, with their high rates of overall growth and their large reservoirs of rural and small-town population (on the other hand, as noted above, the number of dynamic large centres in several of these countries is increasing, and the concentration of urban growth should become less pronounced). Whatever the national policy on the spatial redistribution of development, the rising scale of urbanization will call ever more urgently for co-ordinated long-term planning and reforms in respect of urban land use, land ownership, siting of residential and work areas, pollution control, public and private transport, water supplies, etc. On the basis of the trends observed up to the present, however, it would not be safe to assert that continued piecemeal responses to these challenges will result in deterioration of the quality of urban life to the point where the cities become radically unlivable.

At the same time, if trends toward marginalization of part of the urban population are as pronounced and as inseparable from prevailing styles of development as they seem to be, the conformism noted above should eventually break down. The generation born in the slums of the large cities, lacking their parents' sense of advancement and hope through migration, may finally make the predictions of the revolutionary or disruptive consequences of marginality come true.

Inequalities in distribution of incomes, employment opportunities, and services between major internal regions is a somewhat different question from inequalities between the metropolitan centres and the rest of the country: inequalities can be wider between the metropolitan centre and the rest of the region in which it is located than between the major regions taken as a whole <sup>2/</sup>. In general, differences between regions coincide

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<sup>2/</sup> "... the per capita income in the Federal District of Mexico in 1965 was 2.5 times greater than in the state of Mexico as a whole and a little more than 10 times the average income in Tlaxcala. The latter ratio is between 3 and 4 times higher than the ratio between the regions of Mexico that are economically furthest apart." ("Income distribution in selected major cities of Latin America and in the respective countries", op. cit., page 22).

with their degree of urbanization or rurality. There is no convenient yardstick or theoretical frame of reference for determining at what point inequalities between regions become excessive or dysfunctional for development, considering the overall low levels of income and distribution of services.

A comparison of available data using two relatively sensitive social indicators - infant mortality and retention rates of children in school - together with per capita income levels suggests that the gap in income levels, and thus in productivity, is predominantly wider (about 3:1 in Chile, Colombia, and Ecuador; from 5:1 to 7:1 in Argentina, Brazil, Mexico and Peru) than the gap in the level of living components determined by educational and health services. The gaps in infant mortality and school retention, according to the few regional comparisons that can be made, range between 2:1 and 2.5:1, except in Brazil, where the gap between infant mortality rates in state capitals is greater than 5:1. This tends to confirm that in spite of the notorious inter-regional inequalities in distribution of services the poorer regions are now receiving some degree of subsidy from the better-off regions in terms of the distribution of national public sector allocations to educational and health services. At most, the available data provide no more than suggestions that need to be followed up by more systematic comparisons of regional patterns and by studies of the distribution of incomes, consumption, employment opportunities and services within regions. It can be conjectured that within the poorer regions distribution is more uneven than elsewhere, particularly as between the urban centre and rural hinterland.

The programmes aimed at changing the spatial distribution of development during the 1950's and 1960's fall into two main categories: (i) those aimed at internal regions that are fully occupied, with populations predominantly rural, and with levels of living and productivity depressed well below the national average; (ii) those aimed at regions with scanty populations but with resources of land, water-power, or minerals assumed to be under-exploited. The most important example of the first category is the long-continued effort to develop the Northeast of Brazil associated with SUDENE. The best-known examples of the second category are the Plan Guayana of Venezuela and the major river basin development programmes of Mexico. The creation of the city of Brasilia stands alone as a tactic for opening up an empty region through transfer of the national political and administrative centre of gravity. The experiences of these programmes have been repeatedly studied, and the early 1970's do not reveal major new directions. Some of the programmes have undoubtedly been successful in building up dynamic new centres of production, but their

contribution to greater equity and enhanced human welfare in the distribution of development activities between regions remains in question. For the most part, their direct contribution to the expansion of employment opportunities has been small. Even when they have managed to change the direction of part of the flows of internal migration they have commonly attracted more migrants than could be absorbed, and many of these have had levels of education and skill which have hindered their future absorption. A large part of the income generated has flowed back to the national centres.

Policy declarations calling for internal redistribution of population and development continue to abound, but it is not evident that actual allocation of resources or initiation of new projects for this purpose is on the increase except in a few countries, or that sufficiently systematic efforts are being made as yet to learn from past experience in order to devise strategies that will be less burdensome on the public sector, less wasteful of natural resources, and more conducive to the human ends of development. As was suggested above in relation to metropolitan concentration, it is probable that effective and equitable national policies for regional distribution cannot be achieved as simple additions to existing styles of development. They require a difficult confrontation with the powerful forces making for continued concentration.

The most ambitious and systematic recent policies for regional redistribution of population, opening up of empty regions, and bringing into exploitation of unused resources are those of Brazil and Peru, both focussed on the Amazon basin, but it is too early for these policies to have borne fruits susceptible to appraisal in the present context.

(c) The human environment

Directions of change in the human environment and the ecological balance in Latin America at the beginning of the 1970's are shaped by the uneven, concentrated, and internally contradictory traits of development. In both urban and rural areas environmental threats associated with poverty and "primitive" technologies coexist and interact with threats associated with affluence and "modern" technologies. In the cities, the former mean overcrowded or improvised shelter, poor sanitary conditions, lack of green spaces accessible to the masses of the population, etc., while the latter mean air pollution by industries and automobiles, noise, accidents, congested traffic and so forth. In some of the metropolitan centres these latter "indicators" of development have reached levels as high as anywhere in the world. In the rural areas, the former threats mean soil exhaustion through overuse in the older cultivated areas, and destruction of soils

/and forests

and forests through primitive techniques of clearing and cultivation in the newer areas. The latter threats include the use, without adequate planning and control, of modern heavy equipment to open up new agricultural zones and exploit other natural resources.

At the national level, the differing combinations of environmental problems correspond to the triple grouping of countries set forth above. In the first group, the environmental problems are more predominantly of the "modern" types, and the relatively moderate pace of population growth and urbanization implies somewhat greater capacity for keeping them within tolerable limits. In the large countries that are rapidly urbanizing, industrializing, and bringing previously unoccupied zones under exploitation, the range of problems is particularly wide and their character is changing markedly. In the third group of countries the predominant environmental problems remain those associated with rural poverty, particularly the problem of destructive land use as rural population pressure increases.

Some of the more specific environmental problems have for some years occasioned public debate, studies, piecemeal remedial measures and legislation, the last rarely enforceable or enforced. The conception of the "human environment" as a complex of interrelated phenomena requiring priority attention and an integrated policy approach, however, is relatively new to the region. Its acceptance has been influenced as much by the rapid upsurge of worldwide preoccupation with the question, culminating in the Stockholm Conference on the Human Environment in June 1972, as by the increasing prominence of environmental threats.

Acceptance of this conception of the environment has had to contend with traditionally optimistic views concerning the inexhaustibility of natural resources, particularly in the large countries; with expectations that sufficiently rapid economic growth would eventually permit the easy solution of environmental problems along with those of population growth and income maldistribution; and with predispositions to tolerate a considerable measure of environmental degradation in the interest of rapid growth.

Acceptance has also been affected by uneasiness over the association of the "environmental question" with the interest of the high-income countries and over possible repercussions on the international aspects of Latin American development, including:

(i) Restrictions on exports of products supposed to contribute to pollution in the high-income countries - restrictions that would lend themselves to use as devices for protectionist practices;

/(ii) Higher

(ii) Higher prices for imports owing to the costs of anti-pollution measures in the countries of origin;

(iii) Refusal of external aid to development projects judged environmentally harmful by the donors; diversion of aid resources to environmental projects from other development needs; distortion of national priorities by the environmental preoccupations of aid sources.

Some more positive repercussions have also been hoped for: the reaction against synthetics in the high-income countries might improve the market for natural raw materials; the need of the high-income countries (Japan in particular) to reduce levels of air and water pollution might induce them to transfer polluting but income-producing industries to other regions.

Possible repercussions such as the above have been repeatedly discussed in international meetings such as those of UNCTAD and GATT, but up to the present systematic studies on which a precise assessment of their future importance for Latin American development might be based are lacking.

At the level of national policy declarations the position taken in paragraph 72 of the International Development Strategy is being generally accepted in spite of the reservations summarized above. Public interest in the question is naturally more active in the countries of the first and second groups than in those of the third. In view of the short time elapsed since the "human environment" came into the forefront of international attention, it is not surprising that as yet few countries have made visible progress in broadening and co-ordinating policies bearing on the environment. Chile, Jamaica and Peru have set up inter-ministerial committees for this purpose; other countries have given co-ordinating functions to a single ministry, generally that of health (as in Mexico). The national planning agencies, for the most part, have shown little interest in undertaking environmental planning functions. At the same time, various sectoral public agencies, particularly those charged with health protection, conservation of natural resources and regional and urban development, have seen in the environmental cause a means of obtaining more attention and resources for their own work and have taken it up enthusiastically. In the majority of countries, environmental tasks thus remain compartmentalized in sectoral agencies with very limited budgets, struggling to apply existing legislation that is generally voluminous but is poorly adapted to present needs and has few real prospects of application.

(d) Income distribution

Calculations of income distribution for 1970 have been feasible for eight Latin American countries. The sources of these calculations are investigations made by national institutions for different purposes and using different methods, some of them covering only parts of the respective countries. Their deficiencies for inter-country comparisons and assessment of trends are obvious, and they do not reflect the important changes that seem to have taken place in a few countries since 1970. Nevertheless, their correspondence with the findings of earlier income distribution studies and with other distributional indicators supports the conclusion that, at least at the level of broad population segments, they are close to Latin American reality and that that reality did not change in its main features during the 1960's 8/.

They confirm that income in most of Latin America is more concentrated than in most of the market-economy countries of Europe and North America, and much more concentrated than in the countries with socialist economies 9/. For present purposes, however, there are some other striking features of the Latin American patterns which are just as interesting as this well-known generalization. The percentage of national income received by the poorest twenty per cent of the population in most Latin American countries is not far below the share received by the equivalent group in the United States and is well above the share received in France, although absolute levels for the poorest group in Latin America are naturally much lower. In France and the United States, however, incomes climb steadily in succeeding deciles. In Latin America, the rise is much slower up to the eighth or ninth decile. The 30 per cent of income receivers immediately below the median and the 30 per cent immediately above thus receive much smaller proportions of the total personal income than their counterparts in France

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8/ The ECLA Secretariat has been engaged in studies of income distribution for several years. For earlier findings and methodological explanations see Economic Survey of Latin America 1969 and Economic Survey of Latin America 1971. The present section summarizes some recent findings of this continuing research programme.

9/ Cuba, with a socialist economic system involving equalitarian policies for distribution of goods and services, in which rationing has come to be more important than monetary incomes, is the main exception.

/and the



and the United States. In the next higher 15 per cent - the group immediately below the top - income levels rise rapidly: the share received by this group is quite similar in Latin America, France and the United States. Finally, the top 5 per cent of income receivers in most Latin American countries get a much larger share of the total than do their counterparts elsewhere. This means that the income levels of the majority are far below the national average per capita income. The two groups constituting the middle 60 per cent receive only 33.6 per cent of income in the countries for which calculations have been made, individual national percentages ranging from 39 in Chile down to 28 in Brazil and Honduras. Purchasing power remains concentrated in the top 20 per cent, and particularly in the top 5 per cent, with repercussions on the demand for consumer goods and the patterns of growth of production that have been repeatedly emphasized <sup>10/</sup>. The pressures associated with this concentration of purchasing power constitute powerful factors of resistance to the reduction of existing disparities called for by the International Development Strategy. Moreover, except in the countries with largest populations the upper 20 per cent is too small a market to support industrial growth at an acceptable level of efficiency. The contrast between the income distribution patterns typical of Latin America and those found elsewhere stands out vividly in Figures I and II.

No consistent relation can be traced between national patterns of distribution and national per capita income levels. However, there is some degree of correspondence with the grouping of countries set forth above. The countries for which recent income distribution data are available include three in the first group (Argentina, Chile and Uruguay (Montevideo only)), all five of the large countries in the second group, one country in an intermediate position between the second and third group (Ecuador) and only one country in the third group (Honduras). The data indicate, albeit not very conclusively, that concentration is less pronounced in the first group. This can be attributed to relatively advanced urbanization and relatively widely diffused political participation. The countries in the second group differ widely among themselves within the overall pattern described above. Brazil shows the highest degree of concentration in the top 5 per cent and

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<sup>10/</sup> According to ECLA calculations, in the seven largest cities of Colombia in 1970 the top 5 per cent income group accounted for 73.5 per cent of total expenditure on purchase and operation of private motor vehicles and the following 15 per cent for 21.0 of expenditure. In Mexico in 1963, the equivalent percentages of expenditure were 71.8 and 19.3, while in Greater Santiago (Chile) in 1969 they were 50.5 and 36.5.

/Figure I

Figure I

PERCENTAGE OF TOTAL INCOME RECEIVED BY THE VARIOUS INCOME GROUPS

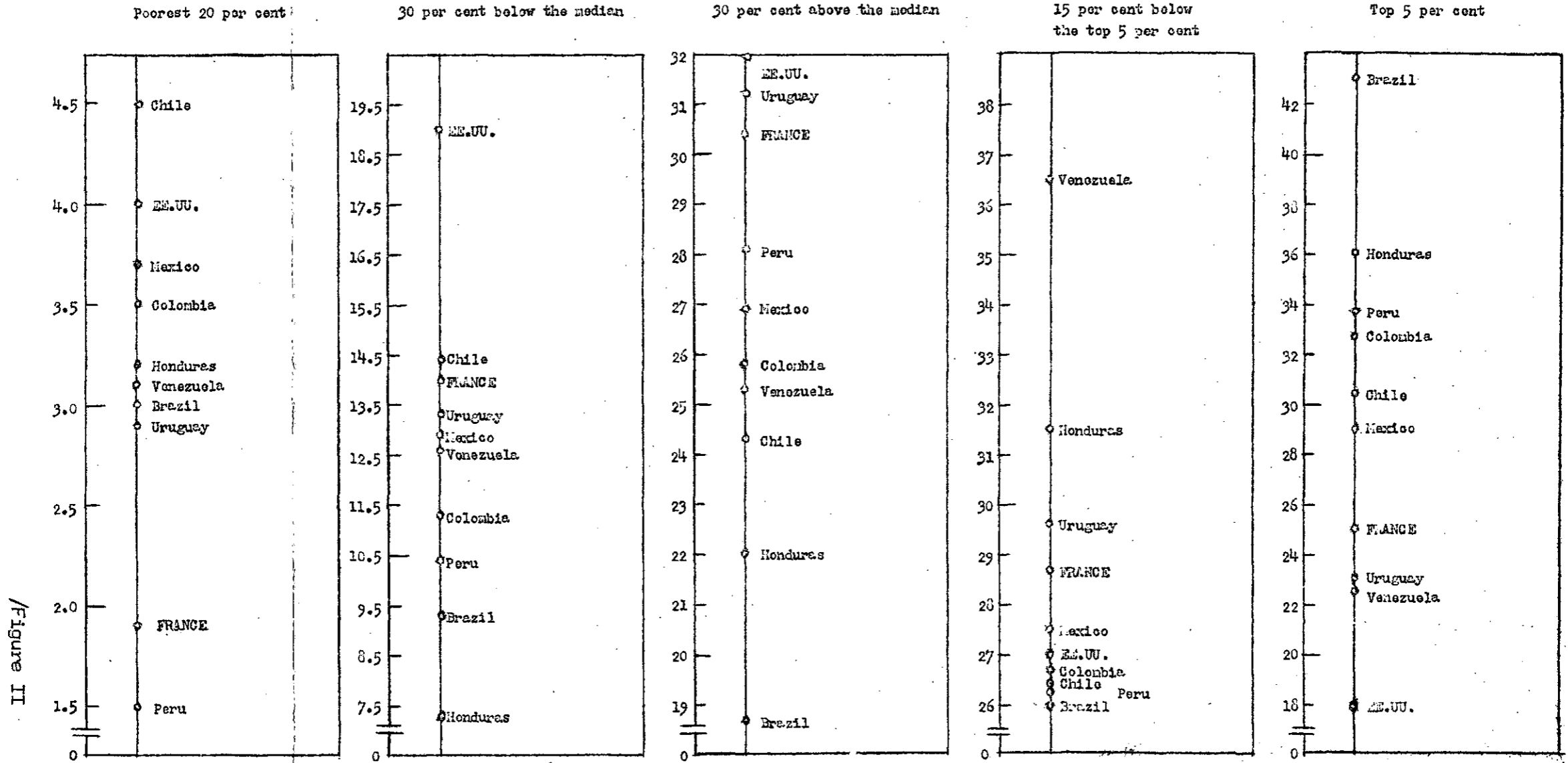
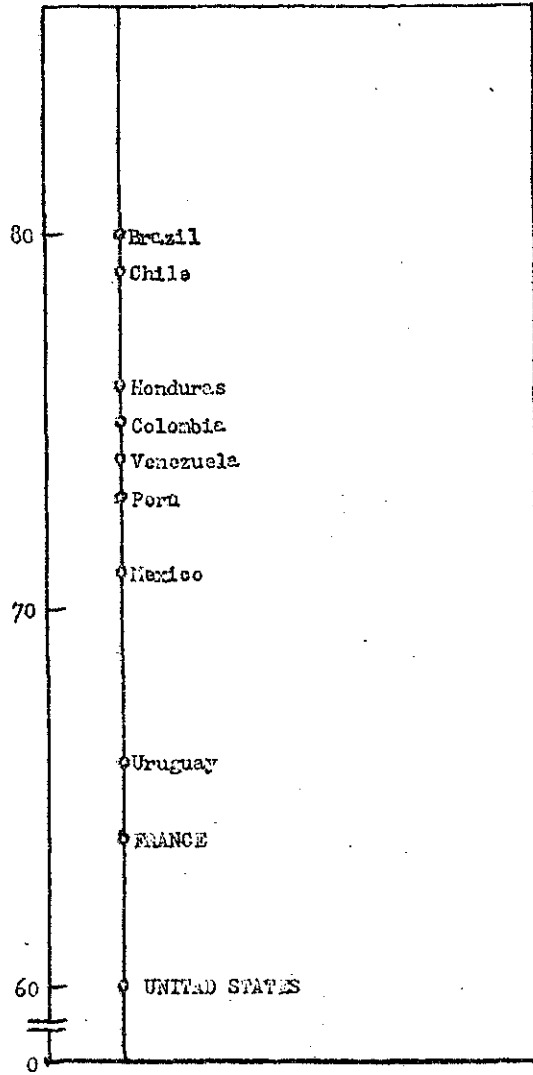


Figure II

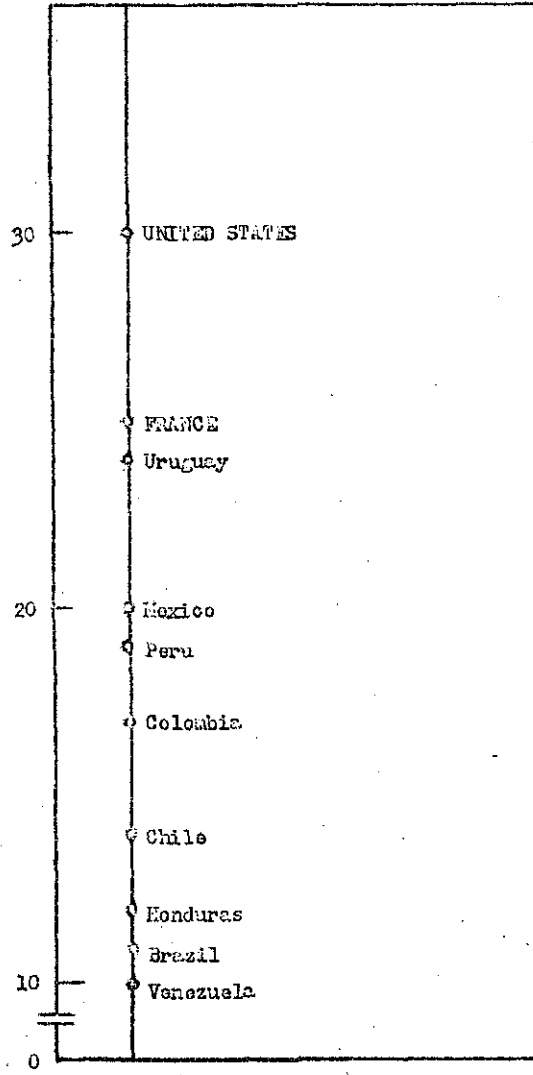
Figure II

PERCENTAGE OF THE POPULATION INCLUDED IN DIFFERENT MULTIPLES OF NATIONAL AVERAGE INCOME

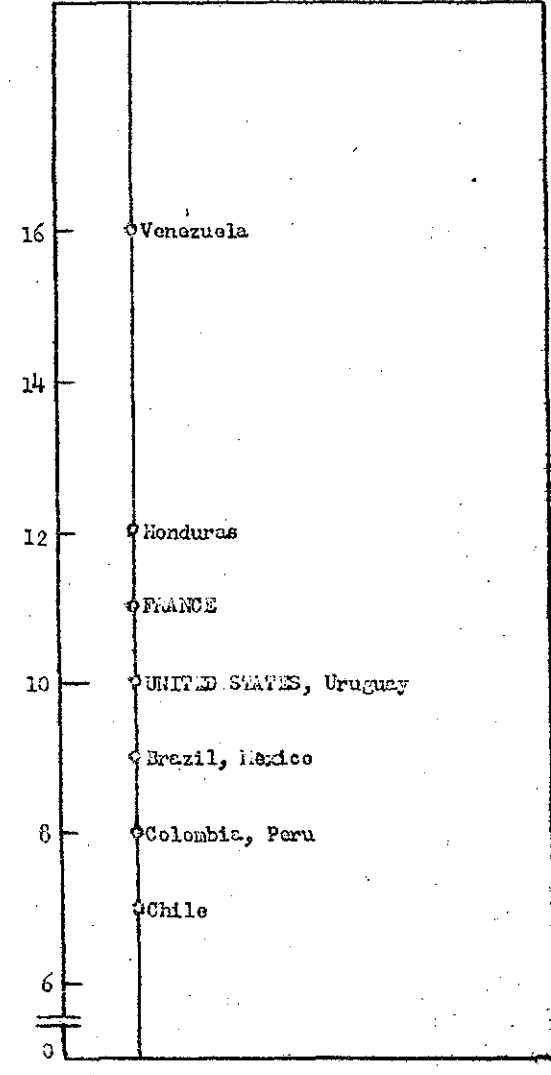
Income below the national average



Income between the national average and twice the national average



Income over twice the national average



/gives the

gives the smallest share of income to the next 15 per cent as well as the middle 60 per cent. In Venezuela, the 15 per cent immediately below the top receive a disproportionately large share, while the top 5 per cent receive a smaller share than in France. Colombia, Mexico and Peru are closer to the regional norm. The one country belonging to the third group as regards demographic and other traits, Honduras, shows a particularly high degree of income concentration combined with a very low per capita income level.

Calculations of income distribution by socio-economic category indicate that employers receive from 1.7 to 3.5 times the national average personal income in different countries; that the incomes of salaried employees are 20 to 65 per cent above the average; and that wage workers as well as self-employed or own-account workers have incomes as low as two-thirds the national average. At first glance it seems surprising that the discrepancies are not wider. The internal heterogeneity of the Latin American economies, combined with the vagaries of statistical classification, however, means that all of these broad categories are internally very varied, so that their members are represented at all income levels and the relation between their "average" income and the national average has little meaning. The patterns differ markedly between countries, depending on such factors as the relative importance of modern industry and small-scale artisanal industry, the relative importance of low-wage rural workers and workers in high-wage enclave enterprises such as petroleum and copper production, the relative importance of well-paid professionals and underemployed marginal workers among the self-employed, salary scales in the civil service, etc.

Income distribution by sector of economic activity reflects well-known differences in sectoral productivity. In relation to 1970 national averages equivalent to 100, productivity in agriculture in different countries ranged between 27 and 72, in industry and basic services between 109 and 252, and in the tertiary sector between 71 and 262. It must be kept in mind that the concept of productivity underlying these calculations is not exclusively technical, depending on the productive processes adopted. The distortions originating in relative price policies with various ends (incentives to industrialization, anti-inflationary measures intended to keep down agricultural prices, etc.) also influence the inter-sectoral inequalities. It must also be kept in mind that the range of productivity within each sector is very wide, with "modern", "intermediate" and "primitive" techniques continuing to co-exist. With these provisos, the overall gap between the agricultural sector and the rest of the economy is so pronounced (except in Argentina and Uruguay) that it necessarily plays an important role in the income distribution patterns described above. The greater part of the 40 per

cent of the Latin American population that is engaged in agriculture comes within the bottom half of the income distribution table. Calculations for two of the largest countries demonstrate the correspondence between the agricultural sector and low incomes. (See table 2.)

Evidence on trends during the 1960's is too limited in representativeness and comparability to support generalizations concerning the region. In Brazil, available data indicate that between 1960 and 1970 the proportion of total income received by the lower 80 per cent dropped markedly, whereas the 15 per cent just below the top increased their participation from 22 per cent to 26 per cent of income, and the top 5 per cent rose from 32 per cent to 43 per cent. In Venezuela between 1957 and 1968 the participation of the poorest 30 per cent of the population decreased slightly. In Chile and Mexico between 1968 and 1970 the position of the lower 50 per cent of the population improved to some extent while the share of the 45 per cent immediately above them decreased. The top 5 per cent maintained their previous share. In Chile, distribution has presumably changed markedly since 1970, but detailed quantitative information on the more recent pattern is not yet available.

In most of the countries, increases in national income per capita during the 1960's were sufficient to prevent the greater regressiveness in income distribution from becoming incompatible with maintenance of previous absolute levels by the greater part of the low-income population or with small improvements for certain groups. Nevertheless, the data on unemployment, underemployment, and employment at sub-minimum wages, to be discussed below, suggest that sizeable sectors of the low-income population have been forced into an extremely precarious situation.

It is probable that uneven distribution of monetary incomes - to which the preceding discussion has been restricted - is being offset to a greater degree than previously by distribution of public services and through material aid to needy families and children. The extent to which these services and forms of aid are reaching the lowest income strata, however, remains an open question. In most countries, it is probable that the 30 per cent of the population immediately below the median, or even the 30 per cent above the median, benefit more than the poorest 20 per cent.

Fiscal policy seems to have assumed a significant role in income redistribution in only a very few countries, in spite of the insistence in regional and national policy declarations during the 1960's on the indispensability of fiscal reform and progressive tax systems as tools of redistribution. To the extent that the public services continue to rely for funds on regressive taxes bearing on mass consumption it can be assumed that the poorer strata are not only paying for their own services but also contributing to the cost of those received by the other strata.

Table 2  
WAGE-EARNING POPULATION  
(Percentages)

1. Structure of socio-economic categories by sectors						2. Percentage of the population in the various socio-economic categories, by sectors				
Total	Agriculture	Manufacturing	Services	Not economically active	Total	Agriculture	Manufacturing	Services	Not economically active	
<u>Brasil 1970</u>										
Poorest 20 per cent	100.0	62.6	7.3	26.0	4.1	20.0	33.5	6.4	15.7	12.3
30 per cent below the median	100.0	55.1	12.7	25.0	7.2	30.0	44.2	16.7	22.7	32.3
30 per cent above the median	100.0	21.5	36.5	35.9	6.1	30.0	17.3	47.9	32.5	27.3
15 per cent below the top group	100.0	10.5	35.2	45.3	9.0	15.0	4.2	23.1	20.5	19.9
Top 5 per cent	100.0	5.8	26.9	56.4	10.9	5.0	0.8	5.9	8.5	8.1
<u>Total 100 per cent</u>	<u>100.0</u>	<u>37.4</u>	<u>22.8</u>	<u>33.1</u>	<u>6.7</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Colombia 1970</u>										
Poorest 20 per cent	100.0	51.4	31.4	17.2		20.0	29.2	15.0	14.5	
30 per cent below the median	100.0	44.7	35.7	19.6		30.0	39.3	25.7	24.9	
30 per cent above the median	100.0	27.7	45.5	26.8		30.0	24.1	32.3	33.8	
15 per cent below the top group	100.0	12.3	55.4	32.3		15.0	5.4	19.9	20.3	
Top 5 per cent	100.0	10.0	59.2	30.8		5.0	1.4	7.1	6.5	
<u>Total 100 per cent</u>	<u>100.0</u>	<u>34.5</u>	<u>41.7</u>	<u>23.8</u>		<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	

/(e) Employment

(e) Employment and the utilization of human resources

During the 1960's and early 1970's public awareness that maladjustments between the supply of and demand for labour are key deficiencies in the development process has grown rapidly, the previous supposition that relatively high rates of economic growth would guarantee eventual absorption of practically the whole of the labour force into productive employment has come into question, and by now virtually all governments list employment promotion among their major development objectives, in terms similar to those used in the International Development Strategy. Definition of the central features of the "employment problem" in Latin America, however, is still far from clear, the "vigorous efforts to improve labour force statistics" called for by the Strategy have hardly begun, and generalizations inevitably fail to take into account the variety of employment situations and problems that exist within countries as well as between countries.

An examination of the relative rates of growth of population of working age, economically active population (working or seeking work), and employed population between 1960 and 1970 in the eleven countries for which data are available gives some idea of the difficulties of generalization (see table 3). In Colombia, Ecuador and Peru the growth of the population of working age considerably outpaced the growth of employment, but in Colombia the reaction (according to the statistics) was a withdrawal from the labour force, while in the other two countries this did not take place. In Costa Rica and Panama employment grew more rapidly than population of working age. In the other countries working-age population and employment grew at an even pace, or with no more than 0.1 per cent of divergence, but Argentina and Bolivia show disproportionately rapid increase in the economically active population, while Venezuela shows a rate of growth for this group much lower than the rates for population of working age or for employment.

In the first group of countries it is safe to infer that employment problems became more serious between 1960 and 1970, but it does not follow that in the others they have become less so or have remained unchanged. It is probable that a considerable part of their employment increment was achieved at the expense of one or more of the elements that constitute a developmentally satisfactory state of "full employment": a normal working time, normal productivity, adequate utilization of the workers' skills and capacity, and a level of income adequate for the basic needs of workers and their dependents.

/Table 3

Table 3

RATES OF GROWTH OF POPULATION OF WORKING AGE, ECONOMICALLY ACTIVE POPULATION AND EMPLOYED POPULATION, BY COUNTRIES, 1960-1970

Country	Rate of growth (per. cent)		
	Population of working age (15-64)	Economically active population	Employed population
Argentina	1.5	2.2	1.4
Bolivia	2.2	2.6	2.2
Brazil	2.9	2.7	-
Colombia	3.2	2.6	2.6
Chile	2.5	2.5	2.6
Ecuador	3.1	3.1	2.2
Peru	3.1	3.0	2.5
Venezuela	3.3	2.7	3.4
Costa Rica	3.8	3.9 <sup>a/</sup>	4.1 <sup>a/</sup>
Panama	3.0	3.8	3.7
Mexico	3.3	3.4	3.2

Source: ECLA, on the basis of official figures and national sources.

<sup>a/</sup> Figures cover period 1963-1970 and are calculated on the basis of data taken from: Regional Employment Programme for Latin America and the Caribbean (PREALC), La situación y perspectivas del empleo en Costa Rica, PREALC/52/Rev. 1, August 1972, table I-2, hypothesis I.



The best known and best documented aspect of this problem is the shift out of agriculture into low-productivity, low-wage and precarious urban occupations. The intensity of these trends in the different types of countries naturally coincides with the urbanization patterns described above. In the countries of the first group the numbers of agricultural workers are declining or static; in the second they continue to increase although their share in the total labour force falls sharply; in the third group they continue to grow nearly as rapidly as the urban labour force, with correspondingly acute rural under-employment and poverty. In many countries the movement of labour out of agriculture is not primarily due to absolute lack of opportunities for livelihood, but rather to the extremely low incomes afforded by agricultural wage labour and cultivation of small holdings, along with the positive attractions of urban life. This factor is most pronounced in Venezuela and some of the smaller Caribbean countries, where actual shortages of agricultural labour and desertion of holdings by agrarian reform beneficiaries have been noted, and least important in some of the poorest countries, where the rural labour force has no real alternative to staying on the land.

In the region as a whole, the well-known phenomenon of differential growth of employment in the tertiary sector (services and commerce), which is commonly interpreted as an indication of underemployment and low-productivity employment, has continued. Between 1960 and 1970 the tertiary sector in ten countries for which data are available rose from 29.8 to 34.6 per cent of total employment. In Mexico it increased at a particularly rapid rate of 7.2 per cent. The share of the secondary sector (industry and basic services) in the labour force increased more modestly, from 23.5 to 26.2 per cent. In some countries the proportion in the secondary sector actually declined, while in others - notably Brazil, Panama and Venezuela - it increased quite rapidly. The composition of the secondary sector, like that of the tertiary, is quite heterogeneous, and rapid increases in employment here can also be accounted for to a large extent by expansion in the number of jobs of low productivity. In Venezuela in 1969, for example, the artisanal subsector of industrial employment accounted for almost 50 per cent of the sector's labour force but only 6 per cent of its production. This artisanal subsector probably accounted for a considerable part of the rapid national growth in industrial employment, and similar trends can be traced in most of the other countries, particularly Mexico. Along with services and commerce, construction has a particularly important role in the absorption of unskilled low-productivity labour, and this is reflected in the relatively low rates of increase in per capita productivity in all of these sectors. A more intensive investigation would be needed to determine the reasons for the wide differences between countries shown by the available data (see table 4).

Table 4  
GROWTH RATES OF SECTORAL PRODUCTIVITY, BY COUNTRIES, 1960-1970  
(Percentage)

Country	Agriculture	Mining and quarrying	Manufacturing	Construction	Basic services	Commerce	Services	Total
Argentina	2.8	3.8	4.9	2.0	3.9	3.4	-1.9	2.7
Bolivia	1.8	4.4	-0.7	-1.3	-1.1	3.2		3.2
Brazil	3.5		2.1			0.1	1.4	3.1
Colombia	2.7	2.4	3.1	4.8	2.9	0.8		2.6
Chile	1.8	4.4	2.1	1.0	4.6	-0.6	-0.4	1.9
Ecuador	1.5	3.1	5.5	3.6	1.5	3.0		3.0
Peru a/	-0.4	0.5	3.2	-1.0	0.8	-0.7	2.3	1.5
Venezuela	6.9	1.4	-1.3	-3.8	0.5	-1.9	4.4	2.1
Panama	5.0	-	3.8	1.3	3.0	2.0	1.9	4.2
Mexico b/	2.0	1.8	3.6	2.9	6.2	3.7	-1.1	3.3

Source: Table A-2.

a/ Figures for 1961-1970.

b/ Figures for 1960-1969.

Recorded unemployment in the settings typical of Latin America is only the visible part of an iceberg: its quantitative relation to the larger problems of poverty and under-utilization of the labour force can only be guessed at. The recorded rates show improvements in 6 countries during the 1960's and deterioration in 3, but it is not at all clear whether the apparent changes are meaningful. It is clear, however, that in some countries open unemployment now affects a significant proportion of the urban labour force, that a good part of the unemployment is of a long-term character (periods over three months at the time of enquiry), that high percentages of the unemployed are male heads of household and young workers, that recorded unemployment rates are high in the large metropolitan centres (as might be expected from the greater likelihood of recording) but sometimes still higher in other cities of the same countries (particularly in Argentina, Chile and Colombia).

The question of unemployment among young people deserves special attention. In four of the five countries for which recent data are available young people constituted a sizeable majority of the open unemployed and in the fifth country (Chile, where the relative size of the age group is smaller than in the others) they constituted nearly half (see table 5).

This is not simply a question of inability of teenagers to find jobs for some time after entering the labour market. In all the countries except Colombia those seeking work for the first time are in a minority among the young unemployed, and in Mexico and Peru, the only countries for which a further age breakdown of the group can be made, a majority of the young unemployed are 20 or over. It is also probable that the young unemployed are not predominantly from the strata with no or very little education. Data for Chile, Peru and Venezuela indicate that unemployment rates among persons with less than four years schooling are below the general average, the highest rates being among persons with four or more years of primary schooling and among those with some secondary education. The duration of unemployment also seems to increase among persons in the second group. Presumably the first group is less selective in the jobs it is willing to accept and also less able to count on subsistence from the family while waiting for a job, thus entering the poorest-paid marginal occupations.

Table 5

OPEN UNEMPLOYMENT AMONG YOUNG PEOPLE, 1970

(Per cent)

Countries and cities	Age group	Percentage of total unemployed	Percentage already having held employment	Percentage seeking employment for the first time	Total
Colombia	12-24	58.8	45.3	54.7	100.0
Chile	12-24	46.6	70.2	29.8	100.0
Mexico	12-29	57.7	85.1	14.9	100.0
	12-19	28.5	80.0	20.0	100.0
	20-29	29.2	90.1	9.9	100.0
Peru	14-24	60.8	60.9	39.1	100.0
Venezuela <u>a/</u>	15-24	53.0	60.0	40.0	100.0
Bogotá	12-24	54.9	43.9	56.1	100.0
Federal District (Mexico)	12-29	68.4	82.5	17.5	100.0
	12-19	35.3	75.3	24.7	100.0
	20-29	33.1	90.2	9.8	100.0

Source: ECLA, on the basis of official figures.

a/ Figures for 1969.

/The measurement

The measurement of underemployment has advanced very little in recent years. Quite different aspects of the problems of maladjustment between labour supply and demand, inadequate utilization of human resources, low productivity, and inadequate remuneration of labour continue to be lumped together to produce estimates that add little to understanding. It is safe to say that the relative importance of the problem is no less at the beginning of the 1970s than at the beginning of the 1960s; that its absolute dimensions have increased; that the urban component has grown in relative importance; but that in most countries the rural areas remain the principal foci of underemployment and extreme poverty. Presumably also the general problem is more serious in the smaller countries in which urbanization has been less capable of acting as a safety valve for rural underemployment and poverty. There is some evidence that the most serious aspect of the problem in the urban areas lies in the very low incomes received by many workers who are fully occupied in terms of the work week. Recent national household surveys make it possible to calculate percentages of the urban employed population that are in "marginal" activities in the sense of receiving less than the statutory minimum wage or other national standard of adequacy (see table 6).

In Brazil, as might be expected, there is a wide gap between the Centre-South and the Northeast, the percentages of marginal employment ranging from about 10 in the region comprising the states of Sao Paulo, Guanabara and Rio de Janeiro to 42.2 in the region comprising the nine states of the Northeast. In Panama, national wage statistics for 1970 (including agricultural workers but excluding own-account workers, among whom underemployment is known to be pronounced) indicate that about 22 per cent of the wage-earners employed 35 hours or more a week earned less than 60 per cent of the statutory minimum wage. Studies in the metropolitan areas of Bogotá, Caracas and Lima indicate that in 1970 this kind of marginal employment accounted for between 75 and 90 per cent of "underemployment", while "visible" underemployment (in the sense of abnormally small number of hours worked by persons wishing to work more) accounted for only 10 to 25 per cent.

Table 6

"MARGINAL" EMPLOYMENT IN NON-AGRICULTURAL ACTIVITIES

(Percentages of the economically active population)

Countries and cities	Year	Marginal employment
Brazil	1970	19.5 <u>c/</u>
Colombia <u>a/</u>	1970	29.3
Chile	1968	12.3
Peru <u>a/</u> <u>b/</u>	1971	23.9
Venezuela	1971	21.5 <u>d/</u>
	1971	25.8 <u>e/</u>
Bogotá, D.E. <u>a/</u>	1970	12.7
Caracas	1970	11.1 <u>d/</u>
	1970	16.2 <u>e/</u>

Source: ECLA, on the basis of national household censuses.

a/ Corresponds to the urban area.

b/ Excluding domestic activities.

c/ Figure refers to wage-earners, and the percentage is calculated with respect to the total number of wage-earners.

d/ Considered as an income of less than Bs. 300.

e/ Considered as an income of less than Bs. 500.

/As indicated

As indicated above, rising concern over employment problems has been reflected at the national level more in general policy declarations and objectives stated in the preambles of plans than in coherent reorientations of policy and planning to give priority to employment, along the lines proposed in paragraph 66 of the International Development Strategy. The position that a high and sustained rate of growth of GNP is a sufficient as well as necessary condition for attainment of full employment remains influential, and this is reflected in the tendency of the more recent plans to state employment objectives in general terms, without providing for specific measures to meet them. This is a radically different position from that which has come to the fore in several different forms in the international agencies concerned with employment and which calls for an integrated strategy for redistribution of incomes, changes in the character of goods and services produced, agrarian reform, educational reform, introduction of technologies suited to the real relative scarcity of capital and labour, and mechanisms for more active and innovative popular participation in productive processes and developmental decision-making. Such a strategy implies fundamental changes in prevailing styles of development and the adoption of different national priorities, with full employment conceived as a consequence of the whole strategy rather than as an objective to be attained by direct measures. The most comprehensive presentation of an approach of this kind for a Latin American country is that given in the report of an inter-agency team organized by the International Labour Office in 1970 to advise Colombia 11/. Similar points of view are implicit in the present development strategies of Chile and Peru.

Generally speaking, no coherent policies have been designed to tackle the complex problem of employment in a direct and energetic manner. In most cases, resort is had to measures, among the wide range of those recommended in recent years, that do not involve major structural changes or modifications in the distribution of power and incomes. Among these measures, extensive use is made of tax incentives and other policies expected to motivate a redistribution of economic activities to the internal regions where poverty and underemployment are acute. As suggested above, however, the impact of such measures is likely to be offset by others that respond to the forces making for metropolitan concentration, and by a continuing reliance on labour-saving productive techniques, often for

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11/ International Labour Office, Towards Full Employment: A Programme for Colombia, Prepared by an Inter-Agency Team Organized by the International Labour Office (Geneva, 1970).

lack of any practical alternative. Thus, measures intended to encourage retention of labour in agriculture are offset by continuing encouragement of mechanization of that sector, while the possibility of raising employment in consumer goods industries is limited by the very process of modernization and technological change or by measures to increase productivity and to lower costs in both the production and distribution of those goods.

The most readily available short-term means of promoting employment open to most Governments is the execution of construction programmes in housing, urban infrastructure, highways and rural public works. Pressures on Governments for higher allocations to these programmes for their own sake are strong in any case. Such programmes have been prominent in the region since the 1950s, but they are generally of an intermittent character, depending on the state of public finances and the availability of external aid. Here again, employment promotion objectives frequently clash with demands for quick and efficient completion of projects and with the character of available technology. Moreover, public works projects lure into construction and out of rural underemployment a large volume of underemployed and unskilled rural labour that cannot afterwards easily shift to other non-agricultural occupations. The public agencies are rarely able to maintain a smoothly rising level of employment in construction over a long period, and unemployment statistics almost invariably show higher rates in construction than in any other sector of activity. Large-scale projects for dams, industrial installations, etc., are necessarily discontinuous and leave behind them a demand for a much smaller and differently qualified labour force. Construction programmes have important linkages with employment in supply industries, but this implies an important negative multiplier effect once the programmes are curtailed.

Small-scale labour-intensive rural public works programmes absorbing local underemployment are free from most of these dangers, and have been experimented with in various Latin American countries in recent years, but have not reached an important scale. The major difficulty seems to be that in countries where there is considerable spatial mobility of workers, general awareness of prevailing wage rates, and also awareness of the advantage of machinery, large-scale resort to pick-and-shovel labour remunerated in food and small monetary payments, as has been done successfully in other regions, is seldom practicable.



(f) Expansion of social services

One of the most generalized trends during the 1960s and early 1970s has been the expansion and diversification of publicly-financed social services. The distribution of these services has continued to be very uneven, corresponding roughly to the differences between types of countries, between internal regions, between urban and rural settings, and between occupational and income groups, but the expansion has reached practically every country, region, and group to some extent. The lines of expansion have depended more on the relative strengths of pressures from within the societies and on the availability of external aid than on any coherent conception of the place of social services in a strategy for human development. The efficiency of such services has been low in relation to their claims on public resources, and they have generated new demands that will be increasingly hard to satisfy within existing styles of development. In spite of these qualifications and criticisms, the social services are undoubtedly making important contributions to human welfare, are changing for the better the quality of the human element engaged in the tasks of development, and are creating new opportunities as well as constraints for development policy.

(i) Education

Education has expanded more rapidly and generally than any other sector of the social services, and it also makes a larger claim on public resources. At the beginning of the 1960s, UNESCO urged a minimum standard of 4 per cent of GNP devoted to education. The most recent UNESCO calculations (for 1969) show Costa Rica devoting 6.4 per cent of GNP to education, and Chile, Ecuador, Guyana, Jamaica, Panama, Peru and Venezuela well above the 4 per cent line. Cuba devoted 7.5 per cent of "gross material product" to education in 1966 <sup>12/</sup>. More recent figures taking into account all sources of educational expenditure would probably add more countries to this list. As table 7 demonstrates, practically all countries devote more than 15 per cent of central government expenditures to education, and the central government is not the only source of educational financing (the anomalously low figure recorded for Brazil derives partly from the importance in that country of state and municipal financing of education, which is not taken into account in the table). In eight countries, education accounts for more than 20 per cent of central governmental public expenditures; in four countries for more than 25 per cent. In a good many countries, the proportion of public expenditures devoted to education cannot be expected to rise any higher, in view of other urgent social and economic claims and further increases will have to depend on overall expansion of public sector resources.

<sup>12/</sup> Table 9.1 in UNESCO, Development and trends in the expansion of education in Latin America and the Caribbean. Statistical Data (UNESCO/MINESLA/REF.2, Paris, 6 October 1971).

Table 7

LATIN AMERICA: SOCIAL INDICATORS

A. Education

Country	Primary enrollment as a percent age of the population of 7-13 years of age (1970)	Secondary enrollment as a percent age of the population of 14-19 years of age (1970)	Higher enrollment as a percent age of the population of 20-24 years of age (1970)	Increase in enrollment in each level of education between 1960 and 1970		
				Primary	Secondary	Higher
Argentina	94.5a/b/	38.5a/	16.2a/	21.6	78.8	78.0
Bolivia	90.0a/	17.7a/	7.8a/	101.2	87.8	162.5
Brazil	76.2	34.4	5.3	64.4	46.8	349.8
Colombia	62.7	20.5	3.5	61.7	41.5	181.5
Costa Rica	99.7	26.7	8.0	70.2	16.7	142.6
Cuba	103.8a/	26.8a/	4.2a/	29.4	133.8	52.3
Chile	94.2a/d/	35.0a/e/	9.2a/	64.9	60.2	202.0
Ecuador	86.7	26.5	6.9	63.7	130.2	257.5
El Salvador	82.0	20.2	1.5	65.3	155.3	83.4
Guatemala	50.1f/	10.5f/	3.3f/	34.9	51.3	173.1
Haiti	31.0a/	4.2a/	0.3a/	25.0	40.5	-13.4
Honduras	76.6a/	9.8a/	1.5a/	83.8	128.3	105.9
Mexico	57.3	8.9	2.8	14.6	32.6	55.1
Nicaragua	66.6a/	17.8a/	4.8a/	83.7	252.6	307.1
Panama	98.3	45.5	7.4	57.8	101.8	122.5
Paraguay	91.0	17.4	3.4	40.6	126.4	114.7
Peru	84.6f/	33.0f/	8.0f/	62.0	184.3	202.9
Dominican Republic	80.2	25.1	4.6	43.8	161.3	379.4
Uruguay	100.1	56.2	8.7	0.4	49.6	21.4
Venezuela	93.2	40.4	11.4	56.9	212.4	276.2
Barbados	-	-	-	-	-	-
Guyana	-	-	-	-	-	-
Jamaica	-	-	-	-	-	-
Trinidad and Tobago	-	-	-	-	-	-

Source: ECLA, on the basis of official data.

a/ 1971. b/ 6-13 years of age. c/ 1968. d/ 7-15 years of age. e/ 16-19 years of age. f/ 1969.

Table 7 (continued 1)

B. Health

	Central government tax revenue as a percentage of the gross domestic product (1970)	Percentage of total central government expenditure on			Death rate among children of 1-4 years of age (per thousand in inhabitants)		Inhabitants per doctor 1968-1970	Distribution of doctor a/ 1968-1970
		Housing	Education	Health	1960-	1970		
					1962			
Argentina	6.4	1.8 <sup>b/</sup>	15.3 <sup>b/</sup>	6.3 <sup>b/</sup>	4.3	2.7	671	1.8
Bolivia	8.5	5.2 <sup>c/</sup>	17.3	4.4	16.8	27.6	2 300	3.2
Brazil	10.3	0.8 <sup>d/</sup>	7.9	3.5	-	15.0	1 810	3.5
Colombia	9.8	-	15.3	8.0	15.4	11.7	2 250	3.4
Costa Rica	12.7	0.7	30.4	4.8	7.5	4.0	1 850	2.3
Cuba	-	-	-	-	2.3	1.2	1 120	2.6
Chile	21.8	4.4	19.7	8.2	8.2	3.3	2 180	1.8
Ecuador	10.4	-	22.2 <sup>b/</sup>	3.5 <sup>b/</sup>	22.2	16.6	2 288	2.9
El Salvador	10.4	-	25.4	13.1	17.1	14.5	4 350	3.8
Guatemala	7.7	1.5 <sup>g/</sup>	17.3	12.0	32.4	30.0	4 500	6.6
Haiti	5.9	-	12.8	14.5	-	33.0	14 700	9.3
Honduras	11.2	2.6 <sup>d/</sup>	21.1	9.6	14.1	20.0	3 600	4.2
Mexico	7.1	-	30.0 <sup>b/</sup>	5.6 <sup>b/</sup>	23.8	10.6	1 750	3.7
Nicaragua	8.5	-	17.4	11.9	-	18.4	2 010	2.8
Panama	12.2	-	19.3	8.7	7.9	8.0	1 610	2.6
Paraguay	10.4	-	13.7	5.2	9.4	6.9	1 818	4.2
Peru	15.1	1.9	21.2	6.2	15.7	7.9	1 320	2.8
Dominican Republic	16.0	10.0 <sup>g/</sup>	14.6	13.9	6.4	7.9	2 073	3.3
Uruguay	13.6	-	26.0	5.7 <sup>f/</sup>	1.3	1.7	890	1.8
Venezuela	12.1	4.4 <sup>d/</sup>	16.7	8.4	5.7	4.9	1 050	1.5
Barbados	26.6	4.1 <sup>g/</sup>	20.8 <sup>g/</sup>	19.0 <sup>g/</sup>	3.7	2.2	2 090	2.1
Guyana	-	-	-	-	-	3.2	4 270	2.6
Jamaica	19.0	-	16.7 <sup>g/</sup>	8.9 <sup>g/</sup>	6.8	4.1	2 500	2.9
Trinidad and Tobago	14.3	-	16.0	8.1	2.5	1.9	2 200	2.1

Source: Central government tax revenue as a percentage of the gross domestic product: IDB, Socio-economic progress in Latin America, annual report (Washington, 1971); infant death rate: PAHO/PASE/WHO, Health conditions in the Americas, 1965-1968; remaining indicators: ministry of health publications based on four-yearly projections.

a/ Doctors in cities with over 100 000 inhabitants divided by total number of doctors in the country, multiplied by total population divided by population in cities with over 100 000 inhabitants.

b/ 1971.

c/ Capital expenditure.

d/ Housing and town planning.

e/ 1970-1971.

f/ 1968.

Table 7 (continued 2)

C. Nutrition

Country	Indexes of the production of foodstuffs per inhabitant (1961-1965 average = 100)			Availability of calories per inhabitant			Availability of proteins per inhabitant (grams per day)				
	1967	1970	1971 (prov.)	1964-1966	Projec	Consump	Projec	1964-1966	Projec	Consump	Projec
					tions	tion	tions		tions	tions	tions
					1970	1970	1980	1970	1970	1980	
Argentina	108	102	93	2 885	3 036	-	3 069	90.2	98.4	92.9	98.4
Bolivia	100	99	97	1 765	1 902	1 997	2 122	45.8	49.1	49.1	55.6
Brazil	104	110	108	2 541	2 613	2 816	2 731	63.9	64.5	66.7	68.5
Colombia	100	104	105	2 192	2 160	2 103	2 233	50.1	48.1	47.7	51.2
Costa Rica	103	129	135	2 334	2 344	-	2 472	56.7	61.3	-	66.4
Cuba	107	125	98	2 501	2 638	-	2 762	62.8	63.1	-	65.7
Chile	99	95	98	2 516	2 540	2 562	2 655	65.4	66.4	65.7	70.6
Ecuador	100	94	91	1 848	1 906	1 993	2 014	46.7	48.0	46.5	51.2
El Salvador	96	103	104	1 877	1 873	-	2 002	47.0	46.0	-	49.1
Guatemala	97	102	104	1 952	1 972	-	2 145	49.2	49.7	-	54.4
Haiti	95	92	92	1 026	1 896	-	1 905	47.0	46.5	-	47.0
Honduras	104	109	108	1 930	2 042	-	2 203	48.6	52.3	-	57.4
Mexico	104	105	101	2 624	2 660	-	2 698	66.5	67.1	-	67.4
Nicaragua	110	116	120	2 253	2 314	-	2 426	60.7	61.4	-	64.8
Panamá	101	106	106	2 338	2 429	-	2 661	62.5	65.4	-	73.5
Paraguay	106	103	101	2 732	2 798	2 760	2 835	68.1	70.3	74.7	71.6
Peru	105	106	106	2 271	2 194	2 341	2 428	61.0	57.1	60.8	64.9
Dominican Republic	92	94	96	2 077	2 143	-	2 223	45.7	48.5	-	50.4
Uruguay	79	103	106	3 023	3 105	-	3 167	105.5	108.2	110.6	109.6
Venezuela	112	120	119	2 357	2 524	2 359	2 641	61.1	63.8	59.9	67.1
Barbados	108	86	77	-	-	-	-	-	-	-	-
Guyana	91	84	80	2 291	2 399	-	2 562	55.1	58.8	-	64.1
Jamaica	91	76	77	2 276	2 531	-	2 514	59.1	59.7	-	65.6
Trinidad and Tobago	-	-	-	2 361	2 442	-	2 708	63.9	66.8	-	75.9

Source: FAO, The state of food and agriculture, 1972, preliminary version GL 59-8 (August 1972); Food balance sheet 1971; Agricultural commodity projection 1970-1980 (Rome, 1971); Perspective study of world agricultural development - South America, 1972.

Table 7 (conclusion)

D. COVERAGE OF PUBLIC SERVICES

(Percentage of total population)

	Potable water						Total 1971	Sewage disposal			Social security (percentage of the economically active population contributing to systems that cover or major risks)	
	Urban			Rural				Urban		Rural 1970	1961	1969
	1961	1970	1971	1961	1970	1971		1961	1970			
Argentina	66	66	67	1.3	17	18	56	32	32	-	46.5	67.6
Bolivia	45	59	62	-	3	4	24	32	19	-	8.7	8.4
Brasil	62	64	83	-	4	23	52	14	30	-	19.3	31.4
Colombia	64	92	71	40.0	48	47	61	53	67	19.2	6.4	14.4
Costa Rica	97	100	100	20.0	56	57	78	33	24	-	33.4	37.4
Cuba	60	100	89	-	45	51	74	37	38	-	-	-
Chile	71	87	90	14.0	9	9	66	42	36	6.5	49.8	67.5
Ecuador	45	62	65	-	8	9	34	55	47	1.2	12.0	16.1
El Salvador	57	73	67	-	27	32	43	41	56	0.2	4.7	10.2
Guatemala	33	96	97	-	12	12	38	23	45	-	21.9	29.4
Haiti	19	44	44	-	3	3	18	-	8	-	1.2	1.0
Honduras	53	100	93	6.8	10	11	36	29	54	0.1	3.7	4.8
México	50	84	73	-	30	29	57	21	50	-	12.1	20.9
Nicaragua	41	92	91	-	10	16	50	22	42	-	5.6	14.9
Panama	97	92	98	-	10	49	74	61	65	0.6	22.6	34.3
Paraguay	22	38	33	-	6	6	16	15	14	-	10.9	9.6
Peru	58	63	65	-	12	13	39	63	55	0.2	22.5	27.8
Dominican Republic	53	76	83	16.0	10	12	38	37	16	-	12.3	9.7
Uruguay	67	89	91	2.3	22	22	77	45	52	-	-	-
Venezuela	46	88	92	-	76	50	80	31	42	3.3	11.3	22.9
Barbados	-	100	100	-	-	100	100	-	-	-	-	-
Guyana	-	96	98	-	38	36	54	-	39	-	-	-
Jamaica	-	73	67	-	29	54	59	-	19	0.6	-	-
Trinidad and Tobago	-	99	99	-	95	95	96	-	51	0.3	-	-

Source: Potable water and sewage disposal: PASE/WHO, Community water supply and sewage disposal programmes in Latin America and Caribbean countries (document No.E.S.5) p.3 and the annual report of the Director, p.50; social security: ECLA on the basis of official information.

/The expansion

The expansion of education has affected all levels. Primary enrolment in most countries has grown at rates well above the average annual 3 per cent increase in numbers of children in the relevant age group. The proportion of children receiving no schooling is now quite small. Illiteracy rates have continued their long-term downward trend, as far as can be judged from the few 1970 census tabulations as yet available. Since adult education has received only token attention in most Latin American educational programmes, this downward trend affects mainly young people: except in a few countries most of the age group 15-19 is now literate.

Nevertheless, Latin American primary education continues to suffer from the shortcomings that have been documented during the past years when the overall dimensions and coverage were much smaller. Except in the most educationally advanced countries only a minority (sometimes a very small minority) of children complete the primary course (usually of six grades). The gap between rural and urban primary education continues to grow wider, and the rate of repetition of grades remains excessively high. Many children do not begin their primary education at the "normal" age of 6 or 7, but at 8 to 10, and leave after two or three years. Since the primary courses are planned for a six-year duration, it can be assumed that the education imparted is less efficient than if the courses were planned in cycles taking into account the number of years pupils actually attend.

The most striking feature of Latin American educational statistics is the disproportion between rates of growth of primary education and of the middle and higher levels. Table 7 indicates that in the majority of countries middle-level education increased more rapidly than primary - in some cases four times more rapidly. In all countries except one, higher education grew much more rapidly than primary. A few years ago the highest rates of increase were found at the middle level, but more recently they have shifted to the higher. The most recent statistics for Brazil 13/ show a particularly marked trend:

	Primary enrolment	Rate of increase	Middle enrolment	Rate of increase	Higher enrolment	Rate of increases
1970	12 812 000	4.2	4 083 600	12.5	425 500	24.0
1971	13 682 600	6.8	4 578 000	12.1	561 400	31.9
1972 (ect.)	14 523 500	6.1	5 273 600	15.2	694 100	23.6

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13/ "Estrategia da Segunda Década para o Desenvolvimento. Informações sobre o Brasil", op.cit.

Even in the most educationally advanced countries of Latin America primary education continues to lag far behind - in terms of proportion of children completing the primary course as well as quality - the levels attained many years ago by most European countries. The effort to universalize a minimum education as an essential factor for national unit has been halting. Meanwhile, the proportions of the relevant age groups enrolled in middle and higher education have reached levels superior to most European countries, and vastly superior to the proportions in the latter countries at a time in the past when they had already attained universal complete primary education. Moreover, enrolment levels and rates of increase in the different types of Latin American countries are much more uniform at the middle and higher levels than at the primary level. Even the countries that are lagging farthest behind in primary enrolment (in general the countries of the third group distinguished above) have raised enrolment at the middle and higher levels very rapidly. Almost everywhere expansion at the middle level has been mainly aimed at preparation for university entry rather than at technical-vocational specialization 14/.

These trends suggest that the growth of the educational systems has been distorted by pressures hardly compatible with the overt priorities of universal social rights, national integration and qualification of human resources for development that are endorsed by all of the Governments and set forth in paragraph 18 and 67 of the International Development Strategy. The key factors behind the type of development actually adopted include the demands associated with expansion of the urban middle strata; the raising of formal educational requirements for the better-paid and more prestigious jobs as a means of restricting entry; and the greater real opportunities for social ascent offered by general as against technical education.

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14/ For detailed discussion of these questions, see "Secondary Education, Social Structure and Development in Latin America" (E/CN.12/924), document presented jointly by the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning at the Conference of Ministers of Education and those responsible for the promotion of science and technology in relation to development in Latin America and the Caribbean, convened by UNESCO, Venezuela, December 1971. The generalizations made here do not apply to Cuba, where public policy has insisted on an equalitarian and innovatory educational system as a key instrument for national unification and the furtherance of a socialist style of development.

The consequences include claims on the public resources available for education that are increasingly difficult to meet or to reconcile with the allocations needed for the upgrading of primary education; a general deterioration of quality as the middle and higher institutions are unable to find teachers and complementary facilities to match the flood of poorly prepared students; chronic unrest and demands for revolutionary educational change combined with formidable resistance to coherent reforms of the educational system; increasing pressure from graduates, unable to find jobs elsewhere, for absorption within the middle and higher levels of the educational systems; and also in some countries pressures upon the newer "participatory" social programmes, which are in danger of becoming more effective as sources of employment for the middle strata than as means for overcoming the marginalization of the lower strata.

A projection of the rising educational costs and demands suggests that the educational crisis will become increasingly serious during the 1970s unless different real priorities emerge and the reforms now under discussion or experiment in a number of countries gain sufficient popular understanding and support for vigorous and coherent application. As in the case of quantitative increase in other "problems", however, caution is needed in assessing the capacity of the systems to continue indefinitely along present lines.

(ii) Health

During the 1960s general health conditions - to the extent that these can be measured by life expectancy at birth, mortality rates among children 1-4 years of age, and incidence of infectious diseases - improved significantly, and there is no reason to doubt that this improvement has continued during the early 1970s. The columns in table 7 on child mortality rates suggest that the only exceptions are Uruguay, which at the beginning of the 1960s had an exceptionally favourable rate, and several small countries in the third group distinguished above, in which rates continue very high; apparent increases in some of the latter are probably due to improved reporting.

The greater part of the gains in health conditions must be attributed to improvement in preventive and curative health services and in the extension of drinking water and sewerage systems. The relative importance of these factors can only be guessed at. Statistics on numbers of physicians and other health personnel per 1,000 population, on health expenditure per capita, and on percentages of population served by drinking water and

/sewerage systems



sewerage systems show wide variations from country to country that do not correspond at all closely with ranking of countries by other indicators. Comparisons and detailed conclusions from these data would require more-intensive study of their meaning than can be made here.

It is well known that expansion of the health services has involved a great deal of duplication, waste and inequity, with health ministries, social security agencies, welfare agencies, professional associations, private benevolent organizations and private medical practice competing with each other in relation to some sectors of the population while leaving others practically without protection. Even if health resources were to be distributed with a maximum of equity and efficiency they would be insufficient to meet rising needs and demands. Eleven countries of the region still have fewer than 5 physicians per 10,000 population, and in a good many countries the increase in the number of hospital beds has been inferior to the rate of population increase. In relation to this last point, it is worth emphasizing that during the last five years the costs of medical and hospital care have increased more rapidly than those of any other service, through the introduction of new kinds of treatment and equipment, salary increases, etc. At the same time, the demand for medical services is changing from the relatively inexpensive (in per capita terms) struggle against transmissible diseases to the relatively costly areas of degenerative diseases, mental illness, treatment of accidents, etc. In practically all countries, the health services are now second only to education in their claims on public resources, and the squeeze between rising demands and costs can be expected to make planning and clear priorities increasingly urgent.

The larger cities continue to enjoy differential advantages in health services and in those parts of the infrastructure bearing on health, so that rising health levels are intimately associated with urbanization in spite of such offsetting negative factors as air pollution and traffic accidents. The column in table 7 showing ratios of physicians in cities of 100,000 or more inhabitants to those in the rest of the country indicates that this aspect of concentration remains significant, although probably less pronounced than in the past. An estimate of the capacity of coverage of basic health services in 1970 covering 26 countries of

Latin America and the Caribbean, prepared by the Pan-American Health Organization, gives a clearer indication of the size of the continuing gap between urban and rural services 15/:

Table 8

Localities (number of inhabitants)	Percentage of total population	Present number of health units.	Number of inhabitants per health unit	Capacity of coverage (per cent)
2 000	45	5 000	25 000	20 <u>a/</u>
2 000-20 000	13	6 000	5 400	90 <u>a/</u>
20 000-100 000	14	12 800	8 700	100 <u>b/</u>
100 000 or more	28			
<u>Total</u>	<u>100</u>	<u>24 400</u>	<u>11 400</u>	<u>63</u>

a/ Estimated capacity of coverage on the basis of one health unit per 5,000 inhabitants.

b/ Estimated capacity of coverage on the basis of one health unit per 10,000 inhabitants.

The figures in table 7 showing percentages of urban and rural populations with access to drinking water and sewerage systems confirm the pattern. In all countries except two, more than 60 per cent of the urban population has piped drinking water; no rural population approaches this rate, and in eleven countries the rural rate is below 20 per cent. Improvement in communications between cities and rural areas normally accompanies urbanization, and it is probable that rural health gains have been greatest in the more urbanized countries. It is surprising,

15/ Pan-American Health Organization: Documento Básico de Referencia. Proposiciones de Cambio y Estrategias de Salud para la Década 1971-1980. Third Special Meeting of Ministers of Health of the Americas, Santiago, Chile, October 1972. It is estimated in this document that a rudimentary "health post" can provide elementary services for about 5,000 inhabitants while a more highly developed "health centre" can provide not just minimum attention but more complex basic health services for about 10,000 inhabitants (page 6).

/however, that

however, that the statistics for piped drinking water show a much wider gap between urban and rural populations in three of the most urbanized countries - Argentina, Chile and Uruguay - than in several countries of more recent urbanization - Colombia, Costa Rica, Panama and Venezuela.

(iii) Social security

The proportions of the active population covered by social security systems offering protection against major risks have continued to grow in most Latin American countries, but the differences between groups of countries (corresponding roughly to the grouping by social, economic and demographic traits) remain very wide, as table 7 demonstrates. Argentina and Chile have systems covering more than two-thirds of the active population; it can be assumed that the same is true of Cuba and Uruguay, although statistics are not available. In these countries, rural workers are covered in principle and to a large extent also in practice. Argentina, Chile and Uruguay also provide allowances for children of insured workers (with the exception of domestic workers in Argentina and Uruguay). The five large countries, plus Costa Rica, Panama, Ecuador and Nicaragua, have large and rapidly growing social security systems covering most urban occupations; extension to rural workers is envisaged in principle, but for the most part has not yet been attained in practice. In these countries, coverage in 1969 ranged between 14 per cent and 38 per cent of the active population. Family allowances are not provided on a significant scale. In the remaining countries, the range of urban occupations covered is narrower, the rural workers are excluded, and in some cases the range of risks covered is also narrower, while coverage does not rise above 10 per cent of the active population. No Latin American country has been able to institute unemployment insurance, except for schemes for limited categories of workers in Chile and Uruguay.

In the first group of countries, problems of costs and difficulties in collecting contributions and meeting obligations for benefits continue to be very serious. In the second group costs are becoming more burdensome, but the most controversial immediate questions relate to discrimination and regressive redistribution of income towards groups within the systems.

/(g) Deficiencies

(g) Deficiencies in basic areas of consumption

While levels of public social services have been rising, with positive consequences for the indicators of education and health, there is no significant evidence of improvement for the lower-income majority in two basic components of levels of living - food consumption and housing. In both of these areas the role of public services and subsidies, while increasingly important, remains subordinate to the interplay between family income, family decisions on distribution of expenditures, and capacity of the economies to supply the relevant goods at prices matching purchasing power. With regard to both food and housing, the general position is that low effective demand determined by inadequate income levels, inefficient production and distribution systems, certain consequences of rapid urbanization combined with high overall population growth, certain consequences of the dependent modernization of consumption patterns, and vacillating or self-defeating public policies add up to the continuation, or possibly deterioration, of a chronically unsatisfactory situation.

(i) Food supply and nutrition. The only nation-wide indicators of food supply are the food balance sheets prepared by FAO. These throw no light on distribution of food consumption by income group or internal region, and presumably show supply levels well above actual consumption. Household dietary surveys are indispensable for more precise information, but up to the present these have been too limited in coverage to answer the major questions. Nevertheless, the food balance sheets suffice to show that availability of calories per capita, availability of proteins, and availability of animal proteins remain below international norms in a good many countries, that gains in 1970 and 1971 over the 1960's are small, and that the improvements up to 1980 that can be projected from past trends or national objectives will not entirely erase the deficit (the national per capita figures in table 7 may be compared with France's 1967 level of 3,100 calories and 100.7 grams of proteins or with FAO minimum standards of adequacy ranging from 2,200 to 2,600 calories and 32 to 44 grams of proteins, depending on the national age structure and other considerations).

The food balance sheet data show differences between groups of countries similar to those revealed by other indicators, although with a few conspicuous anomalies. The most urbanized countries with high income levels and low rates of population growth also have the most adequate food supplies; in these countries stagnating agricultural-pastoral production

/means a

means a declining export surplus rather than a deficient national diet. The large countries, along with Chile and Cuba, are at middle levels in per capita food supply. Most of the smaller countries are well below the regional average, and their projections show serious inadequacies continuing up to 1980 (Paraguay, however, is among the leaders in per capita food supplies).

When the national average is inadequate or barely adequate under conditions of extreme inequality in income distribution it can be presumed that the diet of the lower-income groups and depressed regions is far below an acceptable minimum, while the more prosperous groups consume a good deal more than the minimum requirements. A FAO estimate of probable daily calorie intake by income group in 1970, based on calculations for eight countries gives at least a rough indication of the range of inequality:

<u>Income level</u>	<u>Calorie intake</u>
Top 5 per cent	4,238
Next 15 per cent	3,313
Next 30 per cent	2,843
Lowest 50 per cent	<u>2,039</u>
Average	2,581

Source: FAO, Estudio de las perspectivas del desarrollo agropecuario, Vol. 1, Ch. V, "Como hacer frente a las necesidades de productos para alimentos" (PSWAD/1, August 1972).

It can be presumed that the gap in protein intake is even wider, and also that there are considerable differences between strata within the lowest 50 per cent. Calculations of calorie intake in the lowest 50 per cent income group in individual countries give levels of less than 1,500 for Bolivia and Ecuador, and barely over 1,500 for Peru.

According to Brazil's reply to the UN questionnaire concerning the International Development Strategy, inquiries carried out in various localities indicate an average daily intake of 2,340 calories, 19 per cent below the amount available according to food balance calculations; in some regions consumption is as low as 1,500 calories. The reply also states that the food consumption pattern has remained unaltered between 1960-1968 and 1971/1972 16/.

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16/ "Estrategia da Segunda Década para o Desenvolvimento. Informações sobre o Brasil", op.cit., p.50.

Undernourishment and malnutrition among children under five years of age have attracted particular attention because of the long-term implications for the quality of the population. Sample surveys carried out in 13 Latin American countries and 3 English-speaking Caribbean countries in different years between 1965 and 1970 indicate percentages of undernourished children (calculated on the basis of a body weight 10 per cent or more below theoretical normal weight) ranging between 37 and 80. In 11 countries more than half the sample group was undernourished and in 7 countries two-thirds or more. Second-degree undernourishment (weight 25 per cent or more below the norm) affected 20 per cent or more of the sample in 5 countries 17/. The samples vary too widely in size and methods of selection to be comparable, but they indicate that the highest rates of child undernourishment are found in the countries of Central America and the Caribbean. Serious undernourishment among young children results in a permanent stunting of physical growth, and this in turn results in a somewhat lower working capacity but also in somewhat lower food requirements for the adult population. In recent years, attention has been directed to the problem of irreversible brain damage caused by insufficient protein in the diet of very young children. The actual extent of this evil and the degree of permanence of the damage are still not clear, but there is no doubt that the problem deserves priority attention in nutritional programmes as well as further investigation. It is becoming evident that the origins lie not only in the overall inadequacy of food supplies in low-income families but also in culturally-determined patterns of distribution of food within the family. The male family head gets the greater part of the proteins in the family diet.

The urbanization process may or may not affect the overall availability of foods, but it has very important consequences for the characteristics of the food supply problem and the policy implications. Until recently, the greater part of the problem lay in rural areas, where inadequate diet was chronic and did not generate pressures for remedial action. This is still true in the smaller and more rural countries. In proportion as the low-income population concentrates in the cities and urban consumption patterns penetrate the rural areas, however, demands change and become more diversified. The basic diet probably remains monotonous, confined to a few staples, and there may be a nutritional loss as regards home-produced vegetables, chickens, etc., while at the same time family food expenditures are diverted in part to bottled beverages and packaged foods of relatively low nutritional content. However, low-income urban families become able to exert more effective pressures on the State to keep

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17/ Pan-American Health Organization, four-year projections of Ministries of Health for the period 1972-1975.

/the prices

the prices of basic foods low, and a good many of them gain access to free or subsidized foods distributed under various international aid programmes. At the same time, the State assumes wider responsibilities for maintenance of standards, prevention of adulteration and contamination, requirements for the incorporation of nutritional additives, etc. (for example, in 11 countries of the region enrichment of wheat flour with iron and vitamin B is now legally obligatory, and in 8 it is optional). In countries where increases in the domestic food supply are sluggish, pressures for agrarian change strong and diverse, distribution systems costly and inefficient, and urban incomes low, however, it is hard for the State to carry out its new tasks and to reconcile their different objectives within a coherent policy. The strains become all the more severe insofar as income redistribution is seriously attacked, in view of the relatively high income elasticity of demand for food and the low responsiveness of the production and distribution systems.

The resultant policies that are now coming to the fore in an increasing number of countries include: (i) curtailment of consumption of the foods most costly to produce (mainly beef) through prohibition of their sale during certain periods (this policy is resorted to both by countries trying to increase the supplies available for export and countries trying to restrict the costs of imports); (ii) incentives to the production and consumption of other foods of high nutritive value that can be more cheaply produced domestically (fish, chickens, eggs, etc.); (iii) price controls and subsidized imports of basic staples; (iv) disincentives (through taxation, production controls, price policies) to the consumption of items considered harmful to health or undesirable in their diversion of family resources from basic foods (alcoholic beverages, tobacco, etc.); (v) distribution of basic foods through state agencies, co-operatives and various new consumer-protection organizations, so as to cut middleman costs and ensure adequate supplies at official prices to urban low-income groups; (vi) special systems of distribution (through schools, clinics, community organizations, mother's associations, etc.) of milk and other protective foods to ensure that they reach young children.

During the 1970's these and related measures can be expected to increase in scope and coherence, in spite of the formidable problems of organization and equitable functioning that they imply. From the standpoint of overall development policy, the difficulty remains that measures such as these almost unavoidably increase the advantages of the metropolitan centres over the more concentrated and closer to the centres

/of power.

of power. Administrative resources and the specialists needed for food supply programmes (nutritionists, social workers, community organizers) are more readily available in them, and interest-group organization among the low-income groups is usually more advanced.

(ii) Housing. Housing problems and relevant policy approaches in Latin America differ according to three main types of setting.

In the strictly rural areas standards of shelter almost everywhere have been very low, corresponding to prevailing poverty, family building capacity limited by locally available materials and simple traditional building techniques, and disincentives to housing investment associated with prevailing systems of land tenure. For most of the region there is no reason to believe that overall rural housing levels have improved or deteriorated very much, since the previous constraints have continued, while the rural population has grown slowly enough to permit reproduction of the previous types of housing without much difficulty. Deterioration can be detected in zones where the proportion of landless labourers has increased, where subdivision of already inadequate plots has reached extremes, or where massive outmigration of the youth has left behind an ageing and apathetic population. Substantial improvement can be found in some other zones, particularly those of agrarian reform, where public agencies have undertaken significant rural housing programmes, but these have reached substantial parts of the rural population only in a few countries, notably Chile, Cuba, and Venezuela. Programmes of public services related to housing, especially drinking water supply and electrification, have advanced somewhat more rapidly, but in most countries they have reached only minorities of the rural population as yet. The rural housing problem is naturally a still more important part of the overall housing problem, and the likelihood of deterioration greater, in the third group of countries previously distinguished.

In the small towns and slowly growing provincial cities, traditional housing standards have been relatively satisfactory. Here too there has probably been little overall change for better or worse in housing, but the gains in electrification, water supply and sewerage have been more pronounced.

During the past two decades attention has centred on the housing problems of the rapidly growing urban centres, where deficiencies are acute rather than chronic and where pre-existing techniques for the organization of housebuilding have for some time been manifestly incapable

/of preventing



of preventing deterioration in the situation. Attempts to quantify the problem have taken two main forms: calculation of housing deficits and calculation of numbers of families living in urban "marginal" or "uncontrolled" settlements. Both of these forms reflect diagnoses of the problem and policy approaches that are now giving way to different diagnoses and approaches under the pressure of necessity.

The calculation of housing deficits compares the stock of housing which meets defined minimum standards with the number of families needing shelter. Most national authorities of the region made calculations of this kind during the early 1960's and came to alarming conclusions, particularly when rates of increase in the urban housing deficit were projected from rates of formation of new families and rates of deterioration of the existing housing stock. The calculation of deficits was associated with the formulation of housing plans calling for construction of given numbers of new units per year and with the availability of substantial external funds, mainly in the form of low-interest loans, for financing housing construction and the associated infrastructure. For a time, such quantitative housing objectives played an important role in election promises. Since then, the size of the deficits, if calculated in this manner, has undoubtedly increased, particularly in the more rapidly urbanizing countries of the second group, where data on rates of housing construction show wide year-to-year fluctuations but few consistent upward trends. The urban population has increased more rapidly than the stock of "normal" housing, it has rarely proved possible to attain the planned objectives for more than a year or two at a time, and external aid for housing construction has dwindled. Nevertheless, one finds few recent official estimates of housing deficits and the symptoms of urban overcrowding are not as acute as might have been expected 18/. In practice, a good deal of the pressure has been

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18/ Estimates of deficits vary widely, according to the criteria used and the agency making the estimate, and the very different problems of urban and rural deficits are frequently lumped together in them. Housing data from the 1970 round of censuses are as yet available only for very few countries, and there is no satisfactory basis for making up-to-date quantitative evaluations of national housing levels or deficits. The 1971 annual report on socio-economic progress in Latin America of the Inter-American Development Bank states that the 1970 quantitative deficit of housing in Latin America was estimated at between 15 and 20 million units - a formulation that suggest the lack of precision or comparability of the sources. This estimate can be compared with two earlier sources. According to a 1965 UN study, (18/ continued)

relieved by unconventional housing "solutions" that initially were viewed as the most alarming feature of the "problem".

The growth of settlements built by their occupants, disregarding housing standards and zoning regulations, lacking normal urban infrastructure, around the fringes of the cities and on various types of urban wasteland (steep slopes, land subject to flooding, garbage dumps, etc.) first attracted attention during the 1950's. It soon became obvious that the population of these areas was growing more rapidly than that of the cities proper, and a long series of international reports have repeated estimates of their size, recited their picturesque local names, and called for remedial action. As investigation proceeded and as the irregular settlements continued to grow it became evident that the phenomenon was more complex than originally supposed and by no means so one-sidedly negative. For the most part, the settlements proved to represent determined efforts by low-income groups already established in the cities to meet their own needs for shelter and security, rather than camps of rural migrants or centres of delinquency and discontent.

As the national housing programmes relying on stimulation of conventional construction enterprises, tax exemptions, financial subsidies, promotion of housing investments through savings and loan associations, etc. gradually demonstrated their inability to relieve housing shortages except among the middle-income strata - or even found their resources diverted into luxury and resort housing - attention increasingly turned to cheaper and less conventional techniques involving overt or tacit recognition of the legitimacy of the irregular settlements - provision of water, electricity, sewerage, paved streets, playgrounds and shopping centres; relocation of settlements from radically unsuitable land; supply of building lots with minimum services; supply of cheap building materials and technical advice;

18/ (continued)

"on the assumption that about 45 per cent of the urban population and 50 per cent of people in rural areas live in inadequate housing, the backlog of need in Latin America in 1960 is estimated at about 20.3 million units of which 6.6 million were in urban areas and 13.7 million in rural areas" (World Housing Conditions and Estimated Housing Requirements, United Nations publication, Sales N° 66.IV.8, page 32). The 1964 IDB report on socio-economic progress contains an estimate of 14,930,000 units for the deficit and states that the annual rate of housing construction would have to be raised from 423,700 units to 1,350,400 units in order to match population growth and permit replacement of deteriorated housing (p.129). Construction has certainly remained far below the latter rate, and it follows that a 1970 deficit calculated on bases similar to those of 1960 or 1964 would be far larger.

/promotion of

promotion of community organization. In Peru, the shift in policy was symbolized by official bestowal of a new name having favourable connotations: the settlements became "pueblos jóvenes" rather than "barriadas" <sup>19/</sup>. While policies of this kind have been present, on a small scale, since the 1950's, they have become more prominent since 1968 or 1969, particularly in Chile, Colombia and Peru.

Policies of this kind respond in part to the approach set forth in paragraph 71 of the International Development Strategy for they imply self-help, co-operative organization, and use of labour-intensive building techniques. Under present circumstances in most countries, however, they constitute more of an unavoidable expedient than a satisfactory solution to the housing needs of the low-income groups. They are compatible with continuing evasion of the problem of comprehensive planning of urban growth and with continuing urban sprawl, since they usually seek cheap or publicly-owned lands remote from the urban centres, do not confront the problem of high speculative prices of urban land, and require long journeys to and from work for their inhabitants. They are also compatible with continuing allocation of the lion's share of public housing subsidies and incentives to urban middle-income housing.

#### (h) Participation

In the context in which "participation" appears in paragraph 78 of the International Development Strategy - i.e., the preparation of plans capable of capturing popular imagination, enlistment of support for and active participation in the development process by all sectors of the population - important new initiatives can be detected only in a few countries that have embarked on basic changes in their overall style of development. "Participation" has been accepted as an objective throughout Latin America - at least in speeches and other public statements - since

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<sup>19/</sup> The change in policy emphasis was conspicuous in the terms of reference and discussions of an Inter-Regional Seminar on Improvement of Slums and Uncontrolled Settlements convened by the United Nations in Medellin, Colombia, in February 1970, to which ECLA contributed a study, El carácter estructural de los asentamientos no controlados en América Latina. See also Chapters VI and XIII in Social Change and Social Development Policy in Latin America, op. cit.; and Carlos Delgado, Tres planteamientos en torno a problemas de urbanización acelerada en áreas metropolitanas: el caso de Lima (CIDU, Santiago, 1969).

/the early

the early 1960's. Recent statements by policy makers and development planners have placed a good deal of emphasis on past lack of participation as a reason for the ineffectiveness of planning and on the indispensability of more effective participatory mechanisms in the future 20/. In practice, however, the kind of broad constructive participation envisaged has hardly been compatible with the overriding emphasis in the plans on investment for increase in GNP, with the prevailing distribution of power and of the fruits of development, with differences in class interests and ideologies, with low educational levels, and with inadequate access to information for the making of rational choices.

The initiatives aimed at promoting participation have taken two main forms:

(i) Attempts by the national authorities and planning agencies to channel, regulate, and bring into harmony with planning objectives the efforts being made by different classes and groups to organize themselves in order to defend their own interests and advance their claims to a larger share in the fruits of development. These attempts apply mainly to groups which are already organized to some extent and are participating to the best of their ability, according to their spokesmen's views of their interests, but they have also involved attempts by political regimes to bring into being new organizations shifting the internal balance of power in specific directions.

(ii) Campaigns and programmes emanating from the authorities or from voluntary bodies encouraged by them, designed to enlist community-initiative and under-utilized manpower in local public works, housing, and provision of services, so as to increase productivity and raise levels of living at minimum cost to the State. These efforts, unlike the first type, have been directed mainly towards strictly local organization and participation, and have focused on rural and urban groups assumed to have little or no capacity for organization and participation without mobilization and guidance from outside.

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20/ A number of the papers prepared - mainly by former finance and economy ministers and heads of planning agencies - for a Planning Seminar organized in Santiago in July 1972 by the Latin American Institute for Economic and Social Planning, the Organization of American States, and the Inter-American Development Bank stress this point.

It is significant that both approaches to participation are often conceived as alternatives to existing political processes and interest-group struggles, which have proved intensely frustrating to planners. "Participation" is thus envisaged as a combination of mechanisms through which the competing social forces and groups can be educated to present more rational and manageable demands and persuaded to internalize or accept with understanding the demands the development process will make on them, while the voiceless or "marginal" groups are introduced into the system in an orderly and gradual fashion. Ideally, participation should result in class and interest-group antagonisms being superseded by awareness of the over-riding national interest of development. Such a conception seems to underlie the recent creation in Peru of the Sistema Nacional de Apoyo a la Mobilización Social (SINAMOS) (National Social Mobilization Support System).

People do not participate in "planning" or "development" in the abstract. They participate in specific functions or activities of the State, the society and the economy as producers, consumers, wage-earners, vendors, clients of public services, neighbours, parents, students, etc. It is impossible to generalize for Latin America concerning any of these areas of participation. Reliable recent quantitative information on trends is almost entirely lacking, and evidence of important new trends refers only to a few countries.

The importance and roles of the trade unions - the main traditional form of organization of wage-earners - have been affected by political vicissitudes in a number of countries, but have not changed very much for the region as a whole. In most countries the trade unions continue to include only a small minority of the urban labour force, mainly in the more modern and better paid occupations; their relative size is naturally greater in the two most urbanized countries, Argentina and Uruguay. In both of these countries their militancy has been heightened by the impact on employment and real wages of sluggish economic growth combined with inflation.

In two countries, Chile and Peru, the question of workers' management has come to the fore, under quite different circumstances. In Chile, the policies aimed at enlargement of the "social area" and "mixed area" of production combined with abandonment of their properties by a number of industrialists and severe labour conflicts in other industries, are giving the workers an increasingly important role in the management of industries.

/In Peru

In Peru the Ley General de Industrias of 1970 calls for the creation of "comunidades industriales" in all enterprises employing six or more workers and with a capital over one million soles; similar laws apply to mining, tele-communications, and fisheries. These "communities" are expected gradually to acquire up to 50 per cent of the share of the enterprises, over a period of 30 to 50 years, out of a proportion of the enterprises' profits. The approach to workers' management is thus relatively slow and the ultimate forms are not clear.

Organizations of the rural population - whether as producers, marketers, wage-earners, consumers, or community members - are very diversified but in most countries continue to cover only small proportions of the relevant population groups. The growth of peasant unions and rural co-operatives has continued to be slow and vulnerable to national political changes. Again, the main recent exceptions are Chile and Peru, where vigorous agrarian reform programmes are largely responsible for rapid growth and change in rural organizational forms, with official support concentrated on Centros de Reforma Agraria in Chile and Sociedades Agrícolas de Interés Social in Peru. Both experiences are very recent and still in process of evolution. The future relationships of the new organizational forms to peasant unions, co-operatives and other pre-existing organizations are not yet clear, nor are the implications of the increasing social differentiation that is emerging from present reform policies - i.e., between independent commercial farmers, agrarian reform beneficiaries in more or less co-operative or collective forms of exploitation, landless labourers and peasants who own plots of land, but not enough to provide them with a proper living.

One participatory trend which is of considerable interest, although it is hard to evaluate, derives from the nature and growing size of the "marginal" urban groups referred to above in various contexts. Since these groups have only precarious links with the occupational structure, trade union organization is hardly relevant to their needs, and their incomes and educational levels are too low for consumer co-operatives to function well among them. Their most urgently felt needs are for low and stable prices for basic foods and public transport, for secure shelter, for educational and health services, for jobs, and increasingly for consumption subsidies - free or subsidized distribution of foods, clothing and building materials. With regard to all of these needs they view the State as the most likely source of aid, and local political participation - exchanging of votes for favours - as the most promising tactic. In practice, the results have been less formidable for the authorities and less transforming for the low-income urban strata than was often predicted a few years ago. To a large extent, participation

/has been

has been atomized in a competitive pursuit of favours through contacts with influential persons, or dissipated in populist campaigns on behalf of leaders temporarily capable of enlisting the hopes of the marginal groups. Public policies have combined limited material assistance with limited creation of jobs and with efforts to stimulate community initiative and self-help. Evaluation of these policies depends on judgements concerning the capacity of the existing economic and social structures eventually to absorb the marginal population in a fashion consonant with values of equity and human welfare. To the sectors of opinion affirming this capacity, these policy orientations are correct. To other sectors of opinion that identify themselves with the need for a fundamental transformation of national structures, however, the same policies foster an unacceptable reconciliation with things as they are.

Since the urban marginal strata first emerged as an identifiable phenomenon there have been many initiatives, from within their own ranks and from external political mobilizers, to organize them for militant advancement of their own interests, mainly through seizure of land for housing and subsequent pressure on the authorities to regularize the situation and provide services. These initiatives have continued but have remained localized and, for the most part, have not generated continuing politization. Paradoxically, while the mobilizers have often viewed the immediate struggles mainly as a prelude to more far-reaching confrontation of the marginal groups with the national power structure, it would seem that successful struggles for land tend to relieve tensions and reconcile the disadvantaged groups with the urban system. Efforts at wider organization of locality-based groups around issues of consumption, public services, and housing have been frequent but rarely lasting.

The International Development Strategy (paragraph 70) specifically calls for full participation of children and of youth in the development process. As to children (that is, the 12-14 age group and under) "participation" necessarily relates mainly to the fruits of development: preceding sections have summed up the limited advances and the continuing deficiencies in relation to primary education, health, and nutrition. As to "youth" - the age groups in transition from full dependence on the family and the school, on the one hand, to entry into the labour market and formation of a new family, on the other - the meaning of "participation" is much more complex and the very meaning of "youth" varies according to social class, degree of urbanity or rurality of the setting, and other factors. Empirical evidence concerning youth groups other than students

/is very

is very scanty 21/. It can be inferred, however, from the urbanization process and from educational expansion in particular, that the conditions for youth participation must be changing in important respects:

(i) The proportions of youth with secondary and higher education are rising very rapidly, as was noted above.

(ii) The remainder of the youthful age-groups (the majority in almost all countries) remain limited to an incomplete and low-quality primary education that nevertheless stimulates spatial and occupational mobility. Rural and small-town youth, better educated than their elders, are particularly prone to migrate to the larger centres.

(iii) Incorporation of youth into the labour force is becoming more difficult, partly because of the overall sluggish increase in demand for labour, partly because of the effect of the educational systems, which promote higher occupational aspirations without imparting specific qualifications. There is a persistent wide gap between the labour market for youth from the middle strata, with at least a secondary education, and youth from the lower strata, and there is hardly any mobility from one market to the other, but in both markets supply exceeds demand.

(iv) The youth receiving secondary and higher education are introduced to specific kinds of political socialization; most of the time the majority react rather passively, but the combination of steadily increasing numbers, overcrowding and competition for places within the educational institutions, together with insecurity concerning future job prospects, suggests that these groups may present increasingly unmanageable challenge to current styles of development. It may be significant that in some countries student unrest has been spreading from universities to secondary schools. Political socialization of the youth receiving only elementary education comes through different channels - particularly the mass media - and is presumably more superficial; lack of access to the organized sectors of employment and the rural or small-town origin of much of this group limits the influence of traditional channels of working-class political participation. Difficulties in communication and differences in objectives between the two main groups of youth can be expected to restrict the likelihood of their conjoint mobilization.

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21/ See Aldo E. Solari, Algunas reflexiones sobre la juventud latinoamericana, Cuadernos del ILPES, Serie II, N° 14 (Santiago de Chile 1971); and A. Gurrieri, E. Torres-Rivas, J. González, Elio de la Vega, Estudios sobre la juventud marginal latinoamericana (Editorial Siglo XX, México, 1971).



(v) The styles of development prevailing during the 1960's have not been able to win the active allegiance of significant sectors of youth except intermittently and precariously. The gap between objectives and performance has been too wide, the functions allocated to youth in popular participation programmes too limited, and the contradictions between these programmes and local realities too conducive to disillusionment or radicalization. Officially-sponsored youth organizations and youth mobilization for development ends have been more limited in Latin America (with the exception of Cuba) than in Africa or Asia.

3. "Social" components of development policy and planning:  
towards a unified approach?

The International Development Strategy, after affirming that the ultimate purpose of development is to provide increasing opportunities to all people for a better life, goes on to assert that the more specific corollary objectives are both determining factors and end-results of development: integrated parts of the same dynamic process which thus require a unified approach.

The need for greater coherence in the policies, plans and programmes bearing on development has long been obvious, but the preceding sections of the present chapter afford no grounds for belief that the social policies actually applied by most Latin American countries are now more "unified" than in the 1960's, either with each other or with overall development policies. The attainment of a "unified approach", in the sense in which the Strategy uses the term, calls for a more basic rethinking of policy criteria and planning methods, and also of the political preconditions for policies, than has yet been undertaken. During the past two years, the ECLA secretariat has participated with other United Nations bodies in an exploration starting from this proposition. Preliminary findings have been prepared and submitted for discussion to authorities on development analysis and policy, but the more difficult stage of practical application to specific national settings remains ahead 22/.

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22/ See "Preliminary Report on the Unified Approach to Development Analysis and Planning" and "Report of the Expert Group Meeting on a Unified Approach to Development Analysis and Planning", documents presented to the twenty-second session of the Commission for Social Development, February 1973.

At the level of general statements of national development objectives - as in the preambles of the published plans - one finds a large measure of unification and also of uniformity from one country to another. For the most part, the objectives of the Strategy were officially endorsed by the Latin American countries during the 1960's, in quite similar terms. In the intervening years a considerable amount of progress has been made in the creation, staffing, and endowment with common principles and techniques of the planning and research institutions on which a unified approach must ultimately depend. Practically every country now has a functioning national planning agency, and most have sectoral and regional bodies with several years of experience. The number of academic and other institutions engaged in development research has multiplied, communication between them has steadily improved through such mechanisms as the Consejo Latinoamericano de Ciencias Sociales, and in spite of the continuing inadequacy of basic information, understanding of regional problems and of the applicability of alternative policy approaches is undoubtedly much better than a decade ago. The thinking of development analysts and planners has changed and broadened strikingly during the 1960's. Nevertheless, it must be kept in mind that advances of this kind, in institutions and in understanding, have been cited in international reports since the early 1960's as a sort of consolation for the insufficiency of more tangible achievements.

As the preceding pages have indicated, "unification" is weak between general objectives and the programmes and projects incorporated in plans: in many cases a general objective of obvious importance is not linked to any specific measures, or only to measures of minor scope and the implicit expectation persists that the "social" objective will be attained as a result of overall economic growth. Ties are even weaker between the overall development plans and the policies of sectoral agencies, and between the declared policies of these agencies and what actually gets done.

Public activities bearing on human welfare and equity remain highly compartmentalized, not only between major sectoral public agencies, but also between the sub-divisions of these agencies and the proliferating semi-autonomous programmes subsidized by the public sector. This means that possible supportive relationships between programmes are only intermittently taken into account, that the full range of alternative and complementary ways of reaching a broad objective is not considered systematically - each agency clings to its traditional tools - and that what should be treated as means or intermediate objectives are treated as final ends. Diagnoses of public social action along these lines, however - which have been repeatedly during the past few years - remain at a relatively superficial level.

/More fundamental

More fundamental hindrances to a unified approach lie in the limited ability to the State to reconcile, disregard, or find resources to satisfy the divergent aspirations and demands that focus on it, and in the very uneven distribution of power and participatory capacity within the countries. Social as well as economic policies thus become vacillating, mutually contradictory, and likely to generate future problems more serious than those they are intended to remedy. The political leaders and planners may be quite aware of the unsatisfactory aspects of their policy combinations, but unable, in view of political realities, to change them very much. Examples are easy to find in educational policy, employment policy, food supply policy, housing policy, and especially in policies relating to spatial distribution of development. A "unified approach" cannot realistically be conceived as a technocratic approach divorced from politics, nor can it realistically be conceived as a comprehensive approach in which the State tries to meet all needs of the citizens and to "unify" all the well-intentioned measures that are urged on it.

While it cannot be affirmed that any country in the near future is likely to attain a unified approach in the literal sense, it is evident that various countries of Latin America are evolving strategic orientations toward development that are quite different from one another but internally more coherent and less dependent on acceptance of the previously "developed" countries as models than before. These orientations seek to achieve unification through concentration rather than comprehensiveness. In practice, this implies that the dominant forces in the countries in question are acting on an explicit or implicit assumption that certain objectives - rapid growth in productive capacity and in exploitation of resources, transformation of power structures and of control over means of production, equalization of consumption and services among different population groups, elimination of external dependency - have over-riding importance at the present stage of development and in relation to the specific style of development aimed at, so that other objectives, although legitimate in themselves, must be sacrificed for the time being, given only a residual claim on public resources, or simply left to whatever degree of satisfaction they can gain through pre-existing institutional forms.



## Chapter II

### ECONOMIC GROWTH

#### 1. The basic factors which condition appraisal: pluralism and heterogeneity

In order to appraise a particular economic reality; it must first be decided whether a specific model is to be adopted as a reference pattern, and secondly, it must be determined whether the reality to be analysed is homogeneous. These two factors condition the whole appraisal both as regards its methodological aspects and as regards the degree of generality of the conclusions. In the case of Latin America, the need to consider the region as a whole makes it necessary to base the analysis on the variables which are common to the majority of the countries and have been operating in the same direction, but at the same time the multiplicity of situations increasingly tends to reduce the number of common elements, more on account of their dissimilar behaviour than because of differences in the nature of the variables. This means that any approach which claims to resume the most significant features of the region's evolution must conclude, paradoxically, that the main common features are pluralism and heterogeneity, both in the development model adopted and in the behaviour of the main variables. A brief review of some of the most outstanding features of the economic development of Latin America follows.

##### (a) Pluralism in the development models

Together with the approach adopted to the quantitative evolution of the main economic variables, an aspect which is acquiring growing importance is the study of the "quality" of development and measures needed (and also, consequently, their cost implications) to achieve the type of society desired. In a regional appraisal, it is indispensable to know what qualitative and long-term patterns will be taken as points of reference, since not only is there no accepted single model for a desirable society, but also the values adopted by the developed industrial societies are being questioned.

The era of bare "development" or "industrialization" is over; interest is now particularly concentrated on determining "how", "why" and "for whose benefit". The stage of indiscriminate development is being replaced by another more discriminatory stage, which even talks about the evils of development, when, for example, the price of growth includes renunciation

of the national capacity for self-determination or marginalization of the majority of the population in terms of decisions and income. Thus, various possibilities for action are being put forward which are more concerned with the scale of values adopted than with an exclusive economic appraisal of costs and benefits. The question is now being discussed whether the pattern to which the developing countries should adjust should be the achievement for a minority, albeit a growing minority, of the forms of living of the developed countries, or whether, on the contrary, the emphasis should be placed on providing the whole population with more than the minimum nutrition, shelter, housing and education levels. In other words, the question is whether the increased development of the modern sector will be disseminated spontaneously and as a matter of course to the rest of the economy, or whether the fairest and most efficient method is an explicit and resolute attempt to integrate the marginal and under-privileged sectors into the development process. If more specific questions are analysed, analogous alternatives occur there also, such as the extent to which geographical and economic concentration impels or hinders development; whether teams or individuals will predominate, or whether a new world distribution of industry, based on the "dirtiness" or "cleanliness" of each activity will be accepted.

These basic alternatives, which are part of the very bases of social organization, since they bring into question the real aims of those bases, have not only been the subject of theoretical discussion, but have also inspired various trends of economic policy. Latin America, in particular, is living through a stage of profound changes and trying out new methods of handling its economy and solving its social problems. A simple enumeration of some present-day cases shows the intensity, variety and originality of Latin American pluralism where road to development are concerned. For example, in Brazil the accelerated rate of growth depends basically on a modern sector which prefers to reproduce the patterns of production and demand of the industrialized countries. In Mexico, an attempt is being made to shift the emphasis of development on to distribution policies and industrial efficiency. In Peru, the State has taken the lead in governing the economy, and processes of agrarian reform and the transformation of the enterprise have been started. In Chile, there has been a transfer of power to the State as part of a process of transition to socialism, while in Cuba a socialist regime has been firmly implanted.

These examples show clearly that there is no single model which must be taken as a frame of reference; each country has prepared its medium- and long-term policy in accordance with its own orientation, which in turn reflects its particular conditions and the ideology of the governments.

/There are,

There are, of course, common elements, which are precisely those indicated in the International Development Strategy, but these form part of a process which varies from country to country, sometimes to a considerable extent. Each method has its own points of reference and places the factors under consideration in a different order of importance. In several countries, for instance, large-scale processes of expansion of production have taken place under normal market economy conditions. In other cases, however, the emphasis has been placed on the transfer of economic power from one social group to another, while in several cases the desire to extend the autonomy of national decisions has prevailed. These methods are far from being accidental or circumstantial, and it is probable that in the countries which have adopted them - or in others which may follow them - they will determine the form of future development.

(b) Structural heterogeneity

The Latin American economy is not only characterized by the different models of medium- and long-term development which the countries have adopted, but also by the heterogeneity of its economic structure, which can be observed, whatever the criterion of grouping or classification adopted both in the region as a whole and within each individual country. Thus the annual per capita product of Argentina exceeds 1,000 dollars, while the figure for Haiti is not even 85 dollars, and the same differences are repeated between regions of a single country, (e.g., the situation in the North-East of Brazil compared with that in São Paulo). The result is similar if the problem is approached from the rural-urban angle (average personal income in Rio de Janeiro is more than three times that for Brazil as a whole, and average personal income in the Federal District of Mexico is twice the national average). Likewise, if sectors are analysed in the national context, it may be observed that agricultural productivity varies between one-half and one-fifth of industrial productivity, except in Argentina and Uruguay.

As is obvious, the present-day configuration of the structure of the Latin American economy is the result of various factors. The outward-directed growth phase was characterized by the capacity to import generated by the primary export activities: this made it possible to satisfy the relatively diversified structure of demand and expenditure, especially in the high income groups, whereas, later the strangulation of the external sector led to the adjustment of the internal production structure to the existing pattern of demand, and the configuration of supply in the more developed economies was reproduced. However, the dynamism of this method encounters serious problems: the difficulty of bringing in new strata of population

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at the requisite income levels, and the gigantic efforts being made to finance demand. Hence the need to promote exports to other markets through regional or sub-regional integration.

An analysis of the differences between levels of productivity, and also of the population included in each stratum, brings out a basic contradiction, namely, that an attempt is being made, as already pointed out, to reproduce the very diversified structure of production of developed industrial societies, with average per capita incomes of more than 2,000 dollars, in economies which do not have this structure of production and whose level of incomes is about a quarter of the above figure.

## 2. Growth trends

### (a) Evolution of the domestic product

In 1971, the overall growth target of at least 6 per cent per year fixed by the International Development Strategy was reached for the region as a whole, but a country analysis shows that of the 23 countries in question, only six attained or exceeded it (Brazil, Chile, Ecuador, Panama, Peru and the Dominican Republic). These countries account for 45.8 per cent of the population of Latin America and generated as a group 36.3 per cent of the region's product. The rate of 6 per cent recorded for 1971 is less than the 1970 rate, but more than the average observed during the 1960's (see table 1). During this decade, the growth of the countries showed a varying degree of irregularity. The countries with the most stable growth were Bolivia, Colombia, Costa Rica, Mexico and Panama, while the most irregular were Argentina, Guyana, Haiti, the Dominican Republic and Uruguay (see table 2). Figure I shows the annual fluctuations of the growth rate for the region as a whole around the average for the 1960's <sup>1/</sup>.

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<sup>1/</sup> It may be noted that the three biggest countries carried considerable relative weight in the evolution of the variables under reviewed: in 1971, they generated around 69 per cent of the total product for Latin America, excluding Cuba, as may be seen from table 1.



Table 1

LATIN AMERICA: TOTAL GROSS DOMESTIC PRODUCT AT FACTOR COST

Country	1960	1971	1960-	1965-	1970	1971	1960	1971	Distribution of total Latin American population in 1971 (percentages)
	Millions of dollars at 1960 prices		Annual growth rate (percentages)				Structure (percentages)		
Argentina	16 507.2	25 780.8	4.4	4.0	4.1	3.8	20.8	17.9	8.9
Brazil	18 866.0	37 616.4	4.5	7.5	9.5	11.3	23.7	26.0	34.4
Mexico	17 518.5	35 844.5	7.1	7.1	7.7	3.1	22.0	24.8	18.8
<u>Subtotal</u>	<u>52 891.7</u>	<u>99 241.7</u>	<u>5.4</u>	<u>6.3</u>	<u>7.4</u>	<u>6.3</u>	<u>66.5</u>	<u>68.7</u>	<u>62.1</u>
Colombia	4 935.7	8 646.7	4.6	5.8	6.8	5.5	6.2	6.0	8.2
Chile	3 826.5	6 370.5	5.0	3.7	3.1	8.5	4.8	4.4	3.6
Peru	3 139.7	5 370.2	6.5	3.3	7.5	6.0	3.9	3.7	5.0
Venezuela	5 182.4	9 390.7	7.3	3.9	4.6	5.3	6.5	6.5	4.0
<u>Subtotal</u>	<u>17 084.3</u>	<u>29 778.1</u>	<u>5.9</u>	<u>4.3</u>	<u>5.4</u>	<u>6.1</u>	<u>21.4</u>	<u>20.6</u>	<u>20.8</u>
Costa Rica	492.1	993.3	6.5	6.9	6.6	5.0	0.6	0.7	0.6
El Salvador	639.0	1 154.9	6.8	4.7	4.2	3.3	0.8	0.8	1.3
Guatemala	1 067.4	1 848.5	5.3	5.0	5.6	4.8	1.3	1.3	2.0
Honduras	329.1	584.5	5.5	5.5	3.0	4.3	0.4	0.4	1.0
Nicaragua	354.6	745.3	10.2	4.4	5.1	4.0	0.5	0.5	0.7
Panama	438.2	1 031.1	8.3	7.8	8.2	8.4	0.6	0.7	0.5
Haiti	396.4	445.5	-0.6	1.8	4.7	5.7	0.5	0.3	1.9
Dominican Republic	640.7	994.8	1.0	6.6	5.5	7.4	0.8	0.7	1.6
<u>Subtotal</u>	<u>4 357.5</u>	<u>7 797.9</u>	<u>5.4</u>	<u>5.5</u>	<u>5.5</u>	<u>5.3</u>	<u>5.5</u>	<u>5.4</u>	<u>2.6</u>
Bolivia	542.7	970.7	5.1	6.0	5.2	3.8	0.7	0.7	1.7
Ecuador	1 128.6	2 025.5	4.4	6.2	9.2	7.0	1.4	1.4	2.2
Paraguay	426.2	695.4	5.0	4.1	6.3	4.5	0.6	0.5	0.9
Uruguay	1 770.1	1 973.7	0.9	1.4	4.5	-0.6	2.2	1.3	1.1
<u>Subtotal</u>	<u>3 867.6</u>	<u>5 665.3</u>	<u>3.0</u>	<u>4.1</u>	<u>6.4</u>	<u>3.4</u>	<u>4.9</u>	<u>3.9</u>	<u>5.9</u>
<u>Latin America (excluding Cuba and Caribbean)</u>	<u>78 201.1</u>	<u>142 483.0</u>	<u>5.4</u>	<u>5.7</u>	<u>6.8</u>	<u>6.1</u>	<u>98.3</u>	<u>98.6</u>	<u>98.5</u>
Barbados	69.9	115.5	3.7	6.2	9.0	2.3	0.1	0.1	0.1
Guyana	153.7	233.1	2.7	4.9	2.3	4.6	0.2	0.2	0.3
Jamaica	604.5	929.7	4.7	3.6	0.9	2.2	0.8	0.6	0.7
Trinidad and Tobago	505.2	746.2	4.2	3.2	2.2	3.1	0.6	0.5	0.4
<u>Subtotal Caribbean</u>	<u>1 333.3</u>	<u>2 024.5</u>	<u>4.2</u>	<u>3.8</u>	<u>2.0</u>	<u>2.8</u>	<u>1.7</u>	<u>1.4</u>	<u>1.5</u>
<u>Latin America (excluding Cuba)</u>	<u>79 534.4</u>	<u>144 507.5</u>	<u>5.4</u>	<u>5.7</u>	<u>6.7</u>	<u>6.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: ECLA, on the basis of official statistics.

/Table 2

Table 2  
LATIN AMERICA: RECENT ECONOMIC TRENDS

Period or year	Country	Index of regu- larity of eco- nomic growth a/	Gross domestic product b/			External sector			Invest- ment coeffi- cient (per- centage of gross domestic product)
			Total	Agri- cul- tural	Indus- trial c/	Export quantum	Import quantum	Current account balance (millions of dollars) at 1960 prices	
			Annual growth rate (percentages)			Annual growth rate (percentages)			
1960-1965	Argentina	99.1	4.4	3.6	5.6	5.0	0.6	-95.3d/	20.2
1965-1970			4.0	0.4	5.8	2.8	5.6	+51.5d/	19.7
1970			4.1	1.5	6.2	7.6	1.4	-126.0	21.4
1971			3.8	-2.6	5.6	-8.6	6.3	-400.8	24.3
1960-1965	Barbados e/	82.0	5.7	4.3	7.4	10.1	9.2	-9.9fd/	22.3g/
1965-1970			12.0	-0.5	12.1	6.9	12.1	-26.4fd/	...
1970			17.5	8.0	19.3	14.1	21.5	-51.1f/	...
1971			10.0	-5.7	12.5	6.6	11.3	-61.6f/	...
1960-1965	Bolivia	26.3	5.1	3.4	7.2	4.1	10.8	-35.1d/	16.7
1965-1970			6.0	1.4	7.6	10.7	4.1	-36.9d/	19.3
1970			5.2	4.9	6.8	5.7	-5.5	-19.6	19.3
1971			3.8	5.2	3.4	-0.2	5.5	-38.2	18.5
1960-1965	Brazil	53.4	4.5	5.8	3.6	3.3	-6.8	-196.0d/	17.7
1965-1970			7.5	3.2	10.4	9.5	18.1	-252.1d/	17.3
1970			9.5	5.6	11.1	6.0	15.6	-564.9	18.1
1971			11.3	11.4	11.2	8.8	21.3	-1 201.6	19.3
1960-1965	Colombia	22.3	4.6	2.8	4.9	2.9	-0.4	-112.8d/	19.2
1965-1970			5.8	4.8	7.0	5.6	10.1	-166.6d/	19.0
1970			6.8	4.5	8.2	-1.7	14.5	-248.7	20.3
1971			5.5	2.4	7.6	-0.3	-6.8	-287.9	18.9
1960-1965	Costa Rica	25.5	6.5	4.9	7.8	4.4	10.5	-30.4d/	21.9
1965-1970			6.9	5.0	8.5	12.9	10.1	-59.6d/	23.4
1970			6.6	2.0	9.2	4.5	24.2	-83.7	26.7
1971			5.0	5.0	6.5	11.9	10.1	-109.6	26.8
1960-1965	Chile	32.4	5.0	1.9	6.7	5.5	0.8	-177.6d/	18.0
1965-1970			3.7	2.5	3.5	1.7	9.8	-82.4d/	17.5
1970			3.1	5.0	0.8	-6.9	4.0	-81.4	17.4
1971			8.5	6.0	10.4	4.4	1.3	-202.2	14.8
1960-1965	Ecuador	38.6	4.4	2.7	5.8	7.7	5.7	-20.0d/	14.3
1965-1970			6.2	4.6	7.4	1.7	9.7	-61.2d/	15.4
1970			9.2	8.1	13.3	11.9	17.2	-110.3	18.5
1971			7.0	2.0	12.8	10.0	24.7	-119.7	19.3
1960-1965	El Salvador	47.2	6.8	4.0	10.1	12.9	9.4	-13.9d/	14.1
1965-1970			4.7	3.7	4.8	2.3	1.8	-20.7d/	13.8
1970			4.2	6.4	2.7	-0.3	0.9	-0.7	12.2
1971			3.3	3.4	3.4	0.9	9.0	-29.6	13.2
1960-1965	Guatemala	31.0	5.3	4.1	6.4	11.3	9.7	-27.5d/	10.5
1965-1970			5.0	3.0	7.9	7.2	4.5	-28.5d/	11.4
1970			5.6	3.8	7.6	0.7	9.3	-0.7	11.7
1971			4.8	3.9	6.6	0.6	3.7	-23.8	13.1
1960-1965	Guyana e/	169.8	4.5	3.1	7.0	7.9	7.1	-8.2fd/	20.4
1965-1970			7.6	3.6	10.5	4.4	3.8	-22.2fd/	22.3
1970			5.8	2.3	6.8	2.7	6.7	-21.1f/	21.1
1971			6.7	10.2	7.7	1.2	-0.2	-19.0f/	...

/Table 2 (concluded)

Table 2 (concluded)

Period or year	Country	Index of regularity of economic growth <u>a/</u>	Gross domestic product <u>b/</u>			External sector			Investment coefficient (percentage of gross domestic product)
			Total	Agricultural	Industrial <u>c/</u>	Export quantum	Import quantum	Current account balance (millions of dollars) at 1960 prices	
1960-1965	Haiti	634.8	-0.6	0.6	-1.0	-5.4	0.4	-11.7d/	6.2
1965-1970			1.8	1.3	4.0	1.3	0.9	-6.5d/	5.8
1970			4.7	0.2	16.2	-11.6	12.5	-3.6	6.9
1971			5.7	6.4	7.3	20.5	6.1	-1.9	7.0
1960-1965	Honduras	38.6	5.5	4.9	7.5	9.7	11.7	-7.5d/	15.4
1965-1970			5.5	3.9	7.8	7.2	11.3	-31.6d/	18.4
1970			3.0	2.2	1.8	3.1	17.4	-64.0	21.4
1971			4.3	4.4	4.9	6.3	-9.1	-35.5	16.3
1960-1965	Jamaica <u>h/</u>	54.2	4.7	2.4	5.3	6.9	6.3	-15.9fd/	20.0
1965-1970			5.2	0.8	5.8	8.3	11.7	-82.6fd/	23.9
1970			8.0	8.7	10.0	12.0	15.3	-148.6f/	25.5
1971			...	...	...	3.9	5.0	-163.2f/	27.0
1960-1965	Mexico	26.5	7.1	4.8	8.5	5.7	2.8	-275.3d/	19.5
1965-1970			7.1	2.8	8.8	5.3	10.2	-518.6d/	20.4
1970			7.7	5.6	8.3	-3.1	18.7	-855.4	21.0
1971			3.1	3.0	2.5	5.3	-3.3	-709.6	20.6
1960-1965	Nicaragua	49.6	10.2	11.5	14.9	16.6	17.5	-13.0d/	17.7
1965-1970			4.4	1.5	8.0	2.5	3.9	-47.1d/	20.2
1970			5.1	2.5	7.4	6.8	11.3	-43.6	19.2
1971			4.0	4.7	4.0	0.9	6.2	-50.3	20.2
1960-1965	Panama	22.4	8.3	6.7	11.4	11.7	10.9	-33.5d/	18.5
1965-1970			7.8	4.5	10.3	8.6	9.9	-44.0d/	22.4
1970			8.2	1.8	11.1	7.8	12.1	-77.6	25.4
1971			8.4	5.5	12.7	7.4	6.2	-76.3	25.3
1960-1965	Paraguay	40.4	5.0	4.6	6.3	5.3	5.6	-10.4d/	12.2
1965-1970			4.1	1.7	5.8	5.5	3.4	-22.6d/	15.0
1970			6.3	4.0	7.9	6.2	-11.2	-16.5	14.6
1971			4.5	1.8	9.4	0.3	4.2	-20.8	15.1
1960-1965	Peru	57.0	6.5	2.5	7.3	4.8	11.1	-40.2d/	21.9
1965-1970			3.3	1.3	4.1	3.3	2.9	-88.2d/	20.8
1970			7.5	7.0	10.1	7.6	6.6	+109.8	17.2
1971			6.0	1.0	7.3	-10.4	1.7	-76.4	13.4
1960-1965	Dominican Republic	182.0	1.0	-1.3	-0.4	-6.7	5.8	-10.3d/	15.8
1965-1970			6.6	4.4	11.7	8.0	15.7	-65.2d/	19.1
1970			5.5	3.6	6.8	15.9	18.0	-103.6	24.3
1971			7.4	7.5	9.0	8.3	15.4	-135.1	28.1
1960-1965	Trinidad and Tobago <u>e/</u>	58.1	6.3	0.5	4.6	8.3	8.5	-55.1d/	26.1
1965-1970			7.2	4.0	7.2	3.8	3.6	-43.4d/	21.5 <sup>1/</sup>
1970			4.8	1.3	1.2	0.3	8.3	-89.4	...
1971			6.9	1.2	4.5	10.3	15.4	-134.2	...
1960-1965	Uruguay	280.8	0.9	3.1	-0.5	9.5	-7.7	-18.5d/	15.1
1965-1970			1.4	0.8	2.4	-2.0	10.3	+13.2d/	12.9
1970			4.5	3.0	4.7	-8.2	17.0	-30.4	15.3
1971			-0.6	-0.2	-1.8	-13.8	-11.1	-39.8	14.7
1960-1965	Venezuela	40.7	7.3	5.1	4.8	3.7	-0.6	+316.1d/	16.9
1965-1970			3.9	4.9	2.6	2.2	3.9	-38.1d/	17.2
1970			4.6	4.6	3.7	3.1	1.5	-89.4	16.4
1971			5.3	4.1	-0.4	-4.8	4.5	+18.8	17.9

Source: ECLA, on the basis of official statistics.

a/ Index of regularity of growth rate of gross domestic product during the 1960's according to the formula

$$\frac{100}{F} = \sqrt{\frac{\sum_{i=1}^n (r_i - \bar{r})^2}{n}}$$

where  $r_i$  = growth rate for year "i"  
 $\bar{r}$  = average growth rate for the period, and  
 $n$  = number of periods

b/ At factor cost (the figures in absolute values are expressed in dollars at 1960 prices).

c/ This sector includes the following economic activities: mining, manufacturing and construction.

d/ Annual average.

e/ Growth rate of sectoral gross domestic product based on absolute figures expressed in national currency at current prices; figures for external sector expressed in dollars at current prices.

f/ Dollars at current prices.

g/ 1960-1964.

h/ Absolute figures for sectoral gross domestic product expressed in national currency at 1960 prices.

i/ 1965-1968.

Appendix to table 2

SALIENT DEVELOPMENTS IN 1970 AND 1971

Argentina

- 1970 - Reduction in livestock supply; increase in public investment; public sector undertaking to purchase locally produced goods; export promotion.
- 1971 - Sharp reduction in supply of livestock and cereals; maintenance of public sector expansion policy; decrease in exports and net outflow of capital.

Barbados

- 1970 - Sharp increase in sugar production; public spending policy; increase in income from tourism.
- 1971 - Smaller sugar output; increasing trade deficit; larger income from tourism; increase in public expenditure on construction.

Bolivia

- 1970 - Administrative reform, financial reorganization, State takeover of sugar and oil companies; contraction in inflow of capital; suspension of petroleum sales to United States; recovery of agriculture, manufacturing and mining of metalliferous ores.
- 1971 - Increase in agriculture due to favourable weather conditions; increase in petroleum production and exports; stagnation of mining of metalliferous ores and drop in metal prices resulting in deficit on current account; reduction in fiscal income; incentives to foreign capital.

Brazil

- 1970 - The motorvehicle and chemical industries and the demand deriving from public investment accounted for the vigorous growth of manufacturing; reduction in output of coffee but increases in other agricultural commodities; large inflow of non-compensatory capital.
- 1971 - Expansion of the motorvehicle industry and of public investment in infrastructure; increase in the production of coffee and other agricultural commodities; significant rise in imports; considerable current account deficit; large-scale inflow of non-compensatory capital; balance-of-payments surplus; export promotion policy.

Colombia

- 1970 - High coffee prices, decline in exports and rise in the value of imports; increased public investment and external credit; larger supply of industrial inputs; increase in deficit on current account; inflow of non-compensatory capital and surplus on balance of payments.
- 1971 - Drop in world coffee prices; reduction in agricultural production owing to weather conditions; trade deficit; net outflow of capital; public investment financed by external credit.

Costa Rica

- 1970 - Favourable world prices and increase in production of bananas, coffee and export livestock; maladjustment in production for the domestic market resulted in higher prices and an increase in imports; programme of expansion of domestic agriculture.
- 1971 - Slowing-up of the growth of exports owing to the Central American Common Market crisis; considerable increase in public investment; shift of private investment to livestock production and tourism; increase in domestic agriculture; rise in the current account deficit and net outflow of capital.

Chile

- 1970 - Drop in the price of copper and smaller net inflow of non-compensatory capital; balance-of-payments surplus; fiscal deficit due to expenditure on public works; recovery of agricultural production owing to favourable weather conditions; change of government in November and restructuring of economic policy.
- 1971 - Changes in ownership of large production sectors; policy of raising and redistribution income; increase in manufacturing production by utilizing idle capacity; substantial rise in real wages; reduction in unemployment; growth of imports for consumption; drop in copper prices and net outflow of capital; balance-of-payments deficit.

/Appendix (continued)

Appendix to table 2 (continued)

Ecuador

- 1970 - Increase in production of agricultural commodities; investment in oil and creation of export infrastructure, with impact on manufacturing production; reduction in current account deficit and significant increase in foreign investment.
- 1971 - Reduction in crops for domestic consumption and increase in export crops; industrial development laws; expansion of basic services and construction owing to foreign investment in oil, which counterbalanced the deficit on current account.

El Salvador

- 1970 - Significant increase in purchasing power of exports due to world coffee market conditions; inflow of capital for Acajutla refinery; financial incentives to housing construction.
- 1971 - Decline in coffee output; rise in production for home market; self-supply policy; increase in public investment in construction; Central American Common Market difficulties caused loss of momentum in private investment.

Guatemala

- 1970 - Growth of external demand; low cotton production and increase in commodities for domestic consumption; larger volume of public investment; establishment of Agricultural Development Bank.
- 1971 - Deterioration in external demand (Common Market problems) affected most production activities; substantial public investment; establishment; establishment of National Export Promotion Centre; larger supply of agricultural commodities for home consumption.

Guyana

- 1970 - Drop in sugar industry output; increase in bauxite production and exports; diversification of agricultural production.
- 1971 - Recovery of sugar production; majority share of Government in bauxite industry; devaluation in order to maintain parity with United States dollar.

Haiti

- 1970 - Excellent weather conditions favoured agricultural production; rise in public investment and imports; larger inflow of capital.
- 1971 - Growth of public investment in infrastructure: Port-au-Prince port and airport, hydro-electric plant, water supply system and road network; continued economic recovery.

Honduras

- 1970 - Return to normal conditions of activity after dispute with El Salvador; improved coffee prices; decline in trade with Central America.
- 1971 - Boom in export agriculture; weakness of domestic agriculture; reorientation of industry towards the home market; growth of banana exports; higher tariffs; import controls, net inflow of non-compensatory capital.

Jamaica

- 1970 - Buoyancy in bauxite and alumina production; increase in expenditure by Government and public services.
- 1971 - Decline in growth rate of mining; expansion of tourism.

Mexico

- 1970 - Boom in basic and construction industries; sharp increase in tourism; recovery of agriculture with increase in commodities for domestic consumption; changes in price policy; increased inflow of non-compensatory capital.
- 1971 - Incentives to exports; rise in certain taxes; curtailment of public investment; stricter monetary and credit controls; improvement in balance of payments; easing of inflationary pressures; weakness of consumer market; large-scale inflow of non-compensatory capital.

Appendix to table 2 (concluded)

Nicaragua

- 1970 - Industrial development programmes; improved coffee prices and larger volume of exports; government investment in public services.
- 1971 - Substantial public investment; high meat prices and strong demand from United States; recovery of export agriculture; reduction in sales to Central American Common Market; net inflow of autonomous capital.

Panama

- 1970 - Adverse weather conditions; growth of domestic demand on the basis of larger external resources (particularly loans from private foreign banks); significant increase in public spending.
- 1971 - Recovery of domestic agriculture decline in petroleum, banana and shrimp exports; sharp increase in tourism; net inflow of non-compensatory capital.

Paraguay

- 1970 - Rise in exports of timber, meat, vegetable oils and palmettos; improvement in agricultural output.
- 1971 - Unfavourable weather conditions leading to drop in production of some agricultural commodities; difficulties in world timber market; improved meat prices; substantial public investment; increased net external financing, with small increase in international reserves.

Peru

- 1970 - Substantial fisheries production owing to ecological and technical factors; increase in public investment; increased credit to industry; reduction in foreign investment; foreign exchange control; continuation of agrarian reform; government control of export trade in fish meal.
- 1971 - High degree of liquidity in traditional financial sector; establishment of machinery for financing: the purchase of goods; increase in disposable personal income; substantial public sector investment.

Dominican Republic

- 1970 - Bumper sugar harvest; inflow of capital (Falconbridge ferro-nickel); establishment of Agricultural Price Stabilization Institute; Agricultural Development Law; substantial public investment.
- 1971 - Favourable weather conditions; agricultural development policy; increased construction of dwellings; expansion of hotel accommodation; extension of road network and execution of irrigation, power, transport and communications projects.

Trinidad and Tobago

- 1970 - Absorption of unemployment through public works projects; State control of sugar industry and increased government share in petroleum industry; public sector took over banks and assumed control of basic industries.
- 1971 - Construction of housing, roads, hotels, schools and desulphurization plant; policy of absorption of unemployment and State control of the economy; fiscal incentives to industry.

Uruguay

- 1970 - Favourable weather conditions for agriculture; increase in production and rise in world beef prices; deterioration in real wages.
- 1971 - Adverse weather conditions; smaller volume of meat exports with impact on the meat packing industry; reduction in trade; deterioration in real wages; increased government spending.

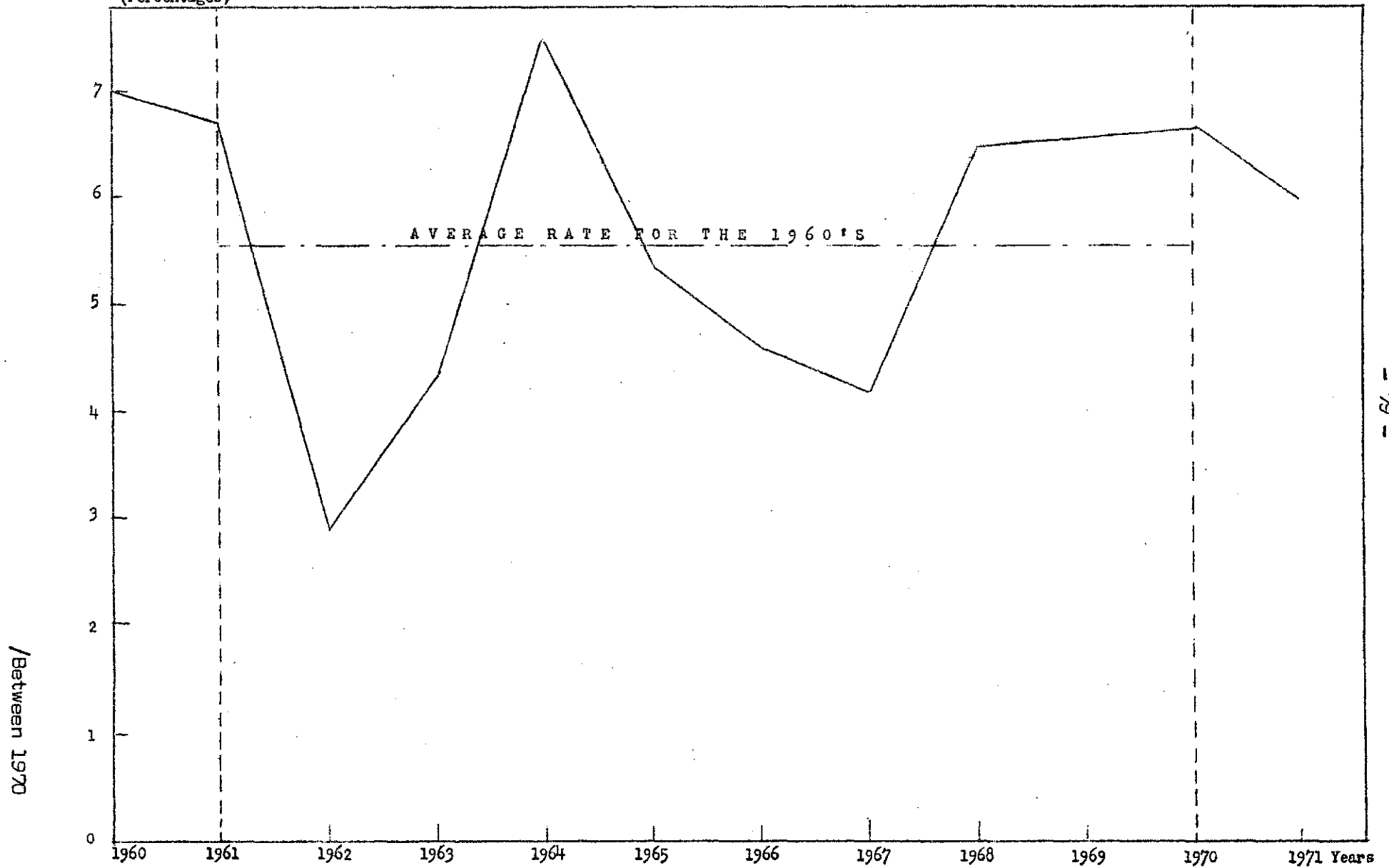
Venezuela

- 1970 - Increase in domestic agriculture; expansion of basic services; considerably increased net inflow of non compensatory capital.
- 1971 - Rise in hydrocarbon prices, with considerable improvement in balance of payments and fiscal revenue; substantial increase in public investment, means of payment and credit to private sector; reversion of goods and assets to the State upon expiring of oil concessions; exploitation of natural gas by Venezuelan Development Corporation; control of petrochemical industry.

Figure I

Annual rates of growth  
(Percentages)

LATIN AMERICA : ANNUAL FLUCTUATIONS IN RATE OF GROWTH



Between 1970 and 1971, the average per capita domestic product for Latin America increased by 3.0 per cent, i.e., less than the target of 3.5 per cent established in the International Development Strategy, which was equalled or surpassed by only five countries of the region (of the six referred to earlier in connexion with the overall GDP, Peru did not reach this target) (see table 3). This illustrates the effect of a population increase of nearly 3 per cent annually, which Latin America has been registering since the beginning of the 1960's and which is higher than the increase of 2.5 per cent considered in the International Development Strategy.

In a longer-term view, covering 1960 to 1971, it will be observed that seven Latin American nations (Barbados, Bolivia, Brazil, Costa Rica, Mexico, Nicaragua and Panama) exceeded the 2.6 per cent average annual growth rate of per capita GDP for the region. In two countries (Haiti and Uruguay) the per capita product dropped, while in the other fourteen the rate of increase recorded was between 0.7 per cent and 2.5 per cent annually. As may be seen from table 3, these different growth rates meant that between 1960 and 1971 there were important changes in the ranking of the Latin American countries according to their per capita GDP. It is worth adding that no degree of correlation was observed between rates of growth and levels of per capita product: the three groups shown in the table referred to contain cases of both slow and rapid growth.

It is obvious that a given percentage increase in the product has a different real meaning when applied to a country with a per capita product of 100, 1,000 or 3,000 dollars. In the case of Latin America, the overall rate of 3.5 per cent established in the International Development Strategy means, in fact, an addition to the annual per capita product of 36 dollars for each Argentinian, 3 dollars for each Haitian, and 18 dollars for the average Latin American. The same reasoning is valid for the different income levels which may occur within each country in regional terms and in terms of sectors of production and strata within the sectors. This makes it clear that, especially in countries out from very low levels and suffering from serious inadequacies, it is essential that, as stated in paragraph 18 of the International Development Strategy, "qualitative and structural changes in the society must go hand in hand with rapid economic growth, and existing disparities - regional, sectoral and social - should be substantially reduced".



Table 3

LATIN AMERICA: PER CAPITA GROSS DOMESTIC PRODUCT AT FACTOR COST

(Dollars at 1960 prices)

	1960	1971	Growth rate in 1971	Average growth rate 1960-1971	Increase absolute terms between 1960 and 1971
<u>Latin America</u>	391	519	3.0	2.6	128
<u>Over 600 dollars</u>					
Argentina	792	1 043	2.4	2.5	251
Venezuela	669	844	1.8	2.1	175
Panama	429	710	4.9	4.7	281
Trinidad and Tobago	608	687	1.3	1.1	79
Mexico	486	683	-0.3	3.1	197
Uruguay	696	675	-1.7	-0.3	-21
Chile	498	644	6.6	2.4	146
<u>400 to 600 dollars</u>					
Costa Rica	399	556	2.0	3.1	157
Jamaica	371	456	-	1.9	85
Barbados	300	451	1.6	3.8	151
<u>Under 400 dollars</u>					
Brazil	268	392	8.3	3.5	124
Peru	313	383	2.7	1.9	70
Colombia	311	377	1.9	1.8	66
Nicaragua	236	357	0.6	3.8	121
Guatemala	276	340	1.8	1.9	64
Ecuador	261	325	3.5	2.0	64
El Salvador	254	324	-0.3	2.2	70
Guyana	273	304	1.7	1.0	31
Paraguay	245	278	1.1	1.2	33
Dominican Republic	205	221	3.8	0.7	16
Honduras	178	219	0.9	1.9	41
Bolivia	147	203	1.0	3.0	56
Haiti	96	83	2.5	-1.3	-13

Source: ECLA, on the basis of official statistics.

/In other

In other words, in tackling the problem of massive and "abject" poverty - as the International Development Strategy puts it - it is not only important to speed up the rate of growth of the economy, but it is also imperative to achieve a fairer distribution of income and riches. Furthermore, as stated in paragraph 7 of the Strategy, "the ultimate objective of development must be to bring about sustained improvement in the well-being of the individual and bestow benefits on all. If undue privileges, extremes of wealth and social injustices persist, then development fails in its essential purpose".

(b) Characteristics and structure of growth

Looking at Latin American growth in terms of all the sectors of production over a relatively long period of time - trends in the major sectors will be considered in more detail in a later section - it can be seen that between 1960 and 1971 the regional product grew by some 82 per cent. Over this period, however, the agricultural product grew by only 47.4 per cent, while the industrial product grew by 98 per cent, basic services by 105.3 per cent and other services by 82.4 per cent. The immediate effect of these movements was a decline in the share of agriculture in the total product from 19.9 per cent in 1960 to 16.4 per cent in 1970 and 16.2 per cent in 1971. The share of industry in the total product, on the other hand, increased from 29.5 per cent in 1960 to slightly more than 32 per cent in 1970 and 1971. Over the same period, the share of basic services rose from 7.3 to 8.2 per cent. Other services grew at roughly the same pace as the total product, and thus their share remained at slightly over 43 per cent. The manufacturing sector was the most dynamic component of growth, and its share in the total product rose from 21.7 per cent in 1960 to close to 25 per cent in 1971. The share of construction remained constant at about 3.4 per cent, while that of mining, which grew less rapidly than the total product, fell from 4.4 per cent in 1960 to 4.1 per cent in 1970 and 3.9 per cent in 1971 (see table 4).

Within these overall figures there are substantial differences between individual countries. The decline in the share of agriculture was, however, fairly widespread except in Uruguay and Haiti, where the share of agriculture rose between 1960 and 1971, by 7.3 per cent in Uruguay and by 1.6 per cent in Haiti. It should be noted here that these are the only two countries in the region whose per capita product declined in absolute terms during the 1960's. Table 5 shows by country the rate of the changes that occurred in the share of agriculture in the total product between 1960 and 1971, and the size of the share of agriculture in 1971.

Table 4

LATIN AMERICA<sup>a/</sup> STRUCTURE OF GROSS DOMESTIC PRODUCT BY ECONOMIC SECTOR  
(Percentages)

Sector	1960	1970	1971	Total percentage increase between 1960 and 1971
1. Agriculture	19.9	16.4	16.2	47.4
2. Industry	29.5	32.2	32.1	98.0
a) Mining	4.4	4.1	3.9	59.3
b) Manufacturing	21.7	24.6	24.8	108.1
c) Construction	3.4	3.5	3.4	84.7
3. Basic services	7.3	8.1	8.2	105.3
4. Other services	43.3	43.3	43.5	82.4
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>82.2</u>

Source: ECLA, on the basis of official statistics.

a/ Excluding Cuba and the Caribbean.

Table 5

LATIN AMERICA: SHARE OF AGRICULTURE IN GROSS DOMESTIC PRODUCT

Country	1971 Share of gross domestic product (percentage)	1960-1971 Change in share of gross domestic product (percentage)
1. Venezuela	6.6	-7.0
2. Chile	9.4	-22.3
3. Mexico	12.1	-27.1
4. Argentina	12.6	-24.1
5. Peru	17.5	-27.4
6. Brazil	19.1	-13.6
7. Panama	19.3	-22.5
8. Uruguay	20.7	7.3
9. Costa Rica	22.6	-16.0
10. Bolivia	22.8	-25.5
11. Dominican Republic	25.4	-19.6
12. Guatemala	26.1	-15.9
13. El Salvador	27.3	-16.0
14. Colombia	28.9	-15.2
15. Nicaragua	29.4	-3.0
16. Ecuador	29.9	-18.7
17. Paraguay	32.8	-15.7
18. Honduras	33.3	-10.5
19. Haiti	49.3	1.6
<u>Latin America</u>	<u>16.2</u>	<u>-18.6</u>

Source: ECLA, on the basis of official statistics.

/On the

On the basis of the share of agriculture in the total product, the Latin American countries can be classified into three categories. The first category, where this share is 25 per cent or less, includes Argentina, Brazil and Mexico, together with Chile, Peru, Venezuela, Uruguay, Bolivia, Costa Rica and Panama. The second category includes countries in which the share of agriculture is around 30 per cent, and comprises four members of the Central American Common Market (El Salvador, Guatemala, Nicaragua, and Honduras), three South American countries (Colombia, Ecuador and Paraguay), and the Dominican Republic. The last category contains Haiti, where the share of agriculture approaches half the total product. The largest decreases during the 1960's in the share of agriculture in the total product took place in the countries in the first category.

At the same time, there was a general trend towards an increase in the share of both industry and basic services. Table 6 shows the changes that took place in the period 1960-1971 and the proportion of the total product generated by these two sectors in 1971. In general, the share of industry and basic services grew most rapidly in the countries in which industrialization began relatively recently and which are still at the "easy" stage of import substitution. This is the case of the Central American countries, Bolivia, Ecuador and Paraguay, where the share of industry in the total product ranged between 16 and 26 per cent (the high figure of 31 per cent recorded for Bolivia is attributable to the large share of mining in that country's total). In the countries at a more advanced stage of industrial development, such as Argentina, Brazil, Mexico, Peru, Colombia and Chile, where the share of industry ranged between 27 and 42 per cent in 1971, the changes were more modest. Exceptions are Haiti, where the share of industry changed little even though it is in the early stages of industrialization, and Uruguay and Venezuela, where the share of industry declined.

The picture is much the same with basic services, although the relations do not show up quite so clearly as with industry.

The sector "other services", in contrast to industry and basic services, appears in most countries to have remained stationary or even reduced its share in the total product. Moreover, in the five countries where the share of other services did rise somewhat, the level is still below the average for the region. The exception here is Venezuela, which recorded the highest increase proportionally between 1960 and 1971, even though other services accounted for 53.5 per cent of the product in 1971 (see table 7).

Table 6

## LATIN AMERICA: SHARE OF INDUSTRY AND BASIC SERVICES IN THE GROSS DOMESTIC PRODUCT

(Percentage)

Degree of change	Industry			Basic services		
	Country	1971 Share of gross domestic product	1960-1971 Change in share of gross domestic product	Country	1971 Share of gross domestic product	1960-1971 Change in share of gross domestic product
<u>Sharp increase</u>	Nicaragua	21.6	49.0	Dominican Republic	8.7	50.0
	Panama	25.7	34.6	Chile	11.9	41.7
	Guatemala	16.0	24.0	Honduras	10.6	30.9
	Honduras	21.8	21.8	Venezuela	7.0	29.6
	Paraguay	23.1	20.3	Panama	9.2	27.8
	Dominican Republic	22.5	19.7	Guatemala	6.1	27.1
	Ecuador	26.2	19.6	El Salvador	7.7	24.2
	Bolivia	30.9	18.4	Paraguay	5.5	22.2
	El Salvador	20.7	18.3	Haiti	4.6	21.1
<u>Moderate increase</u>	Argentina	42.5	17.4	Mexico	5.0	16.3
	Costa Rica	24.8	15.3	Colombia	8.7	16.0
	Mexico	32.6	15.2	Costa Rica	6.5	14.0
	Peru	33.2	10.2	Brazil	10.4	13.0
	Brazil	27.2	10.1	Nicaragua	8.0	9.6
	Colombia	27.0	9.9	Peru	5.9	9.3
	Haiti	15.9	8.9	Argentina	9.8	6.5
	Chile	40.4	7.4	Uruguay	9.2	2.2
<u>Decrease</u>	Uruguay	25.3	-4.2	Ecuador	5.3	-1.9
	Venezuela	32.9	-21.3	Bolivia	9.9	-2.9
	<u>Latin America</u>	<u>32.1</u>	<u>8.8</u>	<u>Latin America</u>	<u>8.2</u>	<u>12.3</u>

Source: ECLA, on the basis of official statistics.

Table 7

LATIN AMERICA: SHARE OF OTHER SERVICES IN GROSS DOMESTIC PRODUCT

(Percentage)

Degree of change	Country	1971 Share of gross domestic product	1960-1971 Change in share of gross domestic product
<u>Sharp increase</u>	1. Venezuela	53.5	17.1
<u>Moderate increase</u>	2. Bolivia	36.4	10.0
	3. Ecuador	38.6	7.5
	4. Peru	43.4	7.4
	5. Colombia	35.4	5.4
	6. Paraguay	38.6	3.2
<u>Unchanged</u>	7. El Salvador	44.3	1.1
	8. Costa Rica	46.1	0.4
	9. Guatemala	51.8	-0.4
	10. Dominican Republic	43.4	-0.9
	11. Mexico	50.3	-1.0
	12. Uruguay	44.8	-1.1
	13. Brazil	43.3	-1.6
<u>Decrease</u>	14. Panama	45.8	-6.3
	15. Honduras	34.4	-6.5
	16. Argentina	35.1	-7.6
	17. Chile	38.3	-8.6
	18. Haiti	30.2	-8.8
	19. Nicaragua	41.0	-14.4
	<u>Latin America</u>	<u>43.5</u>	<u>0.5</u>

Source: ECLA, on the basis of official statistics.

/Taking another

Taking another vantage point to examine the trend of growth in Latin America, it is found that total supply and demand in the region - excluding Cuba and the English-speaking Caribbean countries - grew at much the same pace in 1971 as in the period 1965-1970, although less rapidly than in 1970. On the total supply side, the gross domestic product and imports grew at much the same rate: imports substantially outpaced the product in the period 1965-1970, but the reverse had been the case in the period 1960-1965. On the total demand side, noteworthy aspects were the rapid growth of gross investment and the slow growth of exports, combined with a moderate increase in consumption, general government and private consumption expanding at a very similar rate (see table 8). Later sections will look in more detail at movements in the savings investment ratio, consumption and external variables.

(c) Inflationary pressures

Although the IDS does not refer specifically to inflation, this is a problem which in recent years has accompanied development in a growing number of developing and also developed countries, although in differing degrees. In many respects, and in many countries, the analysis of economic growth can therefore not be divorced from the study of inflation, particularly now that the developing world is "importing" inflationary pressures generated in the industrialized countries on an appreciable scale.

During the period 1971-1972, the region continued to contain a wide range of inflationary situations that can be classified into countries with a high rate of inflation, those with a moderate rate of inflation, and those with relative stability, although some of the countries that formerly enjoyed relative stability have in recent years joined those with a moderate rate of inflation, as their rate of inflation has increased compared with the 1960's (see table 9).



Table 8

LATIN AMERICA:<sup>a/</sup> TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1960 prices				Percentage structure				Annual growth rates			
	1960	1965	1970	1971	1960	1965	1970	1971	1960-1965	1965-1970	1970	1971
<u>Total supply</u>	<u>94 801.6</u>	<u>120 787.8</u>	<u>161 905.6</u>	<u>171 873.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>5.0</u>	<u>6.0</u>	<u>7.1</u>	<u>6.1</u>
Gross domestic product	85 488.9	110 885.8	146 741.6	155 812.2	90.2	91.8	90.6	90.7	5.3	5.7	6.8	6.1
Imports b/	9 312.7	9 902.0	15 164.0	16 060.8	9.8	8.2	9.4	9.3	1.2	8.9	10.1	5.9
<u>Total demand</u>	<u>94 801.6</u>	<u>120 787.8</u>	<u>161 905.6</u>	<u>171 873.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>5.0</u>	<u>6.0</u>	<u>7.1</u>	<u>6.1</u>
Exports b/	9 460.5	11 950.3	14 969.0	15 145.6	10.0	9.9	9.3	8.8	4.8	4.6	2.6	1.2
Gross domestic investment <sup>c/</sup>	16 405.5	20 603.5	28 361.4	31 347.9	17.3	17.1	17.5	18.2	4.7	6.6	7.8	10.5
Total consumption	68 935.6	88 234.0	118 575.2	125 379.5	72.7	73.0	73.2	73.0	5.1	6.1	7.6	5.7
General government	8 417.1	10 154.8	13 654.8	14 412.1	8.9	8.4	8.4	8.4	3.8	6.1	6.8	5.5
Private	60 518.5	78 079.2	104 920.4	110 967.4	63.8	64.6	64.8	64.6	5.2	6.1	7.7	5.8

Source: ECLA, on the basis of official statistics.

a/ Excluding Cuba and the Caribbean.

b/ Goods and services, excluding factor payments. Figures taken from balance of payments tables in expressed dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

c/ Includes variations in stocks.

Table 9

LATIN AMERICA <sup>a/</sup>: VARIATIONS IN CONSUMER PRICE INDEXES

	Annual rates <sup>b/</sup> (percentages)				Number of months covered
	1961-1965	1966-1970	1971	1972 <sup>c/</sup>	
<b>1. Marked inflation</b>					
Argentina	23.0	19.4	34.7	56.5	10 months
Brazil	62.0	28.0	21.1	18.6	8 months
Chile	26.5	26.0	20.1	77.8	12 months
Uruguay	29.5	60.0	23.9	68.3	10 months
<b>2. Moderate inflation</b>					
Barbados	1.8	5.1	7.5	11.4	7 months
Bolivia	5.1	6.0	1.2	3.8	6 months
Colombia	12.4	10.0	9.1	13.4	9 months
Ecuador	4.4	4.7	8.3	7.8	7 months
Jamaica	2.9	5.3	6.8	4.8	6 months
Peru	9.2	9.8	6.8	7.4	9 months
<b>3. Relative stability</b>					
Costa Rica	2.2	2.4	3.0	3.4	7 months
El Salvador	0.2	1.1	0.3	-0.6	3 months
Guatemala	0.2	1.5	0.6	0.9	8 months
Guyana	1.8	2.6	2.1	3.4	4 months
Haiti	3.8	1.6	10.3	2.1	3 months
Mexico	1.8	3.5	3.3	5.5	9 months
Panama	0.8	1.6	1.8	4.4	6 months
Venezuela	1.4	1.5	2.7	3.2	6 months
<b>4. Relative stability with increasing inflation in the last two years</b>					
Honduras	2.6	1.7	0.2	8.4	6 months
Paraguay	5.1	1.3	4.9	8.7	8 months
Dominican Republic	2.6	1.0	2.3	9.4	7 months
Trinidad and Tobago	2.3	3.8	3.4	9.7	7 months

Source: ECLA, on the basis of official data.

a/ Excluding Cuba and Nicaragua.

b/ Average to average.

c/ Rates estimated by comparing the average index for the period available for 1972 with the same index for the same period in 1971. The periods compared appear in the last column.

/Among the

Among the countries with a high rate of inflation, the rate accelerated in Argentina, Chile and Uruguay, and fell in Brazil. In 1971, Argentina recorded an average rate of 34.7 per cent, almost double its annual average for the period 1965-1970, and the upward trend was accentuated throughout 1972. The rate of inflation in Brazil gradually fell, attaining an annual average of 21.1 per cent in 1971, which was less than the average during the period 1965-1970, and it continued to fall in the first half of 1972. Chile managed in 1971 to hold down its chronic inflation to an average of 20 per cent; but inflation accelerated rapidly in 1972. Retail prices in Uruguay increased at a rate of 23.9 per cent in 1971 - much less than the annual average of 60 per cent in the period 1965-1970 - but in the early months of 1972 this trend was reversed.

Among the countries having a moderate rate of inflation, Colombia maintained a rate similar to its annual average during 1965-1970, although slightly lower than in 1971, but there was a clear upward trend in the first part of 1972. In Peru, the rate of 6.8 per cent for 1971 was an improvement over 1970 but the trend reversed in the first few months of 1972. The opposite happened in Jamaica, In Ecuador, inflation quickened its pace with rates close to 8 per cent for 1971-1972. In Bolivia, which had held down inflation in 1971 and the first half of 1972, there were significant price increases following the devaluation in the last quarter of 1972. Other countries which experienced inflation that was moderate in 1972 but higher than in 1971 were Barbados, Honduras, Paraguay, the Dominican Republic and Trinidad and Tobago.

In most of the countries enjoying relative stability, too, increases in consumer prices picked up speed in the period 1971-1972. This was the case in Costa Rica, Haiti, Mexico, Panama and Venezuela. The reverse was the case, however, in El Salvador and Guatemala while there was virtually no change in Guyana.

Inflationary situations of the kind observed during the period 1971-1972 are to a large extent the manifestation of medium- and long-term imbalances. But the special circumstances of the international monetary system must have exerted an influence too. Be that as it may, the main contributory factors in the countries with high rates of inflation are associated with exchange and tariff measures designed to regulate foreign trade; with the growth of the money supply accompanying

/fiscal deficits

fiscal deficits and the expansion of credit; and with the "realignments" of prices and wages designed to offset the redistributive effect of the the operation of other factors. As regards exchange measures, in Argentina and particularly Chile, devaluations were few but very substantial, while Brazil and Uruguay maintained a system of mini-devaluations. In Brazil, moreover, restrictions on the external sector were attenuated by the large inflow of non-compensatory capital.

As regards the fiscal budget, the largest deficits in the period 1971-1972 would appear to have been run by Chile and Uruguay, and were financed by means of large issues by the monetary authorities. In Argentina, the fiscal deficit appears to have shrunk during the first half of 1972, as did the volume of credit granted by the Central Bank, while in Brazil the fiscal deficit recorded in 1971 was appreciably reduced and the fiscal budget even moved into surplus in the early months of 1972. Brazil directed the expansion of the money supply mainly towards the private sector, principally in order to finance the expansion of demand.

As regards wages, wage increases in 1971-1972 were generally in line with the increase in the cost of living within the usual pattern of the wage-price spiral, although the average wage in industry in Argentina and Uruguay declined in real terms. The average industrial wage increased in Brazil, largely because of the fact that workers shared in the sizeable rise in productivity. At the same time, industrial wages moved further ahead of agricultural wages. Worthy of note is the significant redistribution of income that took place in Chile in 1971 and substantially increased real wages, although these were to some extent affected by the strong inflationary pressures of the second half of 1972.

### 3. Savings, investment and consumption

#### (a) Savings

During the period 1970-1971, domestic savings formation in Latin America represented 17.7 per cent of the gross domestic product and accounted for 90 per cent of gross domestic capital formation, the remaining 10 per cent being financed by external savings <sup>2/</sup>, which represented only 2 per cent of the gross product. This situation was not very much different from that prevailing at the beginning of the 1960's, when the domestic savings rate was slightly higher and the external savings rate slightly lower (see table 10). In other words, in the period 1960-1970 domestic savings increased at roughly the same pace as the product, although in 1971 they grew slightly more rapidly (7.1 per cent as opposed to 6.1 per cent for the product). For its 1980 target ratio of gross domestic savings to the gross product in the developing countries, the IDS sets a figure of 20 per cent, noting that the ratio should increase from the levels prevailing in 1970 at an annual average rate of 0.5 per cent. Although Latin America is in a more favourable position than other developing countries - except those of southern Europe - as regards achieving this target, the trends recorded and even the more favourable position achieved in 1971 should be examined in relation to other technical appraisal criteria and objectives which are essential to Latin American development.

It is well known that the least developed among the developing countries find it particularly difficult to devote a significant and growing proportion of their product to the formation of savings, especially in cases where minimum consumption absorbs a large proportion of the income available. This difference between countries at different stages of development is also noticeable in Latin America. With the exception of Chile and Uruguay, the remainder of the relatively more developed countries showed the highest savings coefficients in the region, ranging from about 17 per cent in Brazil and Colombia to 22 per cent in Argentina, with Costa Rica, Mexico, Panama, Peru and Venezuela falling between these two figures. El Salvador, Guatemala and Honduras occupy the lower end of the scale, with ratios of 11 per cent or less, to say nothing of Haiti where domestic savings only represented 3.8 per cent of the gross product.

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<sup>2/</sup> The term "external savings" in national accounts relates to the balance-of-payments balance on current account.

Table 10

LATIN AMERICA: CHANGES IN THE COEFFICIENTS OF DOMESTIC AND EXTERNAL SAVINGS  
AND THEIR SHARE IN TOTAL INVESTMENT

(Percentages)

	Domestic savings/GDP		External savings/GDP		Domestic savings Investment	
	1960-1961	1970-1971	1960-1961	1970-1971	1960-1961	1970-1971
Argentina	19.8	22.0	2.1	1.0	90.4	95.8
Bolivia	8.4	15.6	5.1	3.3	62.0	82.2
Brazil	16.6	16.7	1.7	2.1	90.6	89.0
Colombia	19.0	16.5	2.1	3.1	90.1	84.3
Costa Rica	16.0	17.6	3.5	9.2	81.8	65.6
Chile	12.4	13.9	5.7	2.2	68.4	86.5
Ecuador	13.3	12.3	2.0	7.5	86.9	62.3
El Salvador	11.8	10.7	2.2	2.1	84.0	83.5
Guatemala	7.4	10.9	2.1	1.6	77.7	87.2
Haiti	1.6	3.8	3.8	3.3	29.2	54.5
Honduras	14.1	10.4	-0.5	8.3	103.9	55.5
Mexico	17.9	18.6	1.5	1.4	92.4	89.6
Nicaragua	12.2	13.5	2.3	6.3	83.1	68.8
Panama	11.7	18.5	6.0	6.9	66.3	72.9
Paraguay	9.2	12.2	2.9	2.8	76.8	81.8
Peru	22.2	17.9	-	-	99.9	100.6
Dominican Republic	17.2	14.8	-5.5	11.5	147.6	56.4
Uruguay	15.1	13.4	2.5	1.6	85.9	89.4
Venezuela	26.0	17.5	-9.1	-0.3	153.5	101.8
<u>Latin America (excluding Cuba and the Caribbean)</u>	<u>17.9</u>	<u>17.7</u>	<u>1.2</u>	<u>2.0</u>	<u>93.5</u>	<u>89.9</u>

Source: ECLA, on the basis of official data.

/Although, as

Although, as stated above, the savings coefficient for the region as a whole remained virtually constant between 1960-1961 and 1970-1971, substantial changes occurred in individual countries. While the coefficient rose appreciably in Bolivia, Guatemala, Haiti and Panama, it dropped sharply in other countries, notably the Dominican Republic and Venezuela. In general, the country-by-country figures show frequent sizeable fluctuations, in both directions, in the domestic savings coefficient.

The growth of the share of external savings in the financing of investment that took place between 1960-1961 and 1970-1971 is attributable to developments in a few countries in the region, namely, Colombia, Costa Rica, Ecuador, Honduras, Nicaragua, the Dominican Republic and Venezuela. Particularly noteworthy in this respect is Venezuela, which did not have recourse to external savings in either period but whose current account surplus fell between 1960-1961 and 1960-1971. In all remaining countries, external savings either remained a relatively stable quantity or fell relative to investment (see table 10).

(b) Investment

In 1971, the gross domestic investment coefficient in the region, excluding Cuba and the English-speaking Caribbean countries, was 20.1 per cent of the gross product. This was higher than in 1970 and represents to some extent a change in the trend of the 1960's, when the coefficient fluctuated around the 19 per cent mark. As with other indicators, there are sizeable differences between countries. Taking the figures for 1971, six countries (Argentina, Costa Rica, Mexico, Nicaragua, Panama, and the Dominican Republic) were above the regional average, while five countries had a coefficient of less than 15 per cent, notable among them being Haiti with a figure of 7 per cent. The remaining eight countries had coefficients ranging between 15 and 20 per cent (see table 11).

Table 11

LATIN AMERICA: EVOLUTION OF GROSS DOMESTIC INVESTMENT AND SHARE OF THE PUBLIC SECTOR  
(Percentage)

Country	Total investment/GDP				Rate of growth of investment				Public investment	
	1960	1965	1970	1971	1960-1965	1965-1970	1970	1971	Total investment	Total investment
									1960/1961	1969/1970
Argentina	21.6	19.5	21.4	24.3	2.3	5.9	5.8	18.4	24.5	40.7
Bolivia	15.1	19.6	19.3	18.5	10.8	5.8	4.6	-0.7	44.8	58.5
Brazil	18.4	18.1	18.1	19.3	4.1	7.5	10.4	19.0	39.2	52.0
Colombia	20.5	17.8	20.3	18.9	1.8	8.5	14.2	-1.1	16.7	34.4
Costa Rica	19.2	27.5	26.7	26.8	14.6	1.1	31.2	5.6	21.6	23.5
Chile	17.4	18.4	17.4	14.8	6.3	2.6	-0.7	-7.7	38.0	55.9
Ecuador	15.2	13.4	18.5	19.3	1.6	13.3	16.3	21.7	46.7	26.0
El Salvador	15.5	15.5	12.2	13.2	7.0	6.9	6.7	11.9	23.1	22.8
Guatemala	10.3	11.8	11.7	13.1	8.1	4.9	29.4	17.3	27.3	20.8
Haiti	5.8	6.1	6.9	7.0	0.5	4.3	24.7	7.9	...	...
Honduras	14.5	16.5	21.4	16.3	8.2	11.1	18.9	-20.9	23.8	33.9
Mexico	20.1	19.8	21.0	20.6	6.8	8.3	7.2	1.4	34.3	34.7
Nicaragua	14.4	20.9	19.2	20.2	18.7	2.6	1.8	9.5	25.2	28.8
Panama	16.3	18.3	25.4	25.3	10.7	15.1	16.1	8.2	23.6	21.8
Paraguay	12.4	14.7	14.6	15.1	8.7	4.4	0.5	8.3	29.7	27.3
Peru	21.6	22.4	17.2	18.4	7.3	2.1	6.1	13.4	16.6	21.2
Dominican Republic	13.1	12.4	24.3	28.1	-0.1	22.0	28.6	23.9	53.3	37.4
Uruguay	17.6	10.5	15.3	14.7	-9.0	9.3	2.9	-4.9	17.9	27.4
Venezuela	17.6	17.5	16.4	17.9	7.2	2.6	-1.6	15.1	39.0	34.9
<u>Latin America</u> (excluding Cuba and the Caribbean)	<u>19.2</u>	<u>18.6</u>	<u>19.3</u>	<u>20.1</u>	<u>4.6</u>	<u>6.6</u>	<u>7.8</u>	<u>10.5</u>	<u>29.1</u>	<u>36.3</u>

Source: ECLA, on the basis of official data.

/Turning now



Turning now to the trend in the absolute values of domestic investment, it is found that for the region as a whole the growth rate picked up momentum appreciably from 1965 onwards and gathered even more speed in 1970 and 1971. In this connexion the countries of the region can be classified into three categories. In the first of these, which includes Argentina, Brazil, Ecuador, and to a lesser extent El Salvador, domestic investment grew steadily at an adequate rate. In the second, comprising Colombia, Haiti, Honduras, Mexico, Paraguay, the Dominican Republic and Uruguay, investment grew more rapidly in 1965-1970 than in 1960-1965, but the rate of growth tapered off, starting in 1970 in Mexico and Uruguay and in 1971 in the rest. The third category includes the countries in which the growth rate of gross domestic investment slackened from 1965 onwards. In some (Bolivia and Chile), the downward trend was maintained in 1971, while in others the trend was reversed starting in 1970 (Costa Rica, Guatemala and Peru), or in 1971 (Nicaragua, Paraguay and Venezuela). Gross fixed investment followed much the same trend as total investment, although some changes occurred reflecting the extent of changes in stocks.

Between 1960-1961 and 1969-1970, the share of public investment in total investment rose from 29.1 per cent to 36.3 per cent for the region as a whole. The only countries departing from this general trend to any significant extent were Ecuador, Guatemala, the Dominican Republic and Venezuela, since the relative decreases in El Salvador, Panama and Paraguay were negligible. In some countries, moreover, the increase in the share of public investment was rapid, bringing this share in 1969-1970 to more than 50 per cent of total investment in Bolivia, Brazil and Chile, more than 40 per cent in Argentina, and over 30 per cent in Colombia and Honduras (see table 11).

(c) Consumption

In 1971, total consumption expenditure in the region as a whole maintained roughly the same rate of growth as in the period 1960-1970. In eight countries the rate speeded up, in nine it slackened and in the other two it remained stationary. The greatest increases occurred in Brazil, Haiti and Chile (see table 12). Between 1960 and 1971, total consumption remained about 73 per cent of total demand, while the shares of general government and private sector consumption in the total did not change between 1965 and 1970-1971 (see table 8).

Table 12

LATIN AMERICA: EVOLUTION OF TOTAL CONSUMPTION

(Annual rates of growth in percentages)

	1960-1970	1971
<u>Countries which increased their rate of growth in 1971</u>		
Brazil	5.9	10.5
Colombia	5.3	6.2
Chile	4.6	10.9
Ecuador	5.3	6.6
Haiti	0.8	4.2
Panama	7.1	7.8
Dominican Republic	4.9	5.4
Venezuela	6.0	8.0
<u>Countries whose rate of growth declined in 1971</u>		
Argentina	4.1	1.0
Bolivia	5.3	4.8
Costa Rica	6.4	4.8
El Salvador	5.8	3.9
Guatemala	4.7	3.7
Honduras	5.8	4.0
Nicaragua	7.1	4.4
Mexico	7.1	2.8
Uruguay	1.1	-0.1
<u>Countries which maintained their rate of growth in 1971</u>		
Paraguay	4.4	4.3
Peru	6.0	6.3
<u>Latin America</u> (excluding Cuba and the Caribbean)	5.6	5.7

Source: ECLA, on the basis of official data.

/With respect

With respect to the structure of personal consumption, i.e., the proportion of expenditure by individuals on consumer goods from the different sectors, although there are no data for the region as a whole, some examples may be cited. At the end of the 1960's, the proportion of expenditure on foodstuffs was around 35 per cent in Argentina and Chile, and close to 40 per cent in Mexico. These proportions showed a declining trend over the decade. The proportion of expenditure on manufactured consumer goods (durables and semi-durables) amounted to one-quarter in Argentina and Chile, and slightly over 20 per cent in Mexico. Expenditure on services (rents, gas, water, etc.) amounted to about 30 per cent in all three countries, with a marked upward trend in Argentina and a more moderate upward trend in Mexico, whereas in Chile the proportion of such expenditure declined. In Brazil, the proportion of expenditure on foodstuffs appears to have remained constant during the 1960's, while that of expenditure on clothing declined. In contrast, the proportion devoted to purchases of manufactured consumer durables and semi-durables appears to have increased sharply.

#### 4. Evolution of the productive sectors: some outstanding features

##### (a) The industrial sector

(i) The dynamism of industrial growth and the target set by the International Development Strategy Latin American industry expanded steadily during the first two years of the 1970's. In 1971 the annual growth rate was 7.2 per cent, almost exactly the same as for 1965-1970 and rough estimates suggest that the figure for 1972 will be over 9 per cent (see table 13). This would mean that the average for these first two years will be up to the 8 per cent target set for this sector in the International Development Strategy, which is comparable to a rate of 6 per cent for the total product.

The evolution of the region's industrial sector displays two characteristic features: a notable irregularity in the annual pattern of production, and a moderate tendency for the rate of development to increase <sup>3/</sup> However, a closer look is needed at these results, which are encouraging in terms of the target itself, in order to better appreciate the contribution of industrial expansion to the overall process of economic and social development and the extent to which the sector is fulfilling the broad objectives assigned to it.

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<sup>3/</sup> The mean deviation of the annual growth rates from the average rate of 6.9 per cent was 38 per cent for the decade as a whole. Broken down into two five-year periods, the rate rose from 6.4 per cent in the first to 7.3 per cent in the second (and to slightly more than 8 per cent in 1971-1972).

Table 13

LATIN AMERICA: RATE OF INDUSTRIAL GROWTH  
(Annual rates in percentages)

	1960- 1970	1960- 1965	1965- 1970	1971	1972 <sup>a/</sup>
<u>Latin American average</u>	6.9	6.4	7.3	7.2	(9.0-10.0)
<u>More than 8 per cent</u>					
Nicaragua	12.6	15.8	9.6	7.9	...
Panama	11.2	12.6	9.9	12.0	...
Mexico	9.1	9.4	8.9	4.2	7.5
Costa Rica	8.8	8.2	9.5	6.2	10.2
<u>Around 8 per cent</u>					
El Salvador	8.2	10.7	5.7	2.9	3.4
Guatemala	7.8	7.1	8.6	6.1	6.0
<u>Between 6 and 7.5 per cent</u>					
Peru	7.4	8.9	5.8	9.2	8.1
Brazil	7.0	3.7	10.3	11.3	15.0
Honduras	7.0	6.9	7.1	6.0	...
Bolivia	6.6	7.2	6.0	2.6	4.7
Venezuela	6.6	9.0	4.4	5.1	7.0
Ecuador	6.4	6.5	6.3	11.8	...
<u>Less than 6 per cent</u>					
Colombia	5.9	5.6	6.3	8.0	9.0
Paraguay	5.8	6.1	5.6	8.0	4.0
Jamaica	5.8	7.2	4.1	...	...
Argentina	5.6	6.2	5.0	6.2	8.3
Guyana		5.5			
Chile	5.3	7.3	3.3	12.1	4.0
Dominican Republic	4.4	-2.3	11.5	6.6	...
Uruguay	1.7	1.0	2.4	-2.1	1.5
Haiti	1.6	-1.1	4.4	6.0	...
<u>Some industrialized countries</u>	<u>1960-1969</u>	<u>1960-1965</u>	<u>1965-1969</u>	<u>1970</u>	
West Germany	6.0	6.4	5.3	5.7	
Canada	6.0	6.8	5.0	-0.7	
Denmark	5.3	6.2	4.2	3.3	
United States	4.6 <sup>b/</sup>	6.2	3.1 <sup>c/</sup>	-4.8	
France	6.7	6.5	7.0	5.8	
Italy	7.3	6.7	8.0	6.6	
Japan	14.4 <sup>b/</sup>	11.9	16.9 <sup>c/</sup>	16.3	
Norway	5.5	6.2	4.8	4.1	
<u>Some socialist countries</u>					
Czechoslovakia	4.2 <sup>d/</sup>	3.1	-	7.7	
Hungary	7.2	7.2	7.1	7.4	
Poland	8.4 <sup>d/</sup>	8.6	...	8.3	
Romania	13.1 <sup>d/</sup>	13.7	-	11.8	
Soviet Union	9.2 <sup>d/</sup>	9.0	...	8.3	
<u>Some developing countries in Asia</u>					
India	5.7 <sup>d/</sup>	7.3	2.6	4.7	
Pakistan	8.0	8.7	7.2	...	
Thailand	10.8	11.0	10.5	...	
Republic of Korea	16.7	12.1	22.5	16.4	

Source: For other countries: Yearbook of National Accounts Statistics, 1970; Economic Survey of Europe in 1970, Part II; Monthly Bulletin of Statistics, April 1972.

<sup>a/</sup> ECLA estimates on the basis of provisional data supplied directly by the countries.

<sup>b/</sup> 1960-1970: Monthly Statistics of Japan, April 1971.

<sup>c/</sup> 1965-1970.

<sup>d/</sup> 1960-1968: Indexes of Industrial Production.

/The share

The share of Latin America's industrial production in the world total remained at 3.4 per cent over the past 10 years whereas its percentage share of the world population rose from 7.3 to 7.8; this means that the gap in per capita levels of industrialization continued to widen (in 1970, Latin America's per capita industrial product was 123 dollars, equal to half the world average, to one-sixth of that of Eastern Europe and one-eighth of that of the United States and Canada). This deterioration occurred even though the annual industrial growth rate in Latin America between 1960 and 1970 was 6.9 per cent: almost equal to the world average and higher than that of the industrialized countries (not counting the centrally planned economies) (see table 14).

If the industrialized countries maintain the same growth rate during the 1970's as during the 1960's, the target of 8 per cent which the Strategy proposes for the developing countries will mean that the existing acute imbalance between Latin America's per capita manufacturing production and the world average will be just the same in 10 years time. In other words, the increase which the proposed target implies over the actual growth rate of the 1960's (from 6.9 to 8 per cent) will just about make up for the difference between the region's population growth rate of 2.9 per cent and the world average of 2 per cent.

Another important aspect is that of the feasibility and suitability of the target in terms of the actual growth potential of the various countries of the region as indicated by their recent performance. One might well ask, for example, whether it is reasonable to establish a single industrial growth target for countries at such widely different levels of industrialization as those of Latin America, or whether the Strategy should advocate a more rapid rate of industrial expansion for countries at an early stage of industrialization, so as to reduce the gap.

There would already appear to have been a trend in this direction over the past decade or so in Latin America, since the tendency, though slight, has been for differences between one country and another in levels of industrialization to become smaller. Thus, the countries which exceeded or roughly achieved the targets for the Second Development Decade during the 1960's are precisely those which had low levels of industrialization at the beginning of the decade (Costa Rica, El Salvador, Nicaragua, Panama and Mexico) <sup>4/</sup> (see figure II).

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<sup>4/</sup> Although Mexico was not in the same situation as the other countries listed, its level of industrialization was nevertheless much lower than the average for Latin America and undoubtedly reflected a state of relative industrial backwardness compared with the other two countries with a similar market potential (Argentina and Brazil).

Table 14

COMPARISON BETWEEN THE PER CAPITA INDUSTRIAL PRODUCT IN LATIN AMERICA AND IN OTHER REGIONS OF THE WORLD, 1970

	Per capita industrial product (dollars at 1963 prices)	Index of industrial production (1960=100)	Annual growth rates 1960-1970 (percentages)	
			Total	Per capita
World <u>a/</u>	271	192	6.7	4.7
Canada and United States	1 021	162	4.9	3.6
Western Europe	498	171	5.5	4.6
USSR and Eastern Europe	711	228	8.6	7.5
Latin America <u>b/</u>	123	194	6.9	3.8

Source: ECLA, on the basis of United Nations, Monthly Bulletin of Statistics and The growth of world industry, 1969, August 1972.

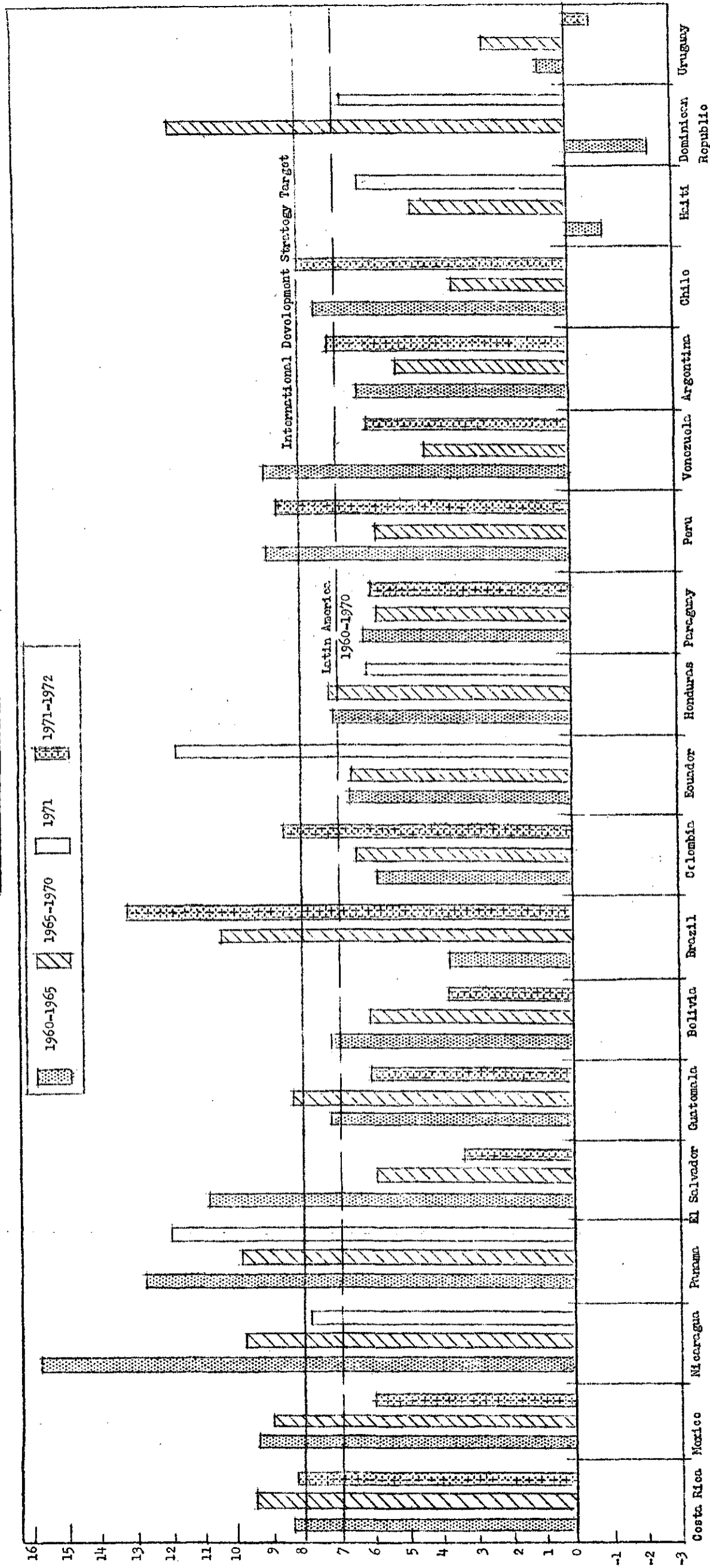
a/ Excluding Albania, China, Mongolia, Democratic Republic of Korea and Democratic Republic of Vietnam.

b/ Figures for production prepared by ECLA, and those for population prepared by CELADE Dollars at 1960 prices. Not including Cuba, Jamaica, Barbados, Guyana and Trinidad and Tobago.

Figure II

LATIN AMERICA : RATE OF INDUSTRIAL GROWTH

(Annual rates in percentages)



A comparison of the industrial growth rate of each Latin American country in 1971 (and 1972) with the target for the Second Development Decade provides the following information:

(a) Eight countries (Costa Rica, Nicaragua, Panama, Brazil, Ecuador, Colombia, Paraguay and Chile) either achieved or exceeded the target, with growth rates ranging from 8 to 13 per cent.

(b) For the most part, the countries that exceeded the 8 per cent target in 1971 (and 1972) were not those with the fastest growth during the 1960's, with the exception of Costa Rica, Nicaragua and Panama which kept up rapid industrial expansion in both periods.

(c) Seven countries exceeded the target in 1965-1970. Haiti and Uruguay, despite the wide gap between their levels of industrialization both registered a slow rate of industrial growth over the long term, although Haiti did make up a good deal of lost ground in 1971. Argentina's growth rate, which has been consistently below the target (ranging from 5 to 6.2 per cent between 1960 and 1971) rose above it in 1972 (8.3 per cent). In Chile the rate rose from an average of 5.3 per cent during the 1960's to an average level near the target in 1971-1972.

It may be inferred from the foregoing that, judging from the growth rates already achieved, the level of industrial expansion advocated in the Strategy is rather modest, particularly in the case of the least industrially advanced countries. Moreover, in view of the fact that the Strategy does not fully take into account the extent to which economic integration is capable of promoting industrial expansion, the real progress being made in the region in this direction (and which goes a long way towards explaining the improvement in the industrial index of the Central American countries during the 1960's) holds promise of more rapid industrial growth than in the past.

The structural changes being wrought in Latin American industries also justify looking forward to more rapid industrial growth in future years. The production of intermediate goods, consumer durables and capital goods is beginning to represent an increasing share of industrial production in the region (over 50 per cent in 1970). In both the large and the medium and small countries there is considerable potential for import substitution in these areas (particularly considering the prospects

/which the



which the agreements on industrial programming within a framework of integration afford for the medium and small countries). In the region as a whole, the annual expansion of such branches as the chemical industry and the metal manufactures and machinery industries was over 8 per cent during the 1960's. If the present decade witnesses a speeding up of the process of transformation of the industrial structure along these lines, the prospects of attaining higher industrial growth rates will be even better (see table 15).

(ii) New patterns. Unlike the pattern of industrialization during the post-war period, that of the 1970's would appear to be characterized by greater purposefulness in industrial policy, more accurate identification of obstacles to industrial development, and more precise definition of the responsibilities of the industrial sector in the economic process. The kind of industrial policies that the countries of the region have adopted so far this decade support this assertion. In addition, there has been a move to redesign the instruments used so as to introduce more specific measures to an increasing extent. Protection is becoming more flexible and discriminating and, by and large, is less drastic; at the same time, it is beginning to give way to other more direct methods of attending to industrial priorities and furthering specific objectives that are being defined more and more clearly in the industrial policies of Latin American countries.

In addition, the increase in the import capacity that began to take place from the middle of the 1960's as a result of a modest increase in exports has played a major role in the aforementioned expansion of imports. The relative improvement in the foreign currency situation has undoubtedly helped to make more inputs and capital goods available for industry.

Table 15  
ANNUAL GROWTH RATES OF PRODUCTION

(Percentages)

Year	All manufacturing industry	Light industry and selected branches			Heavy industry and selected branches			
		Total	Food	Textile	Total	Chemical products	Basic metals	Metal manufactures and machinery
<u>World total</u>								
1955-1960	4.3	3.8	3.8	3.4	4.6	7.9	1.6	4.6
1960-1965	6.4	4.7	4.1	4.9	7.2	8.7	6.3	7.2
1965-1970	5.4	4.1	4.5	3.5	6.1	8.6	4.1	5.8
<u>Developing countries</u>								
1955-1960	7.2	5.2	5.4	3.9	10.5	8.1	10.9	12.4
1960-1965	6.8	5.2	4.4	4.7	8.9	7.6	8.2	10.9
1965-1970	6.4	5.5	5.8	4.7	7.9	8.3	6.1	7.6
<u>Developed countries</u>								
1955-1960	4.0	2.8	3.5	2.9	4.3	7.9	1.2	4.3
1960-1965	6.4	5.5	4.2	4.1	7.2	8.7	6.3	7.2
1965-1970	5.3	3.7	4.1	3.4	5.8	8.6	4.1	5.7
<u>Latin America</u>								
1955-1960	6.2 <sup>a/</sup>	4.2	4.6	2.3	9.4	7.5	9.0	12.8
1960-1965	6.4 <sup>a/</sup>	4.2	4.3	3.9	7.8	8.4	7.5	8.1
1965-1970	7.3 <sup>a/</sup>	5.0	5.2	3.7	8.1	8.3	6.7	8.2
<u>Asia (excluding Japan, Israel and socialist countries)</u>								
1955-1960	8.2	6.2	5.5	3.9	11.9	9.8	13.1	14.2
1960-1965	7.7	6.0	4.2	5.2	10.9	5.8	12.4	15.9
1965-1970	6.3	5.4	7.0	5.2	7.9	8.6	5.8	6.5

Source: United Nations, The growth of world industry, 1970.

<sup>a/</sup> ECLA, on the basis of official data.

/Although a

Although a more detailed study of recent industrial development in Latin America would be needed in order to be able to draw up a list of factors in the order in which they affect the maintenance or acceleration of the present growth rate, the most important would seem to be the following:

- (1) A significant increase in the sale of manufactures abroad.

The export of manufactures is occupying a more and more important place in the industrial development policies of the countries of the region. The search for a new impulse that would make it possible to expand the productive capacity of the industrial sector and to start operations in branches of manufacturing for which domestic markets have been too small for the establishment of economic units has led to the utilization of a series of instruments for promoting exportable national production. The progress of regional and sub-regional integration programmes has also inspired certain industrial initiatives and the development of a promising trade in manufactures.

As a result, there has been an increasing volume of exports of manufactured goods, whose share in Latin America's total exports from 5.7 to 12.6 per cent between 1965 and 1971. By 1971, the value of exports of manufactures had reached 1,900 million dollars, some 1,000 million dollars of which was exported to the rest of the world and the remainder to other Latin American countries.

Rough calculations indicate that this variable is already having a definite effect on industrial expansion. It could even be claimed that it explains most, of the slight recovery in the industrial growth index over the past seven years <sup>S/</sup>.

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<sup>S/</sup> The export of manufactures represented approximately 4.8 per cent of the gross industrial product in 1971. Between 1965 and 1971, its annual average growth rate (in dollars at current prices) was 21 per cent. It can accordingly be estimated that this factor represented an additional 0.7 per cent in the annual growth rate of the industrial product between 1965 and 1971. In very approximate terms, it could thus be said that had it not been for the expansion of these exports, the growth rate of Latin America's industrial product, which was 6.4 per cent in 1960-1965, would only have risen to 6.6 per cent in 1966-1971 and not to 7.3 per cent as actually happened.

/(2) The

(2) The propulsive effect of the expanded inter-industrial relations resulting from the incursion into more complex branches of manufacturing.

(3) The expansion and adaptation of domestic sources of industrial financing:

- financing of consumer purchases, especially of durable goods;
- provision of medium- and long-term credit for financing industrial production; extension of the institutional infrastructure of financial support to industry.

(4) Expansion of the domestic market, for example through income redistribution policies involving the broadening of the scope of minimum-wage legislation, payment of family allowances, etc., and through the effect of existing agrarian reform programmes on the level of rural incomes.

(5) Increasing the public sector's demand for industrial products. For the most part, government activity has increased remarkably in the region, particularly in respect of the infrastructure and social services. The share of total central government expenditure in the gross domestic product currently ranges from 15 per cent to over 25 per cent, while the share of public investment in total investment is over 30 per cent in most of Latin America and is even around 60 per cent in some cases. Moreover, many countries have introduced measures requiring the State to purchase domestic products, provided these comply with certain requirements as to quality and price. Moreover, apart from the decisive role which public investment has played in the development of the capital goods industry of certain Latin American countries, the acquisition of consumer goods by the government has provided both an incentive and a degree of stability for the production plans of the enterprises.

(iii) The level of efficiency and economic and operational characteristics of Latin American manufacturing industry. In order to assess the gap between the production efficiency of Latin American industry and that of the developed countries, some indicators have been prepared showing the average productivity of the manufacturing sector in the region in relation to that of the rest of the economy, as compared

/with the

with the ratio of the same two variables in other countries or regions. The figures indicate that industry in the Latin American countries operates at much higher levels of productivity per worker than the average for the whole economy, and that the gap between productivity per worker in Latin American industry and that recorded in the industrialized countries is considerably smaller than the difference between the average levels of living in the two groups of countries (while per capita income in the United States was eight times that recorded in Latin America in 1970, industrial productivity was only four times greater) (see table 16 and figure III).

This in its turn indicates that the lag in the development of the Latin American economies behind that of the industrial economies is much greater in the primary and tertiary sectors, notwithstanding the effect of the problem of relative prices on these comparisons.

A particularly serious feature is that in the case of both per capita income and industrial productivity the gap between the Latin American countries and the United States has widened in the past 20 years.

The average income in the United States, which in 1950 was 6.4 times the average for Latin America, is now 8 times higher, while the ratio of industrial productivity per worker has risen from 3.25 to 4.

A study of the information available for nine Latin American countries clearly shows in all cases the numerical preponderance of small establishments <sup>6/</sup> and the small contribution of these establishments to the value added in manufacturing. Specifically, they represent from 75 to 90 per cent of the existing establishments and account for proportions of the value added in manufacturing varying between 10 and 20 per cent or, in a few cases, up to about 30 per cent as in Costa Rica, or 45 per cent as in Paraguay.

Medium- and large-scale establishments account for the highest proportion of employment, since the small establishments absorb only about 35 per cent, and out of this figure, employment in artisan-type activities represents about 25 per cent, so that their real contribution to total industrial employment is only about 10 per cent.

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<sup>6/</sup> In this paper, a small establishment is considered to be one employing 1 to 49 workers (thus including the artisan level of activity), a medium establishment one that employs 50 to 99 workers, and a large-scale establishment one that employs 100 workers or more.

Table 16

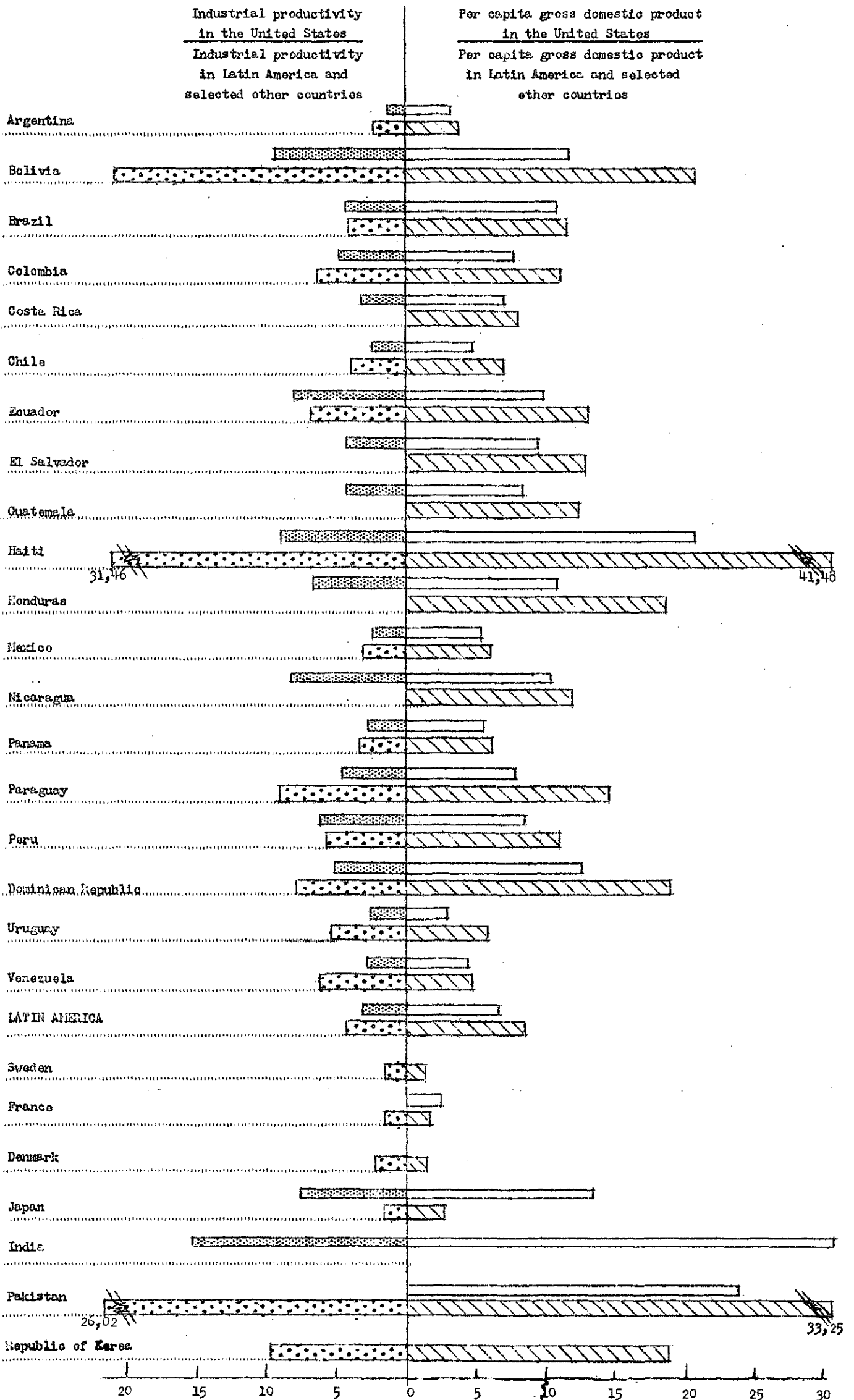
COMPARATIVE COEFFICIENTS OF TOTAL PER CAPITA PRODUCT AND INDUSTRIAL PRODUCTIVITY PER WORKER

Country	Industrial productivity in the United States		Per capita GDP in the United States	
	Industrial productivity in Latin America		Per capita GDP in Latin America	
	1950	1970	1950	1970
Argentina	1.83	2.57	2.95	3.98
Bolivia	9.81	21.07	11.61	20.39
Brazil	4.86	4.45	10.74	11.30
Colombia	4.98	6.72	7.41	10.94
Costa Rica	3.21	...	6.90	7.46
Chile	2.71	4.28	4.68	6.62
Ecuador	8.35	7.04	9.26	12.92
El Salvador	4.51	...	9.52	12.64
Guatemala	4.35	...	8.27	12.26
Haiti	9.16	31.46	20.71	49.48
Honduras	6.66	...	10.63	18.44
Mexico	2.07	3.18	5.99	5.94
Nicaragua	8.35	...	10.20	11.66
Panama	2.95	3.33	5.63	6.01
Paraguay	4.59	9.26	8.00	14.70
Peru	6.41	5.82	8.55	10.99
Dominican Republic	5.15	8.03	12.56	19.05
Uruguay	2.81	5.47	3.07	5.86
Venezuela	3.16	6.10	4.35	4.87
<u>Latin America</u>	<u>3.25</u>	<u>4.06</u>	<u>6.44</u>	<u>8.08</u>
Sweden	...	1.66	...	1.16
France	...	1.44	2.62	1.62
Denmark	...	2.18	...	1.50
Japan	7.57	2.93	13.05	2.45
India	15.38	...	30.91	...
Pakistan	...	26.02	23.92	33.25
Korea	...	9.76	...	18.70

Source: Latin America: ECLA, on the basis of official statistics. Countries outside the region: United Nations, Yearbook of National Accounts Statistics, various issues; ILO Yearbook, various issues; and Japanese Ministry of International Trade and Industry (MITI), and Statistics on Japanese Industries 1971.

Figure III

COMPARATIVE RATIOS OF PER CAPITA TOTAL PRODUCT AND  
PER CAPITA INDUSTRIAL PRODUCTIVITY



As a result, Latin American industry shows sharp disparities in labour productivity according to the size of establishment. Thus, taking as a basis the productivity of factory industry (plants employing 5 or more workers), it will be noted that large- and medium-scale enterprises exceed the average by 10 to 50 per cent, while the productivity of small enterprises is only somewhere between 40 and 80 per cent of the average. This fact - which is fairly representative of this characteristic of industrial activity in the region, though it differs in intensity according to the country and production sector concerned - naturally reflects a situation of disequilibrium and weakness in the manufacturing sector which goes further than might be accounted for solely by the difference in size, since it involves to a considerable degree various issues deriving from a poorly - integrated production structure with few inter-industry relations, where small-scale industry, and possibly even artisan-type activities, compete with large- and medium-scale enterprises instead of complementing their activities.

The technological structure of the manufacturing sector is also related to what has been said above in regard to the efficiency, productivity, and employment capacity of industry. If the capital/labour ratio is taken as an indicator of the level of technology, and the average value of this ratio for factory industry as a basis for comparison, it will be noted that the highly capital-intensive industries (i.e., those with a ratio equal to or higher than the average for factory industry) predominate markedly in production and even in total employment. Likewise, in most branches of industry and in manufacturing as a whole there is a strong correlation between size of establishment and level of technology. In other words, highly capital-intensive techniques are closely associated with large-scale enterprises, and primarily labour-intensive techniques with small establishments. Bearing in mind at the same time that it is the large-scale enterprises which absorb the highest proportion of labour, it may be concluded that the manufacturing sector's capacity to absorb labour is geared more to the size of establishment or the scale of production than to the use of production processes defined as highly labour-intensive. This would appear to back up the above observations regarding the need to increase the average size of manufacturing plants and the steps which some countries of the region are taking in this direction.

/(b) Agriculture



(b) Agriculture

(i) The problem of production indexes. Before making an actual review of the sector, mention should be made of the problem arising in connexion with basic statistical information. There exist two indexes of the volume of agricultural production for the region as a whole and by countries: (a) the production index calculated by FAO, and (b) the index deriving from the statistical estimates of the national accounts, which, by tradition, are used by ECLA in its macroeconomic analysis 7/. Both statistical series are based on data, by products or groups of products, obtained from official sources. There are, however, important differences in the technical procedures and in some of the concepts used 8/.

Table 17 gives the average growth rates for both series during the period 1959/1971. A comparison of these shows that for the period between the two-year periods 1959-1960, and 1969-1970 and particularly for the period between 1964/1965 and 1969/1970, the growth rates for the region as a whole are relatively similar in the two series, while for the period 1959/1960 to 1964/1965 there is a fairly significant difference. It should, in fact, be mentioned that in the analysis by countries there are several important discrepancies in the three periods considered. The biggest difference, however, is for 1971: the FAO statistics record a standstill in regional production, while the national accounts statistics indicate a growth of 4.6 per cent, i.e., the methodological differences and the provisional nature of the estimates in both series had much more serious repercussions in that year especially as regards the estimates of the variation in production in countries of great influence on the regional growth rate, such as Argentina and Brazil.

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7/ The latter index in particular has been used in preparing tables 4 and 5 of this chapter.

8/ Among the main differences, the following may be mentioned: (a) a different coverage of products in the national accounts estimates and in the FAO index of production volume. Normally, this coverage is more extensive in the national accounts series; this situation, however, is inverted in some cases when the preliminary national accounts estimates for recent years are based on groups of products; (b) different systems to estimate value and importance by products and countries applied in estimating the value of production in the national accounts and in the FAO production index; (c) different criteria in respect of certain products and countries for the allocation of production to calendar years according to agricultural years; and (d) the simultaneous existence of several official sources of statistics for the production figures of some groups of products, which are used with a different criterion of preference for the national accounts estimates and the FAO index of the volume of production.

/Table 17

Table 17

LATIN AMERICA: RATES OF GROWTH OF AGRICULTURAL PRODUCTION

(Percentages)

Country	1964-1965/1959-1960		1969-1970/1964-1965 a/		1959-1970/1959-1960 b/		1971/1970 b/	
	FAO statistics	National accounts statistics	FAO statistics	National accounts statistics	FAO statistics	National accounts statistics	FAO statistics	National accounts statistics
Argentina	2.7	3.2	2.8	0.8	2.7	2.0	-7.1	-2.6
Brazil	3.2	4.9	3.2	3.8	3.2	4.3	4.8	11.4
Mexico	5.7	4.9	2.3	2.8	4.0	3.8	3.3	3.0
Colombia	2.6	2.8	3.7	4.4	3.2	3.6	3.8	2.4
Chile	1.5	2.6	1.7	1.7	1.6	2.2	7.2	6.0
Peru	3.4	3.5	2.4	0.5	2.9	2.0	0.8	1.0
Venezuela	5.8	5.4	5.6	5.0	5.7	5.3	2.7	4.1
Costa Rica	5.3	4.2	8.0	6.0	6.7	5.1	5.6	5.0
El Salvador	5.8	4.5	1.7	2.6	3.7	3.5	11.2	3.4
Guatemala	6.8	4.3	3.5	2.7	5.1	3.5	1.6	3.9
Honduras	4.7	4.2	4.6	4.5	4.6	4.4	6.3	4.4
Nicaragua	13.8	9.8	2.2	2.6	7.9	6.2	13.4	4.7
Panama	3.9	5.3	6.2	5.5	5.1	5.3	1.4	5.5
Dominican Republic	-1.2	0.8	2.8	3.2	0.8	2.0	5.2	7.5
Haiti	0.8	1.1	1.1	1.4	1.0	1.2	1.9	6.4
Bolivia	4.3	2.9	3.5	1.4	3.9	2.1	7.1	5.2
Ecuador	6.2	3.2	0.8	3.8	3.5	3.5	0.0	2.0
Paraguay	3.4	4.0	2.7	1.8	3.0	2.9	0.0	1.8
Uruguay	4.5	2.5	0.4	1.0	2.5	1.8	-7.2	-0.2
<u>Latin America</u> (excluding Cuba and the Caribbean)	3.3 g/	4.0	3.0 g/	2.9	3.1 g/	3.5	0.0 g/	4.6

Source: Statistics obtained from FAO and the national accounts of the various countries. In the columns marked "FAO statistics", the country estimate was made by ECLA on the basis of figures for the individual products provided by FAO.

a/ The rates were calculated on the basis of the averages of the two-calendar-year periods indicated.

b/ Variations between the calendar years 1970 and 1971 were estimated on the basis of provisional figures.

c/ Including Cuba.

/In the

In the circumstances, it would appear to be more to the point to begin by studying agricultural development in the period between 1964/1965 and 1969/1970, bearing in mind that in these cases the FAO series and the national accounts series coincide to a considerable extent, and also because the trends of these periods may be taken as an indication of the recent development of the agricultural sector, a fact of special importance in the analysis of the sector of production which by its very nature undergoes considerable fluctuations from one year to another. The next step would be to comment briefly on the most probable conclusions to be derived from 1971 data.

(ii) Trends in agricultural production. Between 1964/1965 and 1969/1970, agricultural production in Latin America grew at an average annual rate of around 3 per cent - according to the two series already mentioned - i.e., at a rate similar to that of the increase in population. This percentage was below the International Development Strategy target of an average annual increase in production of 4 per cent, and constituted a deterioration of the growth rate registered in the previous five-year period. This unsatisfactory growth rate is particularly significant, since agricultural production in Latin America should be growing at rates of more than 4 per cent, given specific export and import hypotheses, because inter alia, the rate of population growth in Latin America is higher by around one-half of 1 per cent than that estimated in the International Development Strategy. This overall rate naturally depends on the particular situation and prospects of each country, e.g., population, level of living, external trade in agricultural products, overall growth and income distribution.

If per capita agricultural production is reviewed in the light of what has taken place in the different countries of the region, it may be observed that between 1964/1965 and 1969/1970, it increased in seven countries (Brazil, Colombia, Ecuador, Honduras, Venezuela, Panama and Costa Rica), the largest increases being recorded in the last three. Conversely, per capita production dropped in the other twelve countries, Peru and Paraguay accounting for the sharpest contractions (see table 18).

Although average per capita agricultural production underwent no change between 1964/1965 and 1969/1970, the apparent per capita food consumption index must have increased by a specific amount, taking into account the development of external trade in foodstuffs and other indexes such as nutrition and specific statistics.

Table 18

LATIN AMERICA: RATES OF GROWTH OF OVERALL AND PER CAPITA AGRICULTURAL PRODUCTION  
(Percentage)

Country	1969-1970/1964-1965 a/	
	Overall	Per capita
Argentina	0.8	-0.7
Brazil	3.8	0.9
Mexico	2.8	-0.6
Colombia	4.4	0.9
Chile	1.7	-0.5
Peru	0.5	-2.6
Venezuela	5.0	1.6
Costa Rica	6.0	2.8
El Salvador	2.6	-0.7
Guatemala	2.7	-0.1
Honduras	4.5	1.0
Nicaragua	2.6	-0.3
Panama	5.5	2.1
Dominican Republic	3.2	-0.2
Haiti	1.4	-1.0
Bolivia	1.4	-1.0
Ecuador	3.8	0.4
Paraguay	1.8	-1.6
Uruguay	1.0	-0.2
<u>Latin America (excluding Cuba and the Caribbean)</u>	2.9	-0.1

Source: ECLA estimates based on national accounts statistics of the various countries.  
a/ The rates were calculated on the basis of the averages for the two-calendar-year periods indicated.

/As regards

As regards 1971, the provisional and contradictory nature of the statistical data to some extent limits the possibility of an accurate appreciation of what development has occurred. However, some provisional conclusions may be drawn: (a) in seven countries (Brazil, Costa Rica, Chile, Honduras, Nicaragua, Dominican Republic and Bolivia), the growth rate was more than 4 per cent, and significantly more so in some cases, and (b) in Argentina and Uruguay, production seems to have declined. It is precisely the estimated drop in the FAO index of agricultural production in Argentina, and to a much lesser extent in Uruguay, which determines the result of the FAO overall index.

The breakdown of development in the agricultural sector by groups of products (see table 19) shows, first that between 1959/1960 and 1969/1970, the rate of growth of the crop and livestock sub-sectors was fairly similar. Secondly, if the behaviour of the main agricultural products during the ten-year period indicated is reviewed, a relatively low growth rate may be observed, less than or equal to 3.5 per cent annually, in the production of wheat, potatoes, sugar cane and bananas; the rates for maize, rice and cotton, on the other hand, were higher than 4 per cent annually. Coffee is a special case, since on an average a decline is recorded for the ten-year period, due to the drop in Brazil's production, which, however, more than regained its previous level in 1971.

Thirdly, in the case of livestock products, the production of beef, mutton, pork and milk grew by 3 per cent or less. In contrast, poultry production rose at a significant rate, with an annual increase of 5.6 per cent in meat and 4.5 per cent in eggs.

A comparison of agricultural development in Latin America with that in other parts of the world reveals its backward state, particularly in terms of per capita output. Latin America's total production in 1970 was 20 per cent higher than in 1963 (average for the five years 1961/1965): this was the same percentage increase as for the developed market economy countries, but less than that for the Far East (24 per cent), the Middle East (25 per cent), Africa (22 per cent), and Eastern Europe and the USSR (29 per cent). In terms of per capita production, the situation in Latin America is deteriorating: in 1970 it was slightly below the 1963 level, compared with an increase of 10 per cent in the developed market-economy areas, a rise of 20 per cent in the socialist countries of Eastern Europe and the USSR, and figures the same as or slightly higher than the base year figure in other developing regions.

Table 19

LATIN AMERICA: EVOLUTION OF AGRICULTURAL PRODUCTION BY GROUPS OF PRODUCTS

(Percentage annual growth rates)

	1959-1960/ 1964-1965 <sub>a</sub> /	1964-1965/ 1969-1970 <sub>a</sub> /	1959-1960/ 1969-1970 <sub>a</sub> /
Volume of agricultural production:			
Total	3.3	3.0	3.1
Per capita	0.4	0.0	0.1
Volume of crop production:			
Total	4.1	2.5	3.3
Per capita	1.2	-0.4	0.4
Volume of livestock production:			
Total	2.6	3.8	3.2
Per capita	-0.3	0.9	0.3
Volume of food production:			
Total	3.7	3.5	3.6
Per capita	0.8	0.6	0.7
Volume of total production of some important products:			
Wheat	10.6	4.0	2.6
Maize	4.6	3.5	4.1
Rice	7.3	2.1	4.7
Potatoes	3.5	2.9	3.2
Sugar cane	0.4	3.2	1.8
Bananas	4.0	3.0	3.5
Coffee	-11.3	7.8	-2.1
Cotton (fibre)	9.7	0.2	4.6
Beef	1.7	5.1	3.4
Poultry (meat)	6.0	5.2	5.6
Milk (non-processed)	2.7	2.9	2.8
Eggs	4.3	4.6	4.5

Source: Statistics provided by FAO.

a/ The rates were calculated on the basis of the averages for the two calendar year periods indicated.

(iii) Factors which explain the trends of production. These disparities derive basically from the highly uneven rates of technological progress in agriculture. FAO figures for the contribution to the increased world production of grains over the period 1960/1971 made by the expansion of cultivated area and the improvement in yields clearly show that Latin America is at a distinct disadvantage compared with other regions:

Region	Area	Yield
	percentages	
Western Europe	-2.9	102.9
North America	-34.6	134.6
Latin America	57.4	42.6
Far East	41.7	58.3
Middle East	36.4	63.6
Africa	43.4	56.7
Eastern Europe and USSR	3.3	96.7
China	21.2	78.8
<u>World total</u>	<u>20.0</u>	<u>80.0</u>

Source: FAO, State of Food and Agriculture, 1972.

However, in Latin America as in other developing regions a substantial improvement is noted in the past decade over the previous one, since during the period 1948-1971 the contribution of the expansion of cultivated area to the rise in grain production had been 68.6 per cent, while that of the increase in yields was only 31.4 per cent.

Improvements in yields are influenced by many factors, and in most cases these must be closely associated if the desired results are to be obtained. It is possible to gauge the rate of the process of modernization of agriculture from an analysis of certain indicators, however, this is so, for example, in the case of such indicators as the consumption of fertilizers and the use of mechanized equipment, on which fairly complete data are available.

Latin America shows an impressive rate of increase in the use of fertilizers over the past decade: 12.6 per cent annually, compared with the world rate of 8.8 per cent, which was itself relatively high. This trend was consolidated in 1971, since the increase for the region was nearly 20 per cent, compared with the world rate of 8.5 per cent.

A decisive factor to explain the increase recorded by Latin America was the growth of Brazil's consumption of fertilizers, from just over 200,000 tons of NPK annually during the five years 1962-1966 to 600,000 tons in 1970 and nearly 1 million tons in 1971 <sup>9/</sup>. The other big fertilizer consumers are Mexico, with a volume of nearly 600,000 tons in 1971 and a steady growth rate of over 12 per cent annually, and Cuba, with around 100,000 tons. In other words these three countries represent about two-thirds of the region's total consumption. The rest of the countries, although in most cases they also recorded high growth rates, accounted in 1971 for a total consumption of about 1 million tons (see table 20).

The process of mechanization in the region has continued steadily. The number of tractors in use in Latin America rose from an annual average of 411,000 in the five years 1961-1965 to 567,000 in 1970, i.e., by 4.7 per cent annually. Over the same period, the world total increased by 3.3 per cent annually from 12.4 million to 15.6 million (see table 21). In spite of this rapid progress, the low level of mechanization in Latin America is quite striking when it is considered that in 1971 the region possessed only 3.6 per cent of the inventory of tractors, while accounting for about 9 per cent of the total arable land under continuous cultivation.

As regards land use, the area of cultivated land per head in Latin America is about half a hectare, which is half the corresponding area in the United States, the USSR and Africa, and one-third of that in Oceania. Only Asia and Europe are below the figure for the region, but in Europe the productivity of the soil is much higher than in Latin America.

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<sup>9/</sup> FAO figures; according to other sources, the consumption of NPK in 1971 was 1.35 million tons.



Table 20

LATIN AMERICA: FERTILIZER CONSUMPTION

(Thousands of tons of NEK)

	Average 1962-1966	1970	1971	Annual growth rates (percentages)	
				1962-1966 to 1970	1970 to 1971
Argentina	24.0	79.8	86.9	22.2	8.9
Brazil	223.8	601.4	957.9	17.9	59.3
Colombia	121.2	170.1	177.0	5.8	4.1
Chile	102.6	140.4	158.7	5.4	13.0
Peru	94.0	81.6	119.0	-2.3	45.9
Uruguay	31.1	43.0	50.5	5.6	37.6
Venezuela	25.8	47.0	69.4	10.5	61.5
Other South American countries <u>a/</u>	16.3	41.6	41.9	16.9	0.7
Mexico	259.7	530.3	594.4	12.6	12.1
Central America <u>b/</u>	109.9	199.7	241.9	10.4	21.1
Cuba	168.2	478.5	396.3	19.0	-17.2
Other Caribbean countries <u>c/</u>	49.4	90.5	107.6	10.6	18.9
<u>Total Latin America</u>	<u>1 226.0</u>	<u>2 503.9</u>	<u>2 991.5</u>	<u>12.6</u>	<u>19.5</u>
World total	37 741.3	62 637.1	67 968.9	8.8	8.5
Ratio Latin America/world (percentages)	3.2	4.0	4.4		

Source: FAO.

a/ Bolivia, Ecuador and Paraguay.

b/ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

c/ Barbados, Guyana, Haiti, Jamaica, Dominican Republic and Trinidad and Tobago.

Table 21

LATIN AMERICA: NUMBER OF TRACTORS

(Thousands)

	Average 1961-1965	1971	Annual growth rate (percentages)
Argentina	139.0	180.0	3.8
Brazil	70.7	99.4	5.8
Colombia	24.3	27.9	2.0
Chile	21.2	30.5	5.3
Peru	8.0	12.3	6.3
Uruguay	23.8	25.4	0.9
Venezuela	13.1	19.2	5.6
Other South American countries a/	3.8	6.1	7.0
Mexico	64.8	92.0	5.1
Central America b/	14.0	19.4	4.8
Cuba	18.4	36.0	10.1
Other Caribbean countries c/	10.0	18.7	9.4
<u>Total Latin America</u>	<u>411.1</u>	<u>566.9</u>	<u>4.7</u>
<u>World total</u>	<u>12 396.5</u>	<u>15 558.1</u>	<u>2.3</u>
Latin America/World (%)	3.3	3.6	3.3

Source: FAO.

a/ Bolivia, Ecuador and Paraguay.

b/ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

c/ Barbados, Guyana, Haiti, Jamaica, Dominican Republic and Trinidad and Tobago.

/Only about

Only about quarter of the agricultural area in Latin America is cultivated land, but this proportion varies markedly within the region. Crop farming is predominant in all the Central American countries, the Caribbean islands, Ecuador and Panama, because the population density is greater in these countries, where the proportion of cultivated land ranges from 40 to 55 per cent, or twice the regional average. In contrast, in Uruguay and Paraguay, which are essentially stock-raising countries, the proportion cultivated is less than 10 per cent. The rest of the countries are somewhere between these two extremes.

Although there is no shortage of natural resources for agricultural and forest production in Latin America (as there is in the Middle East, for example), the essential problem being under-utilization, it would be wrong to be too optimistic about the production potential of the reserves of arable land, for what is often referred to as the immense agricultural potential of the equatorial and Amazon regions and some tropical savannas in Latin America is subject to certain limitations due partly to the special climatic and soil conditions found there. Moreover, the scant fertility of some tropical savanna soils is steadily diminishing as a result of the strong vertical leaching due to heat and humidity in the rainy months and to the drying and hardening of the uncovered soil in the dry season. The effects of these limitations of the agricultural potential of tropical savannas are observable throughout most of the year in various parts of the Orinoco llanos of Colombia and Venezuela, in the North-East of Brazil, in northern Mexico, and in other semi-desert areas in Latin America where usable natural pastures grow only during a few months of the year.

Furthermore, in the Andean countries certain faulty mountain farming practices are leading to continual impoverishment of the soil. Outstanding among these, because of their deleterious effects, are down-slope furrows, the cultivation of cleaning crops on slopes, over-grazing, and excessive land use.

/(c) Natural

(c) Natural resources and energy

In Latin America, the characteristics of the natural resources and the use made of them by each country have been factors of importance in the orientation of the countries' main economic activities and the level of development attained. Activities directly or very closely linked to the use of natural resources still account for around 30 per cent of the regional product and employment and more than 90 per cent of exports. Although these figures are declining on account of the development of secondary and tertiary activities, they are only losing their importance slowly.

The need to safeguard the ecological balance makes it urgent to consider natural resources and plan their use in the light of the criterion of "integral ordering", but for practical reasons only energy, mineral and water resources are analysed here, inline with the specialization decision adopted also by the Committee on Natural Resources of the Economic and Social Council.

(i) Commercial energy. It is estimated that Latin America's total energy consumption reached 209 million tons of petroleum equivalent (tons p.e.) in 1970. Vegetable fuels accounted for slightly over 20 per cent of this, but for practical reasons in the review made, attention is mainly concentrated on commercial forms of energy (petroleum, natural gas, hydroelectric power, nuclear power and geothermal energy) (see table 22).

On the basis of the consumption of commercial energy for the whole of Latin America and the trend of its development during the past decade, it may be estimated that the targets laid down by the International Development Strategy will require a growth in consumption of not less than a cumulative 7.8 per cent per year.

Although the supply of energy is facing serious difficulties, its growth rate has been satisfactory in recent years and is fairly close to the target figure mentioned above, for the consumption from commercial sources increased from 91 million tons p.e., in 1961 to 165 million tons in 1970, i.e., a cumulative annual rate of 6.7 per cent (1961-1970) and 7.3 per cent (1966-1970). In 1971, the rate rose to 7.7 per cent. The highest growth rates of the last five years were in Ecuador, Brazil, Mexico and Colombia, the growth rate for the first two countries being more than 9 per cent annually. Hydrocarbons (petroleum and natural gas) contribute more than four-fifths of Latin America's supply of commercial energy, the other important source being hydroelectric power (17 per cent in 1970).

/Table 22

Table 22

LATIN AMERICA: PRODUCTION AND CONSUMPTION OF ENERGY

(Thousands of tons of petroleum equivalent of 10 700 kcal per kg)

	Production				Consumption			
	Coal	Hydro-carbons	Hydro-electricity	Total	Coal	Hydro-carbons	Hydro-electricity	Total
<u>1961</u>								
Argentina	137	16 358	335	16 830	995	15 244	335	16 574
Brazil	1 068	5 217	6 152	12 437	1 674	13 135	6 152	20 961
Mexico	952	25 598	1 552	28 102	990	16 968	1 552	19 510
Venezuela	20	181 319	27	181 366	29	8 126	27	8 182
Andean Group	2 832	17 369	2 487	22 738	3 018	9 288	2 487	14 793
Central America	-	-	272	272	-	1 595	272	1 867
Rest of Latin America	-	9 088	358	9 446	38	8 285	358	8 681
<u>Total</u>	<u>5 059</u>	<u>254 949</u>	<u>11 183</u>	<u>271 191</u>	<u>6 744</u>	<u>72 641</u>	<u>11 183</u>	<u>90 568</u>
<u>Total (including vegetable fuels)</u>				<u>309 276</u>				<u>128 643</u>
<u>1970</u>								
Argentina	949	27 188	440	27 977	828	25 445	440	26 713
Brazil	1 128	9 299	11 549	21 976	2 410	23 511	11 549	37 470
Mexico	1 749	42 804	4 244	47 997	2 081	34 700	4 244	41 025
Venezuela	25	235 790	1 168	236 983	252	14 219	1 168	15 639
Andean Group	2 838	29 919	4 464	37 221	3 204	17 475	4 464	25 143
Central America	-	-	663	663	4	3 096	663	3 763
Rest of Latin America	-	10 134	428	10 562	21	14 382	428	14 831
<u>Total</u>	<u>6 089</u>	<u>354 134</u>	<u>22 956</u>	<u>383 172</u>	<u>8 800</u>	<u>132 828</u>	<u>22 956</u>	<u>164 584</u>
<u>Total (including vegetable fuels)</u>				<u>427 333</u>				<u>208 828</u>

Source: ECLA, on the basis of official statistics.

a/ To express hydro electricity in terms of petroleum equivalent, the equation 1 kwh = 3 300 kcal was used for 1961, and 1 kwh = 3 200 kcal for 1970, as regional averages.

/The surplus

The surplus of commercial energy production over consumption registered for Latin America and the Caribbean (383 million tons p.e., as against 165 million in 1970) mainly reflects the oil exporting capacity of Venezuela and, to a lesser extent, Trinidad and Tobago. Excluding these two countries, commercial energy production was less than consumption in 1970 (136 and 145 million tons p.e., respectively). In 1972, eight countries (Bolivia, Colombia, Chile, Ecuador, Mexico, Peru, Trinidad and Tobago and Venezuela) produced more commercial energy than they consumed, Argentina produced approximately the same amount as it consumed, while the rest produced less and have to depend on large-scale imports of petroleum.

As regards the petroleum industry, it may be observed that between 1961-1970 the production of crude oil in Latin America rose from 228.2 to 304.8 million cubic metres per year (an annual cumulative rise of 3.3 per cent), but the region's share in world production dropped from 18 per cent to 12 per cent. In 1971, regional production as a whole dropped by 2.4 per cent as an effect of the drop in Venezuela (4.3 per cent), despite the fact that in the other countries of the region production increased by 2 per cent. The decline in Venezuela's production increased to 13.8 per cent in the first eight months of 1972,

In comparison with confirmed world reserves, regional reserves dropped from 8.6 per cent to 4.2 per cent between 1961 and 1970, but in 1971 and 1972 Ecuador and Peru discovered important oilfields.

Latin American exports of crude oil and petroleum products in 1970 amply surpassed corresponding imports, the figures being 231 and 70 million cubic metres, respectively, but if Venezuela is excluded, the region becomes a marked importer (35 and 70 million cubic metres). Judging from the imports of crude oil made by the countries of the region the supply from within the area has steadily declined from 56.1 per cent of requirements in 1961 to 40.1 per cent in 1970. The entry of crude oil from the Middle East, Africa and the Soviet Union is on the increase.

The consumption of hydrocarbons grew at an annual average rate of nearly 7 per cent from 72.6 to 132.8 million tons p.e., (1961-1970). The consumption of natural gas grew by 10 per cent annually over the same period.

Latin America's hydroelectric potential constitutes one of its major natural resources, which is still little exploited. It has been calculated indirectly that the hydroelectric resources which could be economically developed amount to 2.82 million kWh in an average hydrological

/year, i.e.,

year, i.e., 35 times more than the electricity generated from this source in 1970. One-third of this potential is concentrated in Brazil, and one-half in the Andean Group, including Venezuela. Only one-third of all this potential has been identified in specific projects.

Between 1961 and 1970, the installed generating capacity in the region grew from 19.7 to 40 million kW (an annual cumulative rate of 8.2 per cent). The share of hydroelectricity rose from 41 per cent to 46 per cent during this period (see table 23).

The production of electrical energy showed a cumulative annual growth rate of 8.1 per cent over the period 1961-1970 and in all the countries except three this rate was at least double that of population growth. In 1971, electricity generation attained an exceptional growth rate of 11.2 per cent.

Despite the foregoing energy growth rates, population growth has meant that per capita electricity consumption has remained modest for Latin America as a whole (530 kWh compared with the world average of 1,365 kWh in 1970). Among the major regions of the world, only the rest of the developing countries as a whole have a lower level of consumption (135 kWh/inhabitant). While consumption in the region grew at a rate of 5.2 per cent annually (1961-1970), the rate for the world as a whole was 6.1 per cent and that for the other developing countries 9.1 per cent. In 1971, the rate for Latin America rose to the level of 8.5 per cent.

(ii) Mining. The reserves of metalliferous minerals in the region, which are still inadequately known, are very considerable and represent a high proportion of the world total for several of these minerals; a preliminary estimate (1970) gives the following percentages: copper, 30 per cent; nickel, 24 per cent; bauxite, 20 per cent; tin, 15 per cent; zinc, 15 per cent; iron ore, 12 per cent. The size of the known reserves, especially of iron ore, copper and nickel, is constantly being revised upwards, increasingly so during the latter half of the 1960's and the beginning of the 1970's.

Latin America's current contribution to the world supply of minerals is considerable. The production of all the main minerals grew appreciably during the decade 1961-1970, but the relative shares in world production of copper, lead, zinc and bauxite declined markedly. Bauxite dropped from 46.2 per cent to 41.8 per cent, copper from 18.8 per cent to 15.8 per cent, lead from 16.8 per cent to 12.6 per cent, and zinc from 15.3 per cent to 12.9 per cent. Conversely, the share of iron ore in world production rose from 8.1 per cent to 11.4 per cent and tin from 16.4 per cent to 20 per cent. Available data for 1971 indicate a tendency similar to that of the previous decade, although a drop in the share of tin is a new factor.

Table 23

LATIN AMERICA: INSTALLED CAPACITY, TOTAL GENERATION OF ELECTRICITY <sup>a/</sup> AND  
TOTAL GENERATION BY PUBLIC SERVICES

	1961	1966	1970	1971	Annual average growth rate (percentages)			
					1966-	1970-	1970-	1971-
					1961	1966	1961	1970
<b>Total installed capacity (thousands of kw)</b>								
Argentina	3 712	5 481	6 670	7 100	8.1	5.0	6.8	6.4
Brazil	5 205	7 566	11 233	12 700	7.8	10.4	8.9	13.1
Mexico	3 275	5 707	7 457	8 100	11.8	6.9	9.6	8.6
Andean Group and Venezuela	5 106	7 485	9 929	10 500	7.9	7.3	7.6	5.7
Central America	476	858	1 101	1 150	12.5	6.4	9.8	4.5
Others	1 921	2 407	3 627	3 750	4.6	10.8	7.3	3.4
<u>Total</u>	<u>19 695</u>	<u>29 504</u>	<u>40 017</u>	<u>43 300</u>	<u>8.4</u>	<u>7.2</u>	<u>8.2</u>	<u>8.2</u>
<u>Total by public services</u>	<u>14 452</u>	<u>22 937</u>	<u>32 598</u>	<u>35 717</u>	<u>9.7</u>	<u>9.2</u>	<u>9.5</u>	<u>9.6</u>
<b>Total generation of electricity (millions of kwh)</b>								
Argentina	11 548	15 927	21 743	23 623	6.7	8.1	7.3	8.6
Brazil	24 405	32 654	45 460	51 870	6.0	8.6	7.2	14.1
Mexico	11 746	19 024	28 590	32 300	10.2	10.7	10.4	11.3
Andean Group and Venezuela	17 431	26 803	36 482	40 453	9.0	8.0	8.6	10.9
Central America	1 624	2 733	4 120	4 453	11.0	10.8	10.9	8.1
Others	6 133	8 874	10 636	11 457	7.7	4.6	6.3	7.7
<u>Total</u>	<u>72 887</u>	<u>106 015</u>	<u>147 031</u>	<u>164 156</u>	<u>7.8</u>	<u>8.5</u>	<u>8.1</u>	<u>11.2</u>
<u>Total by public services</u>	<u>57 238</u>	<u>85 187</u>	<u>123 912</u>	<u>139 581</u>	<u>8.4</u>	<u>9.8</u>	<u>9.0</u>	<u>11.3</u>

Source: ECLA, on the basis of official statistics.

a/ Public services and self-producers.



The index of the volume of mineral production for the region as a whole, using as a base 1963=100, increased during the 1960's at an annual cumulative rate of 4 per cent: i.e., less than that of the growth of the gross domestic product. According to data for 1971 and part of 1972, the volume of production of the traditional minerals (copper, tin, lead and zinc) seems to have stabilized in comparison with 1970, but there is an increase of 5 per cent for 1971 in the production of bauxite and iron ore.

Mineral exports play an important role in the external trade of many countries (Bolivia, Chile, Guyana, Jamaica, Peru, etc.) and also of the region as a whole. During the 1960's, their value increased from 1,210 million dollars in 1961 to 2,960 million in 1970: i.e., a cumulative annual growth rate of 10.5 per cent, much higher than the increase in the index of mineral production.

In 1971, however, there was a drop in the value of mineral exports (to 2,600 million dollars). The main cause was the notable drop during 1971 in world prices of copper, lead and tin, without any compensatory increases in volumes of production.

During the 1960's, and the first years of the 1970's, some favourable changes have taken place for the economy of the region, due to an increase in the degree of processing of mineral exports. Notable improvements in the degree of processing of copper produced in Mexico and Chile are to be observed, while in Mexico and Argentina the processing of lead and zinc has made appreciable progress. In Bolivia, production of metallic tin has risen from the very low proportions of earlier years to 22.4 per cent of total production in 1971. In Jamaica, the production of aluminium for export has increased considerably. In Latin America as a whole, the export of iron ore concentrates and agglomerates (pellets) rose from 1,800,000 tons in 1966 to 4,400,000 tons in 1970 and 5,800,000 tons in 1971.

(iii) Water resources. Although Latin America is fairly rich in water resources, their irregular distribution, the minimal extent to which they have been utilized and the lack of control over their adverse effects have been obstacles to economic and social development.

In 1970, the region used some 3 per cent of the available surface water and a similar proportion of potential hydroelectric resources; only 6 per cent of the cultivated area is irrigated, although about 25 per cent suffers from a shortage of water at some point of the crop cycle, and 140 million inhabitants have no piped drinking water supply. In some areas, water erosion on a vast scale, flooding and contamination cause

/serious damage.

serious damage. Moreover, water legislation has reached a critical state where thorough modification is required, or else the formulation of new codes that are suited to socio-economic realities and to current technological progress.

For all this, much progress was made between 1961 and 1969 in certain sub-sectors, such as hydroelectricity, drinking water supply and industrial water supply, which in the region as a whole expanded at annual cumulative rates of 9.6, 6.7 and 6.5 per cent respectively. Other activities such as irrigation, inland waterway navigation, flood control and water quality conservation have made virtually no progress at all, however.

## 5. Economic growth and the external sector

### (a) External sector trends

In recent years, the relation between the growth of the product and the growth of imports and exports appears to have changed. In the early 1960's, the product grew more rapidly than exports (in both absolute values and purchasing power) and imports. A comparison of the figures given in table 24 for 1961-1963 and 1966-1968 indicates that this trend was particularly marked in Argentina, Colombia, Mexico and Venezuela. In contrast, comparison of the figures for 1969-1971 with those for 1966-1968 shows that the relatively high average annual growth rate of the product which was slightly exceeded by the expansion in the purchasing power of exports, was surpassed to a greater extent by the increase in imports, but not in exports. This trend is particularly noticeable in Brazil and Mexico, where these two variables grew by an annual average of over 10 per cent.

The picture changes somewhat if 1971 is looked at in isolation, since the current value of exports of goods and services grew by only 3.7 per cent in that year. This figure is not only lower than the target of slightly over 7 per cent set in the International Development Strategy, but also signifies a stagnation or decline in real terms if account is taken of inflation in the industrialized countries 10/.

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10/ The target of 7 per cent laid down in the International Development Strategy should, of course, be considered in terms of the purchasing power of exports, although the variation in volume should also be taken into account in order to complete the appraisal.

Table 24

LATIN AMERICA: <sup>a/</sup> GROWTH OF PRODUCT AND OF EXTERNAL TRADE, 1961-1971

(Annual growth rates)

Period countries	1969-1971/1966-1968				1966-1968/1961-1963				1969-1971/1961-1963			
	GDP at market prices	Purchasing power of exports of goods and services	Exports of goods and services	Imports of goods and services	GDP at market prices	Purchasing power of exports of goods and services	Exports of goods and services	Imports of goods and services	GDP at market prices	Purchasing power of exports of goods and services	Exports of goods and services	Imports of goods and services
Argentina	5.3	2.5	3.0	10.8	4.2	3.5	3.0	-1.8	4.6	3.2	3.0	2.0
Brazil	9.0	13.5	11.7	17.0	4.0	5.2	5.7	3.6	5.8	8.3	7.9	8.5
Mexico	6.6	10.1	7.2	10.3	7.8	4.7	4.8	6.3	7.3	6.7	5.7	7.8
Subtotal	7.1	9.1	7.7	12.8	5.3	4.5	4.6	2.8	6.0	6.2	5.7	6.5
Chile	3.7	6.5	2.4	8.0	4.7	11.3	5.2	3.9	4.3	9.5	4.1	5.4
Colombia	6.1	7.2	6.4	7.0	4.8	3.9	3.1	3.2	5.3	5.1	4.3	4.6
Peru	3.1	6.4	1.1	-0.6	4.8	6.2	2.6	8.2	4.2	6.3	2.1	4.8
Venezuela	4.3	1.2	1.9	5.0	5.9	-2.7	2.8	2.0	5.3	-1.2	2.5	3.1
Subtotal	4.5	4.2	2.5	4.9	5.1	1.8	3.2	3.8	4.9	2.7	2.9	4.2
Rest of the countries <sup>b/</sup>	5.0	5.3	4.9	7.0	4.5	8.0	7.4	8.5	4.7	7.0	6.4	7.9
<u>Total</u>	<u>6.3</u>	<u>6.6</u>	<u>5.2</u>	<u>9.1</u>	<u>5.2</u>	<u>4.0</u>	<u>4.4</u>	<u>4.2</u>	<u>5.6</u>	<u>5.0</u>	<u>4.7</u>	<u>6.0</u>

Source: ECLA, on the basis of International Monetary Fund, Balance of Payments Yearbook. Figures for 1971 are ECLA estimates on the basis of national data.

Note: The rates of growth were calculated as between the central years of the three-year periods considered.

<sup>a/</sup> Excluding Cuba and the Caribbean.

<sup>b/</sup> Obtained by computing the difference.

This unfavourable situation is attributable to a combination of reasons, notable among them being the fall in world commodity prices and the slackening of growth in the industrialized countries which curtailed demand for primary products in the major markets. In actual fact, the total value of Latin America's exports would not have risen at all had the price of petroleum not risen and boosted Venezuela's export figures (see table 25).

The country most affected by the drop in export prices in 1970 was Chile, but in 1971 a fall in the prices of other products affected more countries. This was why the value of exports dropped in Bolivia, Colombia, Chile, Guatemala and Peru, stagnated in Ecuador and El Salvador, and rose only sluggishly in Brazil, Costa Rica and Nicaragua. Additional contributory factors in some cases were unfavourable weather and somewhat rigid exchange policies.

The 10 per cent increase in 1971 in the value of imports of goods and services, although high and exceeding in current but not constant values the target set in the IDS, was less than in 1970. While in four countries (Colombia, Honduras, Uruguay and Mexico) imports declined in absolute terms, imports expanded by 30.5 per cent in Ecuador, 28 per cent in Brazil, and between 20 and 10 per cent - in decreasing order - in the Dominican Republic, Costa Rica, El Salvador, Argentina, Panama and Venezuela.

The fact that imports expanded more rapidly than exports in 1971 swelled the region's trade balance deficit by some 1,100 million dollars. This, combined with a rise of some 300 million in net outlays in respect of profits and interest, increased the total deficit on current account for the region as a whole from 2,800 million dollars in 1970 to approximately 4,200 million in 1971. Despite this current account deficit, however, the total balance of payments of the region showed a surplus of an estimated 400 million dollars in 1971, owing to a net inflow of non-compensatory capital amounting to 4,600 million dollars: some 400 million higher than in 1970. An important component in this increase was the rise in the inflow of capital to Brazil and Venezuela, for other countries (Argentina and Chile) experienced sharp cutbacks, while in most of the remainder there was no real change between 1970 and 1971 (see table 25).

Table 25

LATIN AMERICA: BALANCE OF PAYMENTS BY COUNTRIES AND BY PRINCIPAL ITEMS

Country	Exports of goods and services-percentage change over previous year		Imports of goods and services-percentage change over previous year		Balance on current account (millions of dollars)		Balance of payments before compensatory financing	
	1970	1971	1970	1971	1970	1971	1970	1971
Argentina	10.0	-2.1	6.3	10.8	-136.0	-448.0	279.0	-563.0
Bolivia	10.3	-8.4	-2.0	5.9	-22.7	-52.4	3.4	-4.1
Brazil	18.7	7.7	25.7	28.0	-634.0	-1 371.0	635.0	636.0
Colombia	14.4	-6.9	17.7	-3.4	-276.0	-331.0	48.0	-12.4
Costa Rica	20.1	6.8	27.7	13.2	-89.5	-120.6	-9.6	9.0
Chile	-2.3	-9.9	11.0	5.0	-89.5	-230.5	112.3	-300.0
Ecuador	23.0	-	19.5	30.5	-117.1	-221.6	0.2	-16.5
El Salvador	12.7	0.2	2.9	11.1	-0.8	-31.8	11.2	0.2
Guatemala	15.7	-1.3	12.3	7.5	-0.7	-27.3	18.2	17.4
Haiti	6.8	16.1	13.7	8.8	-4.0	-2.1	2.8	7.0
Honduras	4.9	5.7	18.5	-8.3	-67.9	-37.9	-10.9	1.1
Mexico	2.8	7.1	15.9	-0.1	-1 035.0	-887.0	75.0	200.0
Nicaragua	13.2	3.9	11.3	8.3	-42.4	-49.7	10.1	4.6
Panama	6.7	10.7	16.4	10.1	-84.5	-86.2	6.9	3.1
Paraguay	14.5	1.6	-7.2	8.4	-19.6	-25.4	8.4	3.6
Peru	17.0	-12.5	7.6	6.2	125.0	-91.0	174.0	-73.4
Dominican Republic	12.6	13.3	21.3	19.6	-114.0	-154.0	-8.4	12.1
Uruguay	6.9	-10.1	18.0	-4.6	-33.3	-47.1	-29.7	-31.1
Venezuela	4.4	17.7	6.4	10.1	-117.0	26.0	90.0	502.0
<u>Total</u>	<u>9.2</u>	<u>3.7</u>	<u>14.0</u>	<u>10.2</u>	<u>-2 759.0</u>	<u>-4 188.6</u>	<u>1 415.9</u>	<u>395.6</u>

Source: 1970, IMF, Balance of Payments Yearbook, vol. 23; 1971, ECLA estimates on the basis of official data.

/International reserves

International reserves at the end of 1971 amounted to some 5,700 million dollars for the region as a whole, three-quarters of which was concentrated in Brazil, Mexico and Venezuela. In these three countries, reserves were on average equivalent to six months' imports, while for the other countries of the region reserves averaged out at the equivalent of two and a half months' imports.

(b) Structure of the external sector

The region's relatively low import coefficient, standing at 10.3 per cent of the gross domestic product in 1971, is mainly attributable to the performance of the three larger countries of the region, in particular Brazil. Brazil's coefficient was 7.2 per cent, while that of Argentina was 10.2 per cent and that of Mexico 10.8 per cent. At the other end of the scale there are eight countries with a coefficient of more than 25 per cent, most notable among them being Panama and Costa Rica (see table 26).

Between 1965 and 1970, eleven countries increased their import coefficient, but only five of them (Argentina, Brazil, Costa Rica, Ecuador and the Dominican Republic) maintained this trend in 1971. Likewise, of the countries whose import coefficient declined in 1965-1970, only Guatemala, Paraguay and Peru continued the downward trend: all the remainder increased their coefficient, although none of them regained the 1965 level.

These general trends would appear to be the result of a combination of factors. Taking 1960 as the basis for comparison, it is observed that the import coefficient declined in most of the large and medium-sized countries of the region, presumably reflecting progress in import substitution. This was the case in Argentina, Brazil, Colombia, Mexico and Venezuela. Over shorter periods, drops in the coefficient appear to be attributable to temporary contractions in the capacity to import, which in turn are generally the result of unfavourable world prices. In contrast, the coefficient rose in virtually all the smaller countries, generally as a result of an increased supply of foreign exchange generated by the expansion of exports, while at the same time these countries tend to be more affected by the problems encountered in import substitution. Worthy of note was the significant increase in the imports of the Central American countries as a result of the substantial rise in intra-area trade.

Table 26

LATIN AMERICA: IMPORT AND EXPORT COEFFICIENTS

(Percentages)

Country	Import coefficient				Export coefficient			
	1960	1965	1970	1971	1960	1965	1970	1971
1. Argentina	11.3	9.3	9.6	10.2	10.2	10.8	11.3	10.0
2. Bolivia	23.9	31.1	28.4	28.5	16.2	15.4	17.4	17.4
3. Brazil	7.4	4.1	6.6	7.2	6.1	5.7	6.3	6.3
4. Colombia	15.6	12.1	14.8	13.1	15.6	14.3	14.2	13.4
5. Costa Rica	27.1	32.6	37.7	39.5	32.1	20.0	26.2	27.9
6. Chile	16.8	13.6	18.1	16.9	13.8	14.1	12.8	12.3
7. Ecuador	17.5	18.8	22.0	25.7	17.9	21.1	16.9	17.3
8. El Salvador	24.9	28.1	24.5	25.8	30.4	26.8	23.9	23.3
9. Guatemala	14.5	17.9	17.5	17.3	12.6	16.7	18.5	17.8
10. Haiti	17.7	18.6	17.8	17.9	16.6	13.0	12.6	14.4
11. Honduras	22.9	30.4	39.8	34.7	19.7	24.0	25.9	26.5
12. Mexico	12.3	10.0	11.6	10.8	11.0	10.3	9.5	9.7
13. Nicaragua	22.5	32.4	31.7	32.3	20.4	28.3	25.8	25.1
14. Panama	35.9	40.5	47.2	46.2	30.6	35.8	37.2	36.9
15. Paraguay	18.5	19.1	18.0	17.9	14.7	15.0	15.6	15.0
16. Peru	21.1	26.1	25.6	24.6	23.7	21.8	21.8	18.4
17. Dominican Republic	16.1	20.4	30.6	32.9	23.8	16.0	17.1	17.2
18. Uruguay	20.0	12.8	19.4	17.5	14.4	21.7	18.2	15.8
19. Venezuela	20.0	13.6	13.6	13.5	32.2	27.2	25.1	22.7
<u>Latin America</u>	<u>10.9</u>	<u>8.9</u>	<u>10.3</u>	<u>10.3</u>	<u>11.1</u>	<u>10.8</u>	<u>10.2</u>	<u>9.7</u>

Source: ECLA, on the basis of national data.

/Another factor

Another factor is worth examining in addition to the ratio of imports to the product, namely, the level of per capita import in absolute terms in each country. Table 27 gives the value of imports in 1970 and 1971 expressed in dollars at 1960 prices. It will be noted that in five countries (Haiti, Paraguay, Brazil, Bolivia and Colombia) the figure is less than 50 dollars per capita, while at the other end of the scale there are five countries above the 100 dollar mark (Panama, Costa Rica, Venezuela, Nicaragua and Chile). In 1971, the largest increase took place in Ecuador and the largest decrease in Honduras.

The slow rate of growth of the volume of exports over the period 1960-1971 caused a steady decline in the export coefficient of the region, which fell by 0.3 per cent between 1960 and 1965, and by 1.1 per cent between 1965 and 1971. As with the import coefficient, the position of each country varied substantially, as shown in table 26 for between 1960 and 1971 the export coefficient rose in ten countries and fell in nine. There were substantial increases between 1960 and 1965 in the member countries of the Central American Common Market and Panama, while the most sizeable contractions during the 1960's occurred in Peru, the Dominican Republic and Venezuela. In 1971, these three countries, together with Argentina and Uruguay, recorded the largest decreases compared with 1970. In order to assess the real situation in certain countries properly, account must also be taken of the growth rate of the product. Such countries would include Brazil, Chile and Panama, whose product expanded by between 8.4 and 11.3 per cent but whose export coefficient remained stationary or decreased slightly.

As in the case of imports, the region's relatively low export coefficient in 1971 is attributable to the fact that the three countries with the most weight in the regional totals - Argentina, Brazil and Mexico - had coefficients of 10 per cent or less. Chile, Colombia, Haiti and Paraguay had coefficients of more than 10 but less than 15 per cent, while at the top of the scale, with coefficients of over 20 per cent, were the Central American countries (excepting Guatemala) together with Panama and Venezuela.



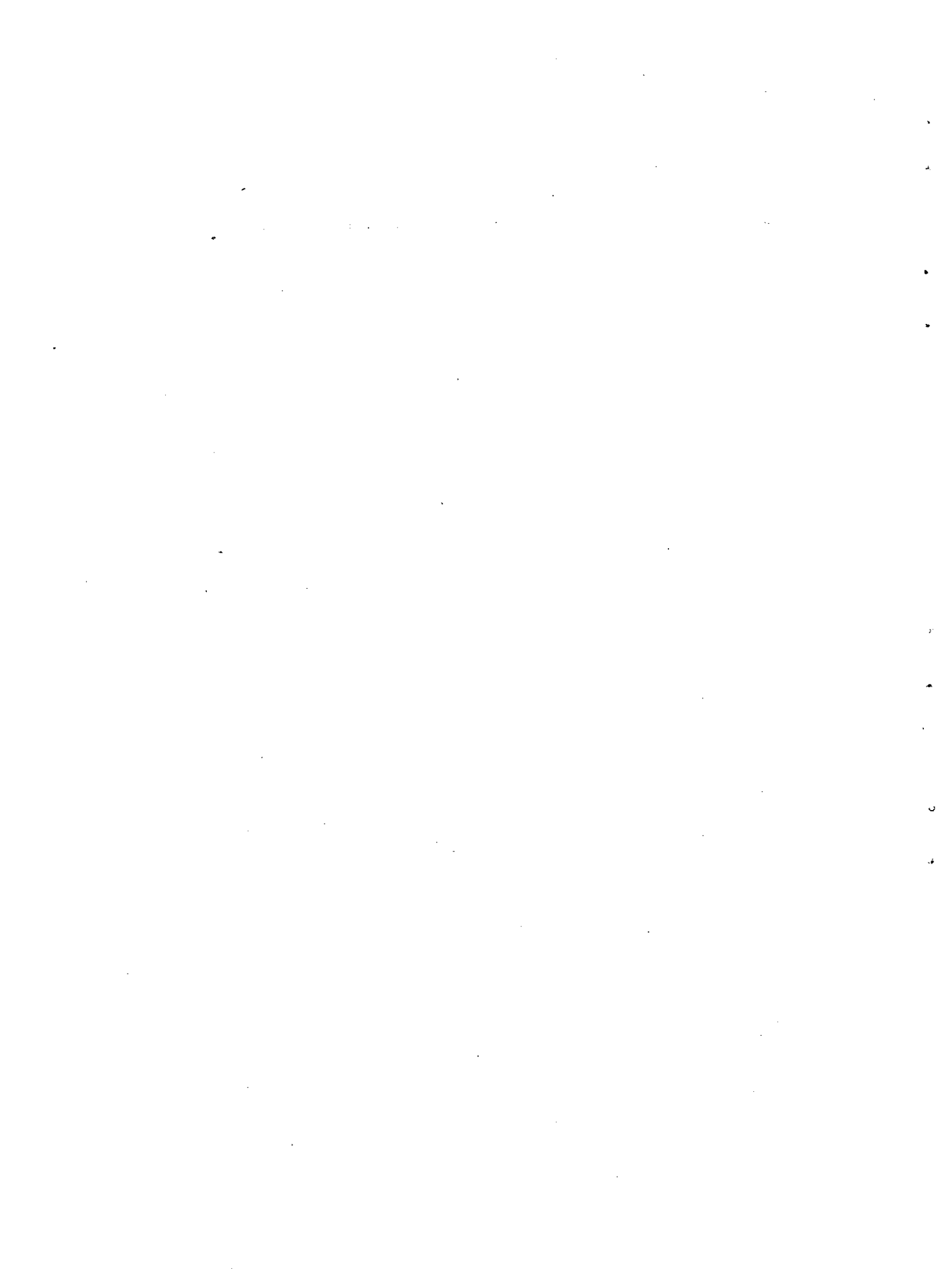
Table 27

LATIN AMERICA: PER CAPITA IMPORTS OF GOODS AND SERVICES

(Dollars at 1960 prices)

Country	1970	1971	Percentage variation between 1970 and 1971
Argentina	76.6	80.2	3.6
Bolivia	39.3	40.5	1.2
Brazil	30.8	36.6	5.8
Colombia	46.7	43.5	-3.2
Costa Rica	188.4	194.4	5.7
Chile	112.5	112.1	-0.4
Ecuador	56.6	68.0	11.5
El Salvador	69.0	75.0	6.0
Guatemala	60.0	57.9	-2.1
Haiti	12.0	12.9	0.9
Honduras	86.8	74.7	-12.1
Mexico	54.5	51.4	-3.1
Nicaragua	113.4	118.1	4.7
Panama	275.8	284.0	8.2
Paraguay	35.4	35.4	0.0
Peru	62.7	62.7	0.0
Dominican Republic	73.5	80.7	7.2
Uruguay	94.5	87.8	-6.7
Venezuela	164.2	166.8	2.6

Source: ECLA, on the basis of official statistics.



### Chapter III

#### THE INTERNAL EFFORT TO MAKE USE OF PRODUCTION RESOURCES

##### Introduction

The International Development Strategy has clearly stressed the principle already laid down in the Charter of Algiers that "the primary responsibility for the development of developing countries rests upon themselves". This implies, inter alia, as the resolution on the Development Strategy indicates, that these countries "must, and do, bear the main responsibility for financing their development. They will, therefore, continue to adopt vigorous measures for a fuller mobilization of the whole range of their domestic financial resources and for ensuring the most effective use of available resources, both internal and external".

The task of this part of the regional appraisal of the Second United Nations Development Decade is to analyse the manner and degree in which progress towards this aim has been achieved. To this end, attention has been concentrated on certain outstanding aspects.

The first of these concerns the general context of the policies adopted, which set the pattern and determine the general means for the mobilization of domestic resources. In view of this, it was decided to analyse developments regarding the planning systems, which in the last analysis are the determinants in this general context of economic policy. Moreover, it may be recalled that the International Strategy lays particular stress on this point, prescribing that "developing countries will, as appropriate, establish or strengthen their planning mechanisms, including statistical services, for formulating and implementing their national development plans during the Decade".

The second aspect concerns the efforts of various Governments, in accordance with their particular orientations, to transform the institutional frameworks within which economic activity is carried on and in which social relations evolve. The last few years have witnessed considerable changes in this respect, mainly directed at reaffirming national or state control in strategic sectors, increasing the efficiency of government action and modifying the agrarian system.

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The third aspect is concerned with the efforts to make fuller use of human material and financial resources. This chapter will concentrate on what has been done in the financial field, since "human development" is dealt with in chapter I, and the developments observed in the field of material resources are dealt with in the section on the behaviour of the various sectors of the economy (chapter II).

The last aspect concerns the activities of the public sector, which are of vital importance for the process and purposes of the Strategy. This is recognized by the basic resolution when it says that developing countries "will pay particular attention to taking, as appropriate, the necessary steps to streamline and strengthen their systems of tax administration and undertake the necessary tax reform measures. They will keep the increase in their current public expenditure under close scrutiny with a view to releasing maximum resources for investment".

The material appearing in this section - and in others dealing with associated matters - seems to make it clear that an appreciable effort has been made both as regards the mobilization of basic resources and the rationalization of economic policies through the discipline of planning, and also as regards institutional changes.

## 1. Recent trends in planning in Latin America

### (a) General considerations

Analysis of the trend of planning activities in Latin America during the 1960's suggest that the degree of progress achieved, the influence exerted by planning, and the degree of success obtained in the perfection of systems and processes have been varied and uneven. Indeed, in the latter half of the 1960's planning was the subject of severe criticism, and in some circles there was increasing scepticism as to whether it was of any use for achieving basic structural changes.

It appears, however, that this tendency has changed: a recent survey indicates that the countries of the region, with some exceptions, are showing renewed interest in giving planning a new technical and political sense designed to assist in bringing about considerable structural changes which will lead to a new society. Planning would thus become an instrument in the strategy of social change and a means of rationalizing decision making so as to harmonize and make compatible the partial policies of different sectors of public administration. This would be an

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acknowledgement that planning in Latin America has a well-defined set of problems and political significance and cannot be considered solely from a technical, administrative and organizational angle.

The above-mentioned survey states that in the last three years, at least five countries of the region have made substantial modifications tending to increase the participation of planning mechanisms in the conduct of the national economic and social development process, while seven countries have taken measures aimed at increasing the participation of the central planning agency in regional development. The majority of the countries of the region have adopted various measures aimed at increasing the efficiency of the central planning agency.

Only seven countries of the region have not made significant modifications in their planning processes, but it should be borne in mind that several of them already possess quite extensive planning machinery.

The advance of planning in the last few years would seem to be the result of the need to find solutions for social and economic problems which have become more acute. In proportion as the aspirations of large sections of society take the form of a vehement demand for better conditions of living and governments decide to answer this demand, the conduct of social and economic activity becomes increasingly difficult. The restrictions in existence when planning was started have become increasingly severe and are compounded by others which require greater rationality in government administration. There is an increasing awareness of the benefits of having available a long-term frame of reference explicitly setting out the aims and targets which would guarantee the coherence necessary in decision-making. There is equally a genuine concern for the short-term, as a period which necessarily conditions longer-term prospects. These concerns are reflected in the fact that not a few countries have begun to prepare long-term strategies and plans of action, while at the same time they are considering with ever-growing urgency the preparation of annual operational plans.

Planning is now being viewed as a unitary process, in which the short-, medium- and long-term considerations condition each other mutually, and therefore call for treatment aimed at their co-ordination and integration. Planning in the different spheres - periods of time, sectors, regions, etc. - calls for a type of integration which will give a unitary effect temporally, spatially and sectorally. In many Latin American countries there is a

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concern for these different aspects which offers encouraging prospects of real change in the way in which governments now interpret the planning processes. All this means an increase in the work of planning offices, some of which have already started structural reorganization in order to tackle their work with greater efficiency.

(b) Political and institutional aspects

As regards the political and institutional aspects of planning processes, a survey of the countries shows that in the last few years some progress has been made, although the information collected on this matter is not very precise.

The tendency towards a broadening gap between political circles and the centres of decision and planning has been partly reversed. Whatever the ideologies of the countries, the latter centres have been accommodating themselves more and more to the designs of Governments and hence to the political and social forces which uphold the power. At least four countries have given various political and social forces an opportunity to participate in the political decision-making bodies which directly guide the planning machinery.

A factor which has helped to reduce this gap is the fact that in some countries the plans have to be discussed and analysed by the parliaments, while in others the opinion of entrepreneurial, professional and labour associations is sought both when the plans are being formulated and when they are made public.

With regard to the relations between the planning machinery and the agencies of the public sector, it may be said that although great differences still exist and situations vary even within the same country, the tendency is towards a greater degree of complementarity and co-ordination. This is due to many different factors: planning is now enjoying formal acceptance not only in bureaucratic circles but among the public in general; the planning machinery has in most cases overcome the problems of the initial stages of its organization; and (a very important factor) it has been supplying the rest of the public administration with part of its technical cadres, thus at least helping towards a more flexible communication with the public agencies.

An aspect particularly worthy of mention is the link between the planning machinery and the decision-making bodies as regards economic and social policy. The central planning agency usually forms part of or is represented on, the economic cabinet or bodies of similar status. When it is not itself a ministry, the head or director of the agency usually has the rank of minister.

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Through its participation in the inter-ministerial councils or committees concerned with decisions on price, tariff, credit, money and other policies, the planning agency can exert an increasing influence on the conduct of the economy, even in day-to-day matters, and the plans can be made to fit in more easily with the problems and situations which are important factors in political decisions. Such participation, however, is very often formal rather than substantive. Thus, in most of the countries of the region, a discrepancy may be observed between the money and price policies applied and those proposed in the plans. This and other similar situations have gained prominence among the concerns of the planners, who have already started promoting experimental planning techniques covering numerous typical variables of economic policy, mainly through numerical experimental models which have been tried out in at least four countries of the region.

Of special interest for the planning experts is the association between planning and the budgetary process. The need for very close co-ordination between them requires no discussion, and in some countries the budget office is part of the planning mechanism. The main efforts, however, have been channelled towards a link which would permit the application of uniform criteria in the allocation of resources, so that short-term decisions will be in line with the basic intentions of the plans and strategies. In many cases, that part of the budget covering investment expenditure is drawn up by the central planning office, while current expenditure is left in the hands of the budget office.

In some countries, the fusion of the budget office with the planning mechanism is not considered advisable, since the former is in charge of a large amount of frequently routine and detail work which could well slow down the operation of the planning mechanism by overloading it with work. In other countries, it is considered inappropriate to assimilate the handling of public income, which is also characterized by a great deal of detail work, with planning operations.

In any case, it may be considered that in the majority of countries, satisfactory formulas for an operational link between planning and budget work have not been found, and it can be seen that a large part of the problem of implementing the plans, and even of securing their viability, is due precisely to this fact.

As regards the relations between the central planning mechanism and the executive agencies of the public sector, a favourable trend is appearing. In the first planning experiments, sectoral plans were

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formulated almost exclusively by the central planning office, with a very limited part played by the executive agencies. In the majority of cases, this participation took the form of supplying statistical data and investment ideas, and taking part in general discussions on the targets. During the past few years, however, the sectoral planning units have had a much larger share in the substantive aspects of the preparation of sectoral plans, especially as regards the infrastructure, the manufacturing sector and the social sectors which are the responsibility of the State. An immediate consequence of this tendency is that the plans are no longer taken to be manifestations or exclusive proposals of the central planning agency, but increasingly constitute patterns for the orientation and rationalization of administration as a whole. It should, however, be borne in mind that this favourable tendency is still far from reaching any satisfactory expression.

A similar but less noticeable tendency may be noted in the relations between the central planning agency and the autonomous bodies and State enterprises. The efforts at co-ordination which have been tried out concern the establishment of common budgetary principles jointly with the public administration, through the ministries to which the bodies and enterprise are administratively linked. Planning units have also been set up on an increasing scale in these bodies and enterprises, but they generally act as technical advisers to the respective governing bodies. There is still a long way to go here, although these bodies have increasing importance in the operation of the economy and in the development process.

The same phenomenon occurs with the links between the central planning mechanism and the development banks and development corporations. These bodies are important centres for the allocation of resources, and therefore also for the policies closely linked with medium- and long-term development. In addition, they promote or directly implement key sectoral plans for national development, especially in the field of energy and basic industries. The relations with these bodies are just as important as those mentioned above with the decision-making centres for economic and social policy. The greatest deficiencies in the planning processes in the Latin American countries are to be found in these cases.

Another aspect worthy of mention is the development of the preinvestment mechanisms during the last few years. They are not always linked with the planning mechanisms so as to ensure a reasonable degree of complementarity between the two processes, although this is increasingly considered as an indispensable requisite for the proper operation of the

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planning process. The Inter-American Development Bank has played a predominant role here, in placing funds for preinvestment studies at the disposal of numerous development banks and other similar bodies. In such cases, Governments have generally had to make counterpart contributions to match these funds. Only in a few countries does the central planning body establish the system of priorities for the use of such funds: in the majority of cases the priorities remain subject to the criteria of the administrators of the funds.

(c) Participation of the private sector

It may be deduced from the surveys and research carried out that the direct participation of the private sector in the planning process presents different features at different levels of the process. Generally speaking, this participation is very slight in the case of overall planning, despite the fact that in many countries there is formal participation by the private sector in national development councils or other similar agencies. This is not so at the level of sectoral and regional planning, however, where the links between the respective planning mechanisms and the entrepreneurial chambers, major enterprises, professional and trade union agencies, etc., are much stronger. The links mentioned are merely consultative and cover discussions for the fixing of goals and aims, amounts of investment, technological aspects, siting, and the design of policy measures.

Forms of participation are extremely varied, in keeping with the special features of the political processes in the countries in question and the methods by which the civil service operates. In some countries the development of, for example, natural resources obviously calls for public and private decisions which are mutually conditioned. In others, however, still taking the same example, the initiative is usually public, and private activity is conditioned by it. The same thing happens when monetary authority is shared with the private sector.

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These comments show why, at the beginning of this section, the problem was restricted to the direct participation of the private sector in the planning process. It should, however, be observed that indicative planning may provide the private sector with important guidelines. The mere formulation of a coherent national forecast may influence the expectations of the sector insofar as the incentives and sanctions are used selectively to guide the branches of industry or enterprises towards certain aims. It may help to reduce errors and wastage in a process of rapid technical change, and channel investment to the sectors and regions to which the State has given priority.

(d) Evaluation machinery

It may be deduced from the analysis of the results of the surveys and research carried out on this subject that, generally speaking, the countries of the region do not possess a regular mechanism for the appraisal of the progress of plans and policy in general. There is no specific mechanism, with a group of clearly defined indicators and criteria, for making an integral evaluation of the various aspects of economic and social progress so as to produce periodic reports on the results and provide guidance for making adjustments to the policies in force.

It is, however, possible to identify in the countries some mechanisms or activities which take into consideration partial aspects of this appraisal. Notable among these are the reports and meetings which take place periodically in CIAP, when each of the Latin American countries in turn presents and discusses the methods and results of the administration of short-term economic policy, linked with medium-term plans and external financing.

In the same context, another valuable activity is the work being carried out on social accounting, which periodically (although often with delays) presents the values reached by macroeconomic variables which constitute quantitative indicators

/of economic

of economic growth. Similarly, in many countries the statistical system regularly produces data on important aspects of the economic administration of the country, movement of prices, industrial output, etc.

As regards the appraisal of progress in the implementation of plans, it is generally the central planning agencies which carry out this control and appraisal, and they are thus in a situation to give a fairly accurate idea of the achievements in terms of goals and aims. This work, however, frequently employs controls based on relatively formal indicators, such as the magnitude of public expenditure forecast and actually made, which usually leave aside important aspects regarding the viability of the plan and the development policy aimed at. The delays observed in these activities mean that the results are not up-to-date, and this makes it more difficult to rectify or adjust the goals and instruments.

Other types of controls exist for programmes and projects; some are effective for the purposes of the administration itself, or are required by the international agencies which have collaborated in financing the programmes. It should, however, be borne in mind that this group of controls is not usually exploited to the full so as to interpret its results in terms of concrete opinions on the trends, viability and degree of fulfilment of the general plans and policies. This is partly due to the fact that the central planning office does not collect the information provided by these controls very rapidly: by its very nature, this information is extremely decentralized and comes under the responsibility of the executive agencies.

It must be acknowledged, however, that in many of the activities included in the public sector increasing use is being made of programming techniques which contribute to a rapid appraisal of results.

The great majority of Governments have indicated, through the survey mentioned earlier, a marked interest in obtaining technical assistance for setting up central evaluation machinery in order to perfect the control of the implementation of the plans and to assist the use of new techniques in this field.

## 2. Institutional developments

One of the more important aspects of domestic development efforts is the set of major transformations that have occurred in the institutional framework of the economic system and social relations, affecting the system of ownership and the structure of enterprises, connexions with foreign interests, protection mechanisms for primary commodities, land tenure, the administrative apparatus and economic policy instruments.

The nature of these developments is of course closely connected with the political convictions and characteristics of the individual Governments and the situations prevailing in the region are so varied that it is indispensable to take this factor into account. Far-reaching changes have either already taken place or are under way in Latin America, especially as regards natural resources, the situation of enterprises, and public administration. Governments have accordingly adopted various policy measures and employed a variety of instruments according to each country's particular circumstances. One common feature, however, has been the adoption of measures granting the State a greater degree of participation in the management and control of production.

As far as natural resources are concerned, the institutional changes over the past years have been aimed at the more efficient utilization of resources and increased participation by the State in their exploitation. The nationalization of the major enterprises, the association of the State with foreign enterprises and the modification of concessions and conditions for the exploitation of basic natural resources have been the most usual methods of bringing these changes about.

In recent years, agrarian reform has been speeded up in Chile and Peru and has spread in Bolivia, Cuba, Mexico and Venezuela; Colombia, Ecuador and Panama have also started taking serious steps in this direction. Most Latin American countries have now passed agrarian reform laws and set up agencies to put them into practice. For all this, progress cannot be considered altogether satisfactory at the regional level, since the existing systems of ownership, use and exploitation of the land are not adequate for the growing requirements of the economic and social development of the Latin American countries.

As to the reform of the enterprise and the definition of the areas of State, semi-public and private ownership, there have been a number of notable national experiments. Chile and Peru are currently introducing major changes in the structure of enterprises, particularly in the public

/and semi-public

and semi-public sector, through the participation of the workers in their management. Other countries such as Mexico and Venezuela have stipulated that certain activities can only be conducted by the State.

With regard to the reorganization of administrative systems and instrumental apparatus, more or less far-reaching steps are being taken in several Latin American countries. Many already possess agencies for rationalizing public administration and have made institutional changes so as to adapt the administrative apparatus to the growing demands of economic development. Brazil has been particularly active in this field.

(a) Basic natural resources

The exploitation of basic natural resources by large foreign enterprises has been a source of tension and controversy in Latin America. The traditional concession agreements for prospecting and extracting such resources have been criticized as unfair to the countries possessing the resources.

In several countries, the situation has led to attempts to recover the natural resources in the hands of foreign capital and to modify or cancel agreements with foreign enterprises. Such policies have adopted various formulas, ranging from increased taxation and control over the activities of the enterprise to expropriation or nationalization, and including the creation of semi-public enterprises and the purchase of the shares of the foreign companies. In some cases, their application has provoked serious conflicts between the Governments and the foreign enterprises, some of which have refused to renegotiate agreements while others have resorted to reprisals in order to obtain compensation.

Since this kind of situation has arisen in other parts of the world too, especially where petroleum resources are concerned, the developing countries have brought up the problem in international forums. In the United Nations, the question has received special attention and a number of resolutions have been adopted to ensure permanent sovereignty of countries over their natural resources and to facilitate their mobilization in order to accelerate economic development 1/.

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1/ General Assembly resolutions 523 (VI) of 1952, 626 (VII) of 1952, 837 (IX) of 1954, 1314 (XIII) of 1958, 1515 (XV) of 1960, 1803 (XVII) of 1962, 2158 (XXI) of 1966, 2386 (XXIII) of 1968 and 2692 (XXV) of 1970.

The International Development Strategy for the Second United Nations Development Decade stipulates that "full exercise by developing countries of permanent sovereignty over their natural resources will play an important role in the achievement of the goals and objectives of the Second United Nations Development Decade. Developing countries will take steps to develop full potential of their natural resources" 2/.

The exploitation of basic natural resources has great economic importance for Latin American countries both as a means of increasing the domestic product and as a source of employment. Some 90 per cent of the foreign currency earned by the region comes from the export of primary products, and this enables it to import goods and services that are vital to its development. As a rule, this variable determines the growth potential of the countries of the region.

Ten agricultural commodities six minerals and two hydrocarbons account for about two-thirds of the total value of exports and show how dependent Latin American economies are on just a few products 3/.

On the other hand, the region possesses a vast number of natural resources whose potential is frequently unknown. In terms of non-renewable natural resources especially, Latin America has exceptional stocks compared with other regions, although the way they are exploited and marketed is not necessarily in keeping with their real value. Although Latin America possesses 30 per cent of the world's copper reserves, it accounts for only 16 per cent of world production. The disproportion is even greater in the case of nickel, its reserves of which amount to 24 per cent of the world total compared with a production of only 6 per cent of the total. The same applies to iron, zinc and lead, although the opposite is true of bauxite and tin 4/.

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2/ General Assembly resolution 2626 (XXV) of 1970, paragraph 74.

3/ Agricultural commodities: coffee beans, raw sugar, raw cotton, bananas, maize, fish meal, beef, wool, cocoa beans and wheat; minerals: copper, iron ore, bauxite, aluminium, tin and zinc; hydrocarbons: crude petroleum and petroleum products.

4/ The data on stocks have been taken from Mineral Facts and Problems, 1968; data on production have been taken from Yearbook of the American Bureau of Metal Statistics and from American Metal Market.

The situation has caused increasing concern among the countries of the region, which have adopted various measures to encourage a more rational and efficient use of basic natural resources and a greater degree of local processing. Though Government policies have varied from country to country, one common feature of them all has been the adoption of measures enabling the State to play a larger role in the management and control of natural resources.

Two major tendencies have emerged in Latin American countries in recent years. On the one hand, efforts are being made to ensure more State participation in enterprises exploiting natural resources, by raising taxes, increasing fiscal control to obtain more revenue or purchasing part of the shares so as to form a semi-public enterprise. In its extremest form, the aim is to gain complete control over the resources, either through nationalization or through the purchase of all the shares in the enterprise.

These policies have given rise to a number of institutional reforms, some of which are still being developed; consequently, not enough background information is available to evaluate them properly or to measure the impact they may have had on economic and social development.

The tendency for the State to assert its sovereignty over basic natural resources is a recent phenomenon and has taken various different forms in the region. The most far-reaching institutional changes have occurred in the mining and energy sectors.

In 1969, Peru declared null and void the legal instruments covering the exploitation of the deposits worked by the International Petroleum Corporation (IPC) and created a State enterprise, PETROPERU, to take over the expropriated company.

In 1970, Bolivia nationalized the deposits worked by the Gulf Oil Corporation, for which it offered compensation in the amount of 786 million dollars payable over 20 years beginning in 1973.

In 1971, Ecuador introduced a new law on hydrocarbons under which the Corporación Estatal Ecuatoriana (CEPE) received exclusive rights to prospect and exploit deposits, either directly, or by concluding contracts of association or for the provision of services with national or foreign enterprises or else through the creation of a semi-public enterprise.

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In 1971, two important laws on hydrocarbons were passed in Venezuela. The first of these, known as the law on reversion, stipulates that, as of the date of promulgation of the law, the State is empowered to control goods and assets that are scheduled to revert to public ownership once the petroleum concessions expire. Some 80 per cent of these are due to expire between 1983 and 1985. Under the new law, the petroleum companies are required to establish a special fund to guarantee that their assets will revert to the State in perfect working order. The second law gives the Corporación Venezolana del Petróleo (CVP) exclusive rights over the exploitation of natural gas, stipulating moreover that only natural gas extracted together with the petroleum can be exploited on an industrial scale.

Another aspect that has received attention in certain countries such as Mexico, Chile, Venezuela and Colombia is State control over basic petrochemical industries.

The tendency for foreign enterprises to pass into the public sector has also become accentuated in respect of electrical resources, usually through the purchase of shares. Similarly, in some countries the State has claimed sole rights to exploit hydraulic resources.

As with hydrocarbons, major institutional changes have occurred in the last few years in the mining sector with a view to the more efficient utilization of resources and increased State participation.

In 1952, Bolivia became the first country to nationalize its main sources of wealth, namely, its tin deposits (by decree of 31 October 1952).

The second nationalization of importance was carried out by Chile by means of a constitutional amendment (December 1970) which the Congress ratified unanimously (Law Nº 17,480 of July 1971) and which authorized the nationalization of the five major semi-public enterprises working the copper deposits of Chuquicamata, El Salvador, El Teniente, Exótica and Andina. Formerly, the State had held 51 per cent of the shares of the first three mines, 25 per cent of the Exótica and 30 per cent of the Andina, but the administration of the enterprises had remained in the hands of the foreign associates.

The amount of compensation, which was established in accordance with the provisions of the constitutional amendment, provoked a series of counter-claims from the former foreign associates and, in the case of the

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El Teniente mine, gave rise to a dispute between the Chilean Government and the former United States owner, the Kennecott Copper Corporation, which applied for embargoes on sales of copper.

As a result of direct negotiations, the Chilean State acquired the privately-owned shares of the Compañía de Acero del Pacífico (CAP), which owned the Algarrobo iron deposit. The State also acquired ownership of the Bethlehem Iron Mine (for which it paid 20 million dollars and which controlled the El Tofo and Romeral mines) and the Santa Bárbara and Santa Fé companies. In this way, 95 per cent of Chilean iron production passed into the hands of the State.

The Government also took over the Sociedad Química y Minera, a semi-public company jointly owned by the State (which owned 37.5 per cent of the shares) and by United States interests, which had been established as a result of the merger of the Compañía Anglo-Lautaro and the Salitrera Victoria. The Empresa Carbonífera Lota-Schwager, which produced some 80 per cent of the country's coal, also came under State control.

Other countries have preferred to make their institutional changes by issuing new mining codes and legal provisions substantially modifying the mining system. An effort has been made to incorporate various provisions laid down in recent decades in a single legal document and to establish an appropriate mining system. The day is past when mining was merely thought of as a source of foreign currency and fiscal revenue.

In 1971, Peru passed a general law on mining (Decree-Law No 18,380 of 8 June) which replaced the mining code established in 1950. The law contains provisions governing administrative procedures in the mining sector, establishes that definitive titles to mining rights cannot be legally contested more than two years after their publication in the public mining register, standardizes mining contracts, and introduces a set of mining regulations. The law further includes three provisions which will give mining in Peru its own special character: (i) the marketing of all mineral products is to be carried out by the State and their sales price is to conform to the "price list of Peruvian products" which is based on representative international prices; (ii) the State is authorized to conduct mining operations through State enterprises, provided its share of the capital of semi-public enterprises is at least 25 per cent; and (iii) workers are to share the profits from production through the creation of a *Comunidad de Compensación Minera* and participate in management through a *Comunidad Minera*.

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In 1970, a decentralized State agency called Empresa Minera del Perú was set up to undertake future mining operations in the country. The general law on mining also set up an institute of mining science and technology with its own budget.

The Mexican Government is implementing a policy of "Mexicanization" of foreign investments in basic activities by negotiating the transfer of 51 per cent of the capital into Mexican hands. Thus, for example, the Compañía Minera de Cananea, a branch of the United States Anaconda Copper Company, reduced its holdings in the enterprise to 49 per cent in 1971, the remaining 51 per cent being acquired by State and private institutions, and in 1972, a transaction was completed whereby the Mexican Government purchased the entire capital of the Azufrera Panamericana which had already sold 66 per cent of its shares to the Government in 1967.

Other countries such as Chile, Ecuador and Venezuela are studying the possibility of replacing their old mining codes with legislation incorporating the kind of modern procedures and criteria which are already being applied in other countries and which would give the mining sector a new economic complexion.

The dependence of several Latin American countries on the exportation of non-renewable basic products has led them to take joint international action to protect prices and markets. Much of the work is being undertaken by UNCTAD. Elsewhere, attempts have been made to reach agreement between producer and consumer countries or to form a united front of the main exporting countries.

Such agreements as these have mostly applied to agricultural commodities, and are a type of arrangement whose usefulness was stressed in the International Development Strategy. UNCTAD is currently engaged in studying what similar steps could be taken with regard to a large number of basic products.

The largest organization of exporting countries is the Organization of Petroleum Exporting Countries (OPEC), whose membership includes the world's main exporters of petroleum. Venezuela was the first country to make a move in this direction in 1948, and OPEC itself was created at the first Baghdad Conference in September 1960 <sup>5/</sup>. At the second conference in Caracas in January 1961, the operational machinery and its various organs were set up and the number of associated was increased.

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<sup>5/</sup> Saudi Arabia, Iran, Kuwait and Venezuela participated.

The resolutions which OPEC adopted at its conferences in Caracas at the end of 1970 and in Teheran at the beginning of 1971 are extremely important: official or reference prices were raised substantially, taxation was increased to as much as 55 per cent, permanent and temporary freight rates were established, a premium was introduced to counteract inflation, and so on. Probably the most significant decision reached by OPEC was that the producing countries should take an active part in setting international prices.

Copper comes under another organization, the Intergovernmental Council of Copper Exporting Countries (CIPEC), which is constituted by the four principal exporters: Chile, Zambia, Zaire and Peru. CIPEC was created at the intergovernmental conference held in Lusaka in June 1967 at which the above four countries were represented. Botswana and Uganda and representatives of UNCTAD also attended as observers. Its statutes and membership were ratified by the Governments concerned in 1968.

The purpose of CIPEC is to co-ordinate measures designed to promote a dynamic and continued growth of real income from copper exports through the expansion of the industry and to help member countries to reach decisions and adopt policies relating to copper production on a co-ordinated basis 6/.

Some Latin American countries have also tried to set up an organization to protect the iron ore market. Worried by the steady drop in prices, the Government of Venezuela initiated conversations with representatives of Brazil, Chile, India, Liberia, Peru and Mauritania during the second session of UNCTAD in connexion with mutual problems regarding iron ore. In September 1968, an informal group of producers and exporters of iron ore was set up and has since held four meetings.

As can be seen, Latin American countries have played a major role in the creation of international organizations for the defence of the exploitation and marketing of basic products. Another very interesting initiative has been the establishment of regional organizations of State enterprises for exchange of experience and the provision of mutual assistance.

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6/ Article 2 of the Statutes.

The first of these, the Latin American State Petroleum Enterprises Mutual Aid Association (ARPEL) was constituted in 1965 with a membership of seven countries <sup>2/</sup>. Its main function is to establish the basis of Latin America's petroleum market within the integrationist framework of LAFTA by means of technical co-operation at every level. One of ARPEL's projects is to study the possibility of manufacturing the machinery, equipment and spare parts which the petroleum sector requires within Latin America.

(b) The reform of the enterprise and the definition of State semi-public and private ownership

The process of institutional change which has become more rapid during the past three years has also extended to the enterprise. In the Latin American region, Peru is the country which is now in the best-defined situation as regards the formalization of industrial, mining, fishing and agricultural communities and workers' co-operatives.

In the agricultural sector, the big sugar latifundia expropriated in the northern coastal area have become a new type of enterprise (known as Sociedades Agrícolas de Interés Social - SAIS) established on a co-operative basis to include both the expropriated latifundia and neighbouring peasant communities which have received official recognition.

In the fisheries sector, large-scale changes have also taken place through the adoption in 1971 of an organic sectoral law affecting the status of enterprises. The law lays down a system for the fishing communities (made up of the workers of each fishing enterprise).

Similar measures have been taken in the industrial and mining enterprises.

Chile is another country of the region which is carrying out institutional changes. One of these is the development of an area of "State ownership", aimed at directing the efforts of production towards the basic needs of the population.

During 1971 and 1972, more than 100 industrial and commercial enterprises have been brought under state ownership through expropriation or the purchase of shares. In addition, another group of enterprises has been requisitioned or taken over by the State for various reasons.

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<sup>2/</sup> Argentina, Bolivia, Brazil, Colombia, Chile, Peru and Venezuela.

The Government has presented to Congress a draft law which defines three areas of economic activity: (a) State ownership; (b) semi-public ownership; and (c) private ownership. This draft law lays down provisions for the formation of the area of State ownership, which is to include activities of different kinds and those already being carried out by the public sector. It also defines the limits of the other two areas and the conditions for their operation.

As regards workers' management in more the 150 State and semi-public enterprises, belonging to an extremely wide range of economic activities, integrated management councils have been set up in line with a scheme approved by the Central Unica de Trabajadores and the Government. Production committees and workers' co-ordination committees are also being formed. Generally speaking, the management councils are made up as follows: five representatives of the workers, elected directly; five representatives of the State, nominated by the President of the Republic or by some State agency, and the administrator, who is nominated by the President of the Republic.

The Government of Mexico is carrying out a "mexicanization" policy for foreign investment, and has formulated a policy to regulate the share of the State and that of private domestic and foreign capital. Its main provisions lay down the following:

(i) Exclusive property of the State: oil, basic petrochemicals, electricity, railways and telegraphic and radio-telegraphic communications (on account of their importance for the security or economic life of the country).

(ii) Exclusive property of Mexicans or Mexican companies: radio and television, motor transport on Federal highways, distribution of gas and development of forests.

(iii) Majority Mexican capital:

75 per cent - credit institutions and auxiliary organizations; insurance and bonding companies.

66 per cent - exploitation of national mineral deposits.

60 per cent - secondary products of the petrochemical industry.

/51 per cent

51 per cent - agriculture; pisciculture and fisheries; rubber industry; publishing; soft drinks and syrups; production, distribution and exhibition of cinematographic films; sea, air and ground transport; coastal shipping traffic; mining (ordinary concessions); cement; steel; glass; fertilizers; pulp; aluminium and associated products; munitions and explosives.

The policy of the Mexican Government represents a new approach to foreign investment and to the need to make activities which are vital for the security or the economic life of the country the exclusive property of the State.

(c) Agrarian reform

During the 1960s, in nearly all the countries of the region, various initiatives aimed at the transformation of agriculture were introduced.

The attempts made had different degrees of depth and breadth, depending on the particular economic, political and social conditions involved. There were, however, two common main tendencies during this period:

(i) Processes aimed basically at the modernization of agriculture, giving priority to the application of techniques and capital for increasing production and productivity but not directed at a modification of the social structures. The action of these policies is limited to the development of colonization programmes, improving price levels or establishing tax measures to induce better use of the land.

(ii) Processes of gradual change of the agrarian structure, combining the introduction of modernization techniques with structural transformations and seeking to bring about the gradual extension of economic and social benefits to the rural population. In some cases, these processes have given rise to and developed the establishment of associative forms of ownership and agricultural development, based on the organization and participation of the peasant.

For the region as a whole, the number of persons benefitting from agrarian reform during the 1960s may be estimated at between 1.0 and 1.2 million peasant families, more than half of these Mexicans and Venezuelans <sup>8/</sup>. This means an annual average of around 100,000 families, whereas the annual increase in the rural labour force is around 500,000 workers.

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<sup>8/</sup> Inter-American Development Bank: Socio-Economic progress in Latin America, 1970.

During the first years of the 1970s, two new processes of radical change took place in the agricultural sectors of Peru and Chile. There was also progress in agrarian reform in Bolivia, Mexico, Venezuela, Colombia, Ecuador and Panama.

Chile is carrying out the process of transforming agrarian structure through the application of the agrarian reform law of 1968. In 1971 and 1972 the process accelerated considerably. In 1971, 1,203 farms covering 2.3 million hectares were expropriated for 20,139 families 9/. Towards mid-1972, the official agencies estimated that the entire process of agrarian reform in Chile had meant the following achievements:

(i) 60,000 peasant families had benefitted from the reform;

(ii) 4,564 farms had been expropriated, covering more than 7 million hectares, (732,000 hectares under irrigation (HRB)), i.e., 35.4 per cent of the total agricultural land in Chile;

(iii) only 200 farms with more than the maximum areas of irrigated land laid down in the agrarian reform law (80 HRB), representing 60,000 HRB (3 per cent of the national total) remained in the hands of their former owners.

In the face of the quantitative achievements in agrarian reform in Chile, some of the problems which have accompanied the process should be considered. The agrarian reform has, of course, concentrated on the landless agricultural workers, largely leaving out of the redistribution process the "minifundistas" (195,000 minifundios according to the 1965 census), who form a large sector of the agrarian scene in Chile.

In addition to this, decapitalization has taken place in the expropriated farms, due in part to the concentration of capital goods in the farms which have remained in the hands of the former proprietors or to the sale of these goods to other development areas.

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9/ The magnitude of this effort is evident if it is considered that between 1965 and 1970 a total of 1,408 farms, covering 3.5 million hectares (about 300,000 hectares under irrigation) were expropriated to the benefit of 22,000 peasant families. Previous to 1965, the programmes of agrarian reform implemented in Chile under the agrarian reform law of 1962 had benefitted only 1,250 families.

/In the

In the case of Peru, the agrarian problem acquires more serious dimensions than in Chile. The high density of labour per surface unit in the mountainous area, the low income levels and the precarious conditions of living of around 1.7 million peasants show this. In order to alleviate the pressure from the peasants, a law on agrarian reform was adopted in 1964, and a programme was set up to establish the distribution of public land and the expropriation of private land. This law, however, included numerous exceptions. Among the most important of these was the exception protecting the agro-industrial complexes of the coastal area; in addition, the legal formalities were exceedingly burdensome, and this prevented agrarian reform from having any dynamic and massive effect. Between 1964 and 1968, slightly more than 11,000 peasant families benefitted from the allocation of around 350,000 hectares. As from June 1969, the process was greatly accelerated with the adoption of a new agrarian reform law (Nº 17,716), which eliminated the exceptions contained in the previous law and set up the appropriate legal and administrative mechanisms to speed up and extend the process. Consequently, according to official sources, during the last two years 82,000 families benefitted from agrarian reform and during the next five years it is hoped that another 260,000 peasant families will benefit from it.

It is estimated that under the provisions of Law 17,716 around 480,000 family units could be settled in the available areas of the mountain and coastal regions, quite apart from what could be achieved through colonization and agrarian reform in the forest area.

The tendency is to hand over land and installations to peasant co-operatives, which means that the number of persons benefitting from agrarian reform could be distinctly greater than that of the earlier estimate, although for the moment no elements are available to quantify this; the same applies to the possibilities which the colonization of the forest areas could offer.

(d) The structural reorganization of the administrative system and the instruments of economic policy: the case of Brazil

As mentioned earlier, the recent experience of Brazil in this context is worthy of note. Specific reference will be made to the evolution of the finance policy of the public sector, that of the financial intermediation system, and that of the policies on external trade and the treatment of foreign capital.

/The measures



The measures adopted to finance the public sector were aimed at increasing the independence of action of the Executive and limiting that of the Legislative, especially inasmuch as parliamentary modifications to draft laws, when they implied increased public expenditure, were forbidden. Among the measures adopted, the most important are tax reform, measures to channel savings towards the public sector, administrative reform, the system of budgetary planning centrally directed by the Ministry of Planning, and the whole group of tax and exchange incentives introduced. The joint application of these measures, especially those concerning tax reform and the mobilization of domestic resources, enabled the Federal Government to achieve a growing attraction of resources by the public sector, while at the same time securing decentralization of the use of these resources and of administrative execution in general.

The tax reform of 1966 and the improvement in the tax collection system which complemented it were primarily aimed at simplifying the mechanisms of taxation and making them more elastic so as to provide more efficient aid in achieving the economic aims of the Government. The main modifications introduced were: (a) strengthening the role played in total tax revenue by receipts from income tax and taxes on industrial production, fuels and lubricants and imports; (b) creating monetary correction mechanisms for the fiscal income due from taxpayers; (c) taxing revaluations of the assets of enterprises, and (d) intensifying tax controls, especially by applying efficacious penalties. As a result of these measures, taxation by the federal Government rose from 7 per cent of the gross domestic product in 1967 to around 11 per cent in 1971; in 1971, 94 per cent of total income from taxation came from the four taxes mentioned above 10/.

As regards the mobilization of savings towards the public sector, the action taken to place the public debt is particularly worthy of note. The main operational instrument here has been the readjustable National Treasury Bonds, the value of which is adjusted in accordance with the increase in domestic prices. These bonds have had an active share in the Brazilian capital market, and have stimulated the unfreezing of the idle funds of enterprises and individuals. At the same time, the Government has encouraged the acquisition of these bonds by individuals, by authorizing a deduction of up to 30 per cent of their taxable income if the equivalent of this sum is invested in Treasury bonds, which may also be used at a later date as different types of guarantee. Secondly, the autofinancing capacity of the

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10/ See CIAP, Domestic efforts and needs for external financing for the development of Brazil, CIAP/553, 6 June 1972, tables IV-1 and IV-4.

public enterprises has been increased by raising their real tariffs and holding back the rate of growth of their operational expenditures; this has permitted a reduction of transfers of funds by the National Government to State enterprises.

The joint operation of the above measures has meant that the National Treasury was able to reduce its cash deficit, expressed as a percentage of the GDP, from 1.7 per cent in 1967 to 0.3 per cent in 1971. This reduction is all the more striking when it is considered that the Government devoted substantial resources to the granting of tax, exchange, and direct subsidies as incentives to the private sector, and that public investment grew rapidly. Behind all this was a sharp increase in public savings, which in 1970 accounted for 10 per cent of the gross domestic product, i.e., around 60 per cent of national savings 11/.

As from the mid 1960s, numerous efforts have been made to set up a system of financial intermediation which could make better provision for the needs of the economic growth of the country. Among these, the following may be mentioned:

(a) The creation of the Central Bank and the National Monetary Council has made possible proper handling of monetary and credit policy in co-ordination with the course of fiscal policy and the policy for the internal and external debt.

(b) Success has been achieved in ensuring that the expansion of the total liquidity of the economy does not depend exclusively on the current increase in the means of payment. This has been done by institutionalizing the tapping of resources in the non-banking market through the sale of time bills, especially bills of exchange and readjustable bonds. The resources attracted in this way have been used to finance the current production of enterprises and the deficit of the public sector.

(c) Throughout the intermediation apparatus there has been a broad operational modernization and a diversification of the instruments used; the various financial agencies have also tended to become functionally specialized.

(d) In general, the operation of the capital market has been reoriented through the adoption of various measures complementing each other: formation of investment banks; progressive development of the direct securities markets;

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11/ See International Bank for Reconstruction and Development, Current Economic Position and Prospects of Brazil, November 1971, Vol. I, pp. 76-78.

regulation of the tapping of capital by enterprises; widespread introduction of the monetary correction clause, and general regulation of the agents and instruments of financial intermediation.

(e) The financing of the consumption of durable goods has increased sharply, due to the granting of direct credit to consumers.

(f) Several special funds, with abundant public and foreign resources for their operation, have been set up to provide long-term financing. These funds are linked with the national and regional development banks.

(g) As regards the mobilization of resources towards housing, the most important measure has been the setting up of the Housing Finance System which channels forced (wages fund) and voluntary (mortgage installment) savings to this end, mainly through the National Housing Bank. Private intermediaries, such as the real estate enterprises and the credit companies, all operate within this financial sub-system.

(h) Lastly, the Social Integration Programme has been set up; this operates with public funds and resources which it attracts compulsorily from remunerations. This Programme aids the financing of the public sector and of small and medium enterprises.

The institutional and operational reform and modernization which has taken place in foreign trade in Brazil is particularly important because it has taken place in one of the most traditional areas of the economy, from the point of view of its behaviour and the fragmentary nature of its organization. Basically, the aim of this reform is the boosting of exports, especially non-traditional exports, and the liberalization of imports so as to achieve a better supply of imported products and boost industrial efficiency through external competition.

As regards the development of non-traditional agricultural and industrial exports, two sub-periods may be distinguished according to the trend and emphasis of the policy applied. During the period 1964-1968, the measures adopted were influenced by the fact that the products which could be traded abroad were basically agricultural goods surplus to domestic needs and industrial articles which could be manufactured by using idle production capacity. In this stage, the instruments of foreign trade applied were in an incipient state and not used very intensively. They included: (a) periodic exchange devaluations which, although spaced out in time, followed approximately the domestic rise in prices; (b) fiscal incentives exempting export operations from the main taxes, and (c) credit incentives operating through FINEX, the fund for the financing of exports, which is linked with the External Trade

/Council, also

Council, also set up during this period. At the same time, the Central Bank began to grant exporters medium-term funds for working capital, with interest subsidized in real terms.

As from 1969, the aim was to activate the policy previously applied, in order to increase the relative yield of export business so that this fact would attract growing investment resources towards the export sector. The main features of this basic line were: (a) the greater flexibility of exchange policy, which began to introduce more frequent devaluation than during the previous sub-period; (b) the improvement of the fiscal incentives mechanism so that it would influence much more strongly the generation of profits in export activities; and (c) the strengthening of credit support for exporters, an important feature of this policy being the provision of better facilities for financing working capital, mainly through the inclusion in the scheme of the commercial banks, which began to receive special rediscounts on the subsidized export credits they were granting.

As regards the policy on foreign capital, the entry of such capital has been stimulated in order to provide funds for investment in the country, mainly by waiving the restrictions laid down in the law on the remittance of profits and drawing up a guarantee agreement protecting United States investments in Brazil and introducing insurance for such investments covered by the Brazilian State itself. At the same time, the creation of a general climate of solidarity between foreign capital and the national economy has meant that the transnational enterprises channel a very large part of the investment they are prepared to make in the developing world towards Brazil.

Furthermore, the entry of short-term capital for financing the working capital of enterprises installed in the country was encouraged by the adoption of a number of measures. The enterprises which have been able to make most use of this facility are those directly or indirectly linked with transnational and national enterprises that have financial banking, are in the process of rapid expansion, and have good contacts abroad.

The inflow of foreign exchange which has resulted from this policy has been substantial, and over the last few years it has contributed towards generating a considerable increase in international reserves. Despite this, however, there has been a fairly rapid increase in the country's external indebtedness, mainly that accounted for by short-term loans and foreign investments.

### 3. Changes and problems in the financial system

#### (a) Assessment of general developments in the financial system

Since the middle of the 1960's, the changes that have affected Latin America's financial sector have, for the most part, tended towards the better utilization of savings potential and the allocation of resources to objectives that have been gaining greater attention in economic policy. Many of these developments have followed the same pattern as in the industrialized countries and, very often, have been bound up with the demands imposed by the channelling of external resources 12/.

A particularly striking example is the appearance of new housing credit systems and mechanisms, including tax exemptions, loans, modernization of traditional mortgage institutions, readjustment of personal assets and liabilities in line with fluctuations in general price levels, and rediscounting systems - generally based on external resources - for mortgages.

Though land credit is the most common example, there are many other ways of mobilizing domestic resources to meet specific requirements. The financing of small industrial or commercial enterprises is especially interesting because of its regional nature: here, the methods used have included the establishment of specialized banks which, with the help of mobile offices, have tried to interest such entrepreneurs in their deposit and credit facilities. Small farmers have benefitted from co-operatives and from the proliferation of specialized development bank offices which have afforded them possibilities of saving and borrowing that were previously unavailable.

The manufacturing sector has received a number of tax benefits to encourage it to use more of its internal sources of finance. Tax exemption has also been used, in some cases successfully, in order to place manufacturing capacity on a wider geographical basis or to promote the introduction of new lines of production. After a fairly timid start in the 1960's, credit and tax systems designed to encourage the production of exportable manufactures

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12/ See "Mobilization of domestic resources", Economic Bulletin for Latin America, Vol. XV, N° 2, 1970 (United Nations publication, Sales N°: E.70.II.G.7).

are beginning to come into their own; mention must also be made of systems that have come into being during the 1970's for financing the sale of domestic appliances and motor-vehicles by means of advance consumer savings.

Elsewhere, financial instruments have been manipulated in such a way as to meet more specific objectives. An example of this is the way in which a body of a technical nature such as the Superintendencia Nacional de Marinha Mercante (SUNAMAN) of the Ministry of Transport of Brazil has been assigned the functions of a financial court. With funds deriving mainly from a special tax on import freight rates, SUNAMAN lends shipping companies purchasing vessels from Brazilian shipyards up to 85 per cent of their value. It is estimated that in this way the real costs of Brazilian shipyards have successfully been reduced by 30 per cent: sufficient for them to compete with longer established shipbuilders.

For all this, the evolution of Latin America's financial sector has been uneven. Mechanisms and practices that could be described as conservative or out-of-date have continued to be the rule while, at the same time, the newly emerging organization reveals fundamental shortcomings that affect its structure and operation. The principal sub-sector, the commercial banks, continued to finance its traditional clients without responding, for various reasons, to the new and ever-increasing demand from small businesses, consumers and entrepreneurial promoters. These groups were consequently obliged to resort to finance companies, many of which are affiliates of enterprises in the sub-sector, in order to meet, albeit at a high cost and only partially, their financial requirements.

Early in the 1960's, these shortcomings coincided with the introduction of a series of new objectives into Latin American economic policy more accurately perhaps, with the granting of urgent priority to certain objectives that had been pushed into the background. This added to the growing demand for financial resources, and it accordingly became necessary to create or import new financial mechanisms which either circumvented existing legislation or set themselves up as parallel and generally autonomous management agencies and thus conspired against the overall efficiency of the system and often rendered it extremely costly. In other words, the changes that have occurred in the financial system have tended more to introduce new mechanisms than to reorganize its overall structure. As has been pointed out in other studies, the financial intermediaries existing at the end of the 1950's could have geared to new objectives simply by modifying their judicial basis. The most obvious example of this is the land credit institutions that have mushroomed in

/countries where

countries where mortgage agencies and banks which possessed the necessary administrative experience and technical means already existed but were not accorded the same facilities as the new mechanisms. The tendency towards the duplication of institutions, in addition to pushing up the cost of financing, is an obvious obstacle to the design and implementation of comprehensive and well planned policies and to the actual operation of the system.

Because of this structural defect, the new land credit mechanisms have continued to amass vast financial resources during periods when the demand for housing has dropped, without any way of putting them to other uses. The opposite has also happened: favourable prospects for an expansion of construction have been faced with a limited supply of funds.

There have also been numerous cases where it has been impossible to finance objectives through any of the established mechanisms. Attempts at agrarian reform for instance, have not benefitted from any financing system capable of meeting the needs of the new individual or collective farmers. Another example is the inability of the land credit mechanisms to finance housing for the working class in the lower income brackets. In several countries this situation has given rise to specialized institutions employing public capital that promote housing construction, actually do the building themselves, or encourage self-help building.

As to the use to which the extra funds deriving from the renewal and adaptation of the financial mechanisms have in fact been put, it would be difficult and somewhat risky to draw any conclusions, both because of the shortage of data and because of the lack of objectivity of the evaluation criteria. There would, however, appear to be a certain amount of agreement that the reproduction of systems employed in the industrialized market-economy countries has channelled a very large proportion of the resources into the financing of durable goods and construction more closely reflecting the demand of the middle and high income groups. Similarly, neither private nor public priority investments for development would seem to have found the means of increasing their share of these resources.

It can be assumed that, just as in the 1960's the emphasis was on the mobilization of resources, in the 1970's Latin American Governments will undoubtedly have to devote their attention to restructuring the financial sector. In other words, what has to be done is to bring financial intermediation into step with economic policy, which means simplifying the structure and operation of the sector and ensuring a larger flow of resources into objectives and activities that are essential to economic and social progress.

(b) The evolution of the major sectors

Before examining the main trends in financial mobilization, a distinction must be drawn between the traditional and the new sub-sector.

Of the two, the traditional sub-sector is more closely associated with the modern area of Latin American economies and involves the monetary authority (central banks) and the state development banks, which together are a direct reflection of economic policy. The sub-sector's performance can only be examined satisfactorily over the long term. The short term does not allow of any appreciation of the changes in its capacity to create, tap and distribute resources or of the functional differences between its component institutions which so closely affect this capacity. For comparative purposes, the period 1960-1969 has been chosen because homogeneous data for the region are available up to 1969.

Excluding transfers among the institutions themselves, the volume of resources obtained by the sub-sector increased considerably throughout Latin America, even allowing for such deflators as the consumer price index (see table 1). This trend should be no cause for surprise since the component institutions include central bank, state development banks and commercial deposit banks, which made major technological advances during the period under consideration.

In most Latin American countries, deposits and other Government assets held by the sub-sector have shown a tendency to decline in relative terms. In a few rare cases, the reduction was sharp; in Argentina, for example, they represented 11 per cent of the sub-sector's assets in 1960 and a mere 1 per cent in 1969. There were also occasional increases (Venezuela from 2 to 6 per cent, Costa Rica from 1 to 2 per cent and Dominican Republic from 10 to 12 per cent), but these do not affect the general trend.

Central bank issues, measured solely in terms of the money actually in circulation, are an important indicator of the sub-sector's recent development. To begin with, their share in central banks' total assets have dropped noticeably, increasing in only one country, Uruguay, where they rose from 13 per cent in 1960 to 16 per cent in 1969, thus reflecting the negative effect of a prolonged period of economic stagnation on the country's financial sector. In Peru where there was practically no change (15 per cent in 1960 to 16 per cent in 1969), though post-1969 figures would probably show a similar trend to that of the region as a whole. In every other case, their share of total assets declined, usually substantially.



Table 1  
LATIN AMERICA: VARIATIONS IN THE REAL NET LIABILITIES <sup>a/</sup> OF THE  
TRADITIONAL FINANCIAL SUB-SECTOR BETWEEN 1960 AND 1969  
(Percentages)

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Argentina	19.5
Bolivia	80.1
Brazil	64.6
Colombia	91.0
Costa Rica	78.7
Chile	156.6
Ecuador	78.4
El Salvador	86.0
Guatemala	102.4
Haiti	16.9
Honduras	178.8
Mexico	191.0
Nicaragua	180.6
Panama	228.8
Paraguay	205.3
Peru	44.9
Dominican Republic	117.1
Uruguay	6.7
Venezuela	88.2
Average <sup>b/</sup>	107.4

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Source: IMF, International Financial Statistics.

<sup>a/</sup> Excluding liabilities between institutions in the sub-sector. Current figures, deflated by consumer price indexes.

<sup>b/</sup> Also includes Guyana, Jamaica and Trinidad and Tobago. In the case of these countries, the 1960 parity rates of exchange have been employed.

/These percentages

These percentages are an inverse reflection of the access of individuals to the financial sub-sector. If access is minimal, they will tend to hold on to their money insofar as they are unable to turn it over to the sub-sector <sup>13/</sup>. If access is easier, on the other hand, the proportion retained is low or at least declines. From this standpoint, it is fair to say, in the light of table 2, that the access of individuals to traditional intermediaries has improved markedly in the region as a whole.

In 1960, the first category (30 per cent or more) only included Bolivia and Haiti, whose level of economic development was hindering the evolution of their financial sector to a greater extent than in other Latin American economies. In 1969, Bolivia was still in the same category, although its index had dropped to 33 per cent. In the case of Haiti, the decline was from 31 per cent in 1960 to 26 per cent in 1969.

The smaller economies registered more substantial reductions in relative terms than those indicated. In the larger economies, the share of central bank issues in the assets of the sub-sector tended to be low, while fluctuations were inclined to be fairly pronounced. An exception to this was Argentina, where the share stood at 26 per cent in 1960 and 22 per cent in 1969. By comparison, the corresponding figures for Brazil were 15 and 9 per cent, for Mexico 13 and 9 per cent, for Colombia 16 and 11 per cent, and for Chile 14 and 9 per cent.

It can be deduced, therefore, that there is an inverse relationship in Latin America between the development of this sub-sector and what is known in economic theory as the private sector's liquidity preference. Given the wide differences in the levels registered, there is reason to suppose that the relationship is intimately bound up with such structural factors as the degree and pattern of development, which would seem to carry more weight than other strictly monetary factors.

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<sup>13/</sup> Individuals are here taken as including small enterprises. The data on larger enterprises point to a low liquidity preference.

Table 2

LATIN AMERICA: DISTRIBUTION OF 18 COUNTRIES ACCORDING TO THE SHARE OF MONEY IN CIRCULATION IN THE TOTAL ASSETS OF THE TRADITIONAL INTERMEDIARIES

	Number of countries	
	1960	1969
30 per cent or more	2	1
15 to 29 per cent	12	7
Less than 15 per cent	4	11

The issues of the sub-sector that are absorbed by the private sector do not of course all derive from the central bank. There are other institutions that have made longer-term issues which have followed the same pattern. In Mexico, for example, development banks have put out an appreciable volume of such issues. In 1960, these accounted for 11 per cent of the total liabilities of the sub-sector; by the end of the decade, however, the figure had risen to 24 per cent - two and a half times more than the monetary issue. There are a number of countries in Latin America where these issues' share of total liabilities is beginning to take on sizeable proportions - 5 per cent in Colombia and Costa Rica, for instance. Obstacles of the kind that are generally placed under the heading "lack of capital markets" prevented the sub-sector's liabilities from serving a more dynamic purpose during the 1960's. In the 1970's, however, the situation would appear to be changing since the new intermediaries are having a certain amount of success in disposing of the issues among the general public.

The other sources referred to are, by and large, the following: (i) demand deposits which, in conjunction with the central bank issue, form what is traditionally thought of as the total amount of money or means of payment in circulation; (ii) time deposits, including savings deposits and what is becoming known as quasi-money; (iii) external liabilities which, under existing regulations in Latin America, can only be public or semi-public; and (iv) a mixed bag of accounts including the institutions' own investments and funds which, because they do not fall under any single heading at the regional level, are described as unclassified.

Although the development of these sources does not follow any uniform pattern, share of demand deposits in the sub-sector's total liabilities is inclined to be higher in economies suffering from inflation (see table 3). It should be noted, however, that the relationship is the same regardless of whether a country's banking sector is more developed or less developed.

In any case, a comparison of data for 1960 and 1969 indicates that the share of demand deposits increased in five economies and declined in twelve. An explanation of the increases in such deposits would require an analytical study of each individual case, which is not possible here. Basically, the situation reflects not only the adoption by the monetary authorities of provisions designed to favour time deposits at the expense of other financial liabilities but also, judging from the example of one country at least, a greater expansion of the banking system. The country in question is Bolivia, whose deposit banks spread across the country during the period under consideration.

Table 3

LATIN AMERICA: TOTAL SIGHT AND TIME DEPOSITS OF THE TRADITIONAL FINANCIAL  
SUB-SECTOR OF SELECTED COUNTRIES AS A PROPORTION OF LIABILITIES

(Percentages)

	Sight deposits		Time deposits	
	1960	1969	1960	1969
Argentina	18	29	15	22
Bolivia	6	10	2	10
Brazil	43	33	3	6
Colombia	23	21	12	8
Costa Rica	16	24	7	10
Chile	22	18	13	11
Ecuador	16	18	8	15
Guatemala	16	13	13	27
Haiti	13	19	15	12
Honduras	16	13	21	22
Mexico	16	15	16	18
Nicaragua	17	14	9	12
Paraguay	19	11	5	19
Peru	32	22	20	19
Dominican Republic	23	13	11	16
Venezuela	25	28	20	27
Uruguay	12	7	18	10

Source: IMF, International Financial Statistics.

/The restriction

The restriction on demand deposits has helped to boost time and savings deposits (see table 3). The fact that this group of accounts is usually referred to as quasi-money shows that their distinguishing feature (the repayment period) is of lesser importance. These deposits are in fact being widely used as a means of investing the surplus liquidity of individuals and of entrepreneurial sectors in those countries where the real rate of interest is relatively high.

In most Latin American economies, the importance of time and savings deposits as a source of funds for the sub-sector continues to grow. In Brazil, where financial circumstances had relegated them to a mere 3 per cent of the total in 1960, their share doubled to 6 per cent in 1969. In Bolivia and Paraguay, increases over the same period were spectacular - from 2 to 10 per cent in Bolivia and from 5 to 19 per cent in Paraguay. Sharp increases were also recorded in Ecuador (from 8 to 15 per cent), El Salvador (8 to 21 per cent) and Guatemala (13 to 27 per cent), while in Argentina, Costa Rica, Nicaragua, the Dominican Republic and Venezuela their share rose by between one-third and four-fifths. Only in Honduras and Mexico did they expand by less than 15 per cent, which in Mexico's case was due to the rapid growth of other financial issues capable of fulfilling the same need.

As a result, the overall picture of time and savings deposits as a source of funds was considerably more encouraging at the end of the decade than at the beginning. Taking an average of national statistics, their relative share of the total was 11.5 per cent in 1960 and 16.5 in 1969. In 1969, they accounted for over 20 per cent of total funds in five countries, whereas this was only true of one country in 1960 (see table 3).

The ability of this branch of the sub-sector to tap the excess liquidity of the non-financial private sector can also be appreciated by comparing its relative contribution with that of central bank issues. Of the eighteen countries under consideration, time deposits exceeded the central bank issue in 1960 in only five cases. Nine years later, the number had increased to twelve. By 1971, judging from national figures, which are not strictly comparable among themselves but are valid individually, only in the two countries with a backward financial sector and a third affected by inflation was the share of issues greater than that of time and savings deposits.

/When analysing

When analysing the origin of the sub-sector's resources, the funds which its own institutions made available to each other were deliberately ignored. This was done both for a quantitative reason, insofar as transfers within the sector are not relatively important as liabilities, and for a conceptual reason, as it made it easier to concentrate on the autonomous sources of funds.

Where the allocation of funds is concerned, however, intra-sectoral movements attain substantial magnitudes and, moreover, vary widely between the beginning and the end of the 1960's. There are two reasons for this. In the first place, it is within the sub-sector that the money and quasi-money are generated. Secondly, it is a generally accepted practice to use intra-sectoral transfers to supply financial resources to the state development banks, since these are not supposed to compete with the commercial banks.

As this is not intended to be a monetary study, it will attempt to do no more than indicate the magnitude of intra-sectoral transfers in terms of the sub-sector's total financial resources, show the fluctuations in the corresponding percentages between 1960 and 1969 and, where appropriate, establish the major factors behind the data presented.

Internal movements in the sub-sector are high compared with its total assets, the average being 25 per cent in 1960 and 31 per cent in 1969 (see table 4). In addition to this, there are other differences between the two years. In 1960, an important role was played by the central banks' financing of commercial banks, as can be seen from the figures for the eighteen selected countries. Towards 1969 this type of movement declined in significance, while the sterilization of the resources of the commercial banks by the monetary authority became more prevalent. This trend was marked in countries that suffered from inflation during the period. In Uruguay, for instance, deposits of the central banks with commercial banks and vice versa showed a balance of 122 million pesos in favour of the latter in 1960, a situation which was reversed in 1969 with a balance of 11,461 million pesos, representing 21 per cent of the commercial banks' third-party assets.

However, the situation is not only governed by quantitative credit controls. In several countries it is also affected by the greater extent to which the sub-sector finances public development institutions. Similarly, gradual progress is being made in the handling of the sub-sector's resources by the monetary authorities. Some countries (Colombia and Mexico, for example) are now less concerned with controlling credit because of its inflationary effects than with channelling it in such a way as to conform to the main economic policy objectives.

Table 4

LATIN AMERICA: DISTRIBUTION OF THE ASSETS OF THE TRADITIONAL  
FINANCIAL SUB-SECTOR IN SELECTED COUNTRIES

(Percentages)

	To the Government		To the Private Sector		Subtotal <sup>a/</sup>		Within the sub-sector	
	1960	1969	1960	1969	1960	1969	1960	1969
Argentina	28	28	35	49	83	86	17	14
Bolivia	66	47	8	18	84	82	16	18
Brazil	40	22	51	45	84	70	24	30
Colombia	12	6	55	48	73	63	27	37
Costa Rica	7	12	54	51	71	75	29	25
Chile	27	30	42	23	82	70	18	30
Ecuador	12	16	56	42	81	68	19	32
Guatemala	12	12	37	41	71	68	29	32
Haiti	46	55	31	22	51	84	9	16
Honduras	14	13	37	48	70	72	30	28
Mexico	9	20	56	60	77	87	24	13
Nicaragua	10	7	47	53	70	80	30	20
Paraguay	20	16	38	47	59	65	41	35
Peru	17	15	34	29	69	68	31	32
Dominican Republic	26	26	17	24	62	61	38	39
Venezuela	6	9	49	50	83	85	17	15
Uruguay	7	13	46	18	83	51	17	49

Sources: IMF, International Financial Statistics.

<sup>a/</sup> Including other accounts.

/Considering the



Considering the two principal competitors for the sub-sector's resources that exist in Latin America the Government and the combination of private enterprises and individuals - it will be noted that, throughout the 1960's, there were only two countries in which more funds were allocated to the public than to the private sector. One of these was Bolivia, where the public sector tapped 66 per cent of the sub-sector's total assets in 1960 and 47 per cent in 1969, and the other Haiti where it took 46 per cent in 1960 and 55 per cent in 1969. In both cases, the sub-sector's internal movements represented the smallest proportion of total assets in Latin America (see table 4).

In the remaining countries figures for both sectors showed marked changes between 1960 and 1969. With the exception of Bolivia and Haiti, however, the average figure for the Government shows a tendency to decline - from 23 per cent in 1960 to 18 per cent in 1969. For the private sector, in contrast, the averages for 1960 and 1969 are 26.5 per cent and 39.0 per cent respectively. Argentina, Mexico, Venezuela and Bolivia contributed towards this trend, while the relevant figures for Chile and Uruguay dropped sharply - from 42 to 23 per cent in Chile and from 46 to 18 per cent in Uruguay.

As was explained above, no worthwhile information exists on the operations of the intermediary agents which made their appearance in the financed system in Latin America during the 1960's. In order to give a regional overall view of their activities, it is necessary to recall the factors which produced them and which made them important in several countries of the region. The incapacity of the traditional sub-sector to reply to new financial demands has already been mentioned. Consequently, it was absolutely necessary to set up mechanisms to act as intermediaries between the sources of resources and the unfulfilled requirements. At the same time, partly under the influence of an international demonstration effect, new intermediary agents were set up: e.g., finance houses and co-operatives or similar organizations.

An examination of the information available shows that there are very few cases of an intermediary operating by allocating resources exclusively to producers. In fact, those which have had the most rapid growth are the

/finance companies

finance companies, as they are called, which provide financial resources for the purchase of durable goods. The same thing has happened with credit for the purchase of dwellings.

The case of Brazil illustrates this double tendency. In Brazil, the basis for the dynamism of the credit and investment banks and the country's credit institutes was the creation of special new instruments of finance and the transformation of other relatively old instruments, such as the bill of exchange. In Colombia, the credit and investment banks received internal and external financial support but no new mechanisms were created for the accumulation of resources. These are growing slowly, although more dynamically than the traditional sub-sector (see tables 5 and 6).

The development of financial intermediation in Peru was different (see table 7). Among the traditional intermediaries, the relative importance of the public development banks increased, while that of the central bank, the commercial banks and the insurance companies diminished. The new intermediaries which became important were those which covered the demand which the commercial banks could not satisfy, i.e., that from individual persons. Among these new intermediaries are the "mutual loan associations" which, unlike the savings and loan associations, accept only the savings of their customers and with these finance their acquisitions of durable goods. Their assets account for 5.7 per cent of the total assets of the financial sector in Peru in 1969; this figure represents a net addition for the 1960's since the mutual loan associations did not exist in 1960. The savings and credit co-operatives, which mainly operate in areas of the country which lack financial intermediaries and in low-income inhabited areas, also expanded rapidly; in 1960, their assets accounted for only 0.2 per cent of the total for the system, but by 1969 they had risen to 4.6 per cent.

The foregoing examples do not reflect the true situation in all the countries, but they do give an idea of the general tendencies to be found throughout the region. It may be considered, generally speaking, that the new intermediaries had at their disposition by the end of the 1960's the equivalent of one quarter of the assets of the traditional sub-sector.

As regards the first years of the 1970's to date, the incomplete data which have been collected indicate a constant growth in the relative importance of the new mechanisms, and, what is more important, the introduction of variety into other which are beginning to show dynamism because they satisfy demands for financial intermediation which the earlier mechanisms had not even considered or provided for in their operations. Obviously, however, these additions imply an increase in the complexity and disparateness of the Latin American finance systems, and this could render more difficult the indispensable interlocking of economic policy and financial intermediation.

Table 5  
BRAZIL: DISTRIBUTION OF LOANS TO THE PRIVATE SECTOR  
(FIGURES TAKEN FROM END-OF-PERIOD BALANCES)

(Percentages)

	1964	1969	1971
Banking system	79.9	55.3	52.7
Development agencies	14.0	12.3	8.1
Credit and investment banks	6.0	16.9	22.2
Credit for housing	-	13.0	15.9
<u>Total a/</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Banco do Brasil, Relatório, various issues.

a/ Includes others not classified.

Table 6  
COLOMBIA: DISTRIBUTION OF THE ASSETS OF THE FINANCE SYSTEM  
(Percentages)

	1960	1969
Banks	83.4	81.3
Insurance and capitalization companies	11.8	5.4
Subtotal	95.2	86.7
Finance companies	1.5	7.7
Investment funds	-	1.4
Total a/	100.0	100.0

Source: Banco de la República, Revista, various issues; Superintendencia Bancaria, Revista, various issues.

a/ Includes minor intermediaries.

Table 7

PERU: SHARE OF THE ASSETS OF THE FINANCE SECTOR BY GROUPS OF INSTITUTIONS <sup>a/</sup>

(Percentages)

	1960	1969
Central bank	28.6	22.4
Commercial banks	46.6	36.6
Public development banks	15.2	21.0
Mortgage banks	3.4	4.6
Insurance companies	5.9	3.9
Mutual loan associations	-	5.7
Co-operatives	0.2	4.6
<u>Total</u>	<u>100.0</u>	<u>100.0</u>

Sources: Superintendencia de Bancos del Perú.

a/ Includes the former Caja de Depósitos del Gobierno, which has become the Banco de la Nación.

(c) Basic procedures for the tapping and channelling of financial resources

As regards the savings of individuals, assuming that the intermediaries are within their reach, the most efficacious measures seem to have been:

Automatic liquidity: the instruments used in the region invariably lay down that persons may withdraw the funds deposited without being required to provide previous legal or contractual notice.

Readjustment of savings: yield on savings does not seem to be of primary importance for individuals, who continue to hand over their surpluses to the financial sector even when the rate of real interest is at zero. What has boosted savings are the measures aimed at preserving the real value of the assets. As is only natural, the adjustment is not only applied to the assets but also to the liabilities of the individual, thus producing a variety of situations in the flows between them and the financial sector.

Tied savings: of considerable importance today are the savings made by individuals expressly to obtain credit for the acquisition of a durable product or a house. This system leads to personal dissavings once the initial savings which condition the granting of the credit have been made. The problems stemming from the financing of these dissavings have led to the appearance of new measures and the establishment of a host intermediaries, generally supported by manufacturers or tourist and travel agencies.

As regards the savings of enterprises, the incentive mechanisms tend to be in the field of taxes. There are tax credits or tax rebates on the reinvestment of net profits, on accelerated depreciation and on the establishment of production facilities for high-priority manufactures or production in economically backward areas. More recently, special incentives have been given for the export of non-traditional products. These mechanisms vary considerably in the different Latin American countries and also vary according to whether they are successful or not.

4. Contribution of the public sector to the mobilization of domestic resources

(a) Participation of the public sector

The public and private sectors, for different motives, work in a complementary manner to use the natural, human material and financial resources available to them as effectively as possible with a view to promoting more rapid and sustained economic growth together with a more equitable distribution of the goods and services produced.

The degree of participation by the public sector in the economy varies a great deal in the Latin American countries as a result of a wide variety of factors, ranging from the supply of natural resources to the prevailing institutional and political system. There are some countries in which the public sector participates with the private sector in a system that may be termed a mixed economy and is generally identified with the relatively more developed countries of the region, while there are others which have only recently begun to expand the scope of public sector activities. One factor is quite clear, however, namely the trend towards a rapid increase in public expenditure, particularly for capital formation.

If - to make a very simplistic calculation - the participation of the public sector in the economy is measured by the amount of current expenditure on general government (excluding spending by public enterprises) and total fixed public investment, it is found that in Chile and Brazil, for example, expenditure under this heading represented about 34 per cent of the gross domestic product at the end of the 1960's, while in other countries, for example Guatemala, this ratio was still below 15 per cent. The majority of the countries considered show ratios ranging between 15 and 25 per cent (see table 8).

Similarly, as regards trends between the beginning and end of the decade, it is found that changes in the participation of the public sector occur more slowly in countries where the ratio is above 20 per cent, with the exception of Brazil and Chile where the rapid expansion of public enterprises has substantially increased the influence of the State, which makes itself felt particularly strongly in the case of capital formation.

/Table 8

Table 8  
EVOLUTION OF PUBLIC EXPENDITURE AND TAXATION

Country		Percentages					Indexes 1960-1961 = 100					Elasticity $\frac{\Delta \text{Tax revenue}}{\Delta \text{Public expenditure}}$
		Total expenditure/GDP a/	Current expenditure/GDP	Public investment/GDP	Public investment/Total investment	Taxation b/	Total expenditure/GDP	Current expenditure/GDP	Public investment/GDP	Taxation		
Argentina	1960-1961	21.4	16.1	5.3	24.5	14.2						
	1969-1970	25.2	17.3	7.9	40.7	15.0	117.8	107.5	149.1	105.6	0.896	
Bolivia	1960-1961	19.5	13.9	5.6	44.8	7.9						
	1969-1970	23.0	14.7	8.3	58.5	10.2	117.9	105.8	148.2	129.1	1.095	
Brazil	1960-1961	25.3	18.6	6.7	39.2	20.1						
	1969-1970	33.3	24.3	9.0	52.0	27.0	131.6	130.6	134.3	134.3	1.021	
Colombia	1960-1961	11.2	7.8	3.4	16.7	10.4						
	1969-1970	17.3	10.6	6.7	34.4	13.4	154.5	135.9	197.1	128.8	0.834	
Costa Rica	1960-1961	18.0	14.0	4.0	21.6	12.2						
	1969-1970	21.1	16.1	5.0	23.5	14.1	117.2	115.0	125.0	115.6	0.986	
Chile	1960-1961	29.3	22.5	6.8	38.0	16.5						
	1969-1970	34.6	25.6	9.0	55.9	21.8	118.1	113.8	132.4	132.1	1.119	
Ecuador	1960-1961	23.8	17.5	6.3	46.3	15.0						
	1969-1970	26.2	21.2	5.0	31.0	18.2	110.1	121.1	79.4	121.3	1.102	
El Salvador	1960-1961	14.5	11.5	3.0	23.1	10.9						
	1969-1970	15.6	13.0	2.6	22.8	10.4	107.6	113.0	86.7	95.4	0.887	
Guatemala	1960-1961	11.6	8.9	2.7	27.3	7.6						
	1969-1970	11.3	8.8	2.5	20.8	8.1	97.4	98.9	92.6	106.6	1.094	
Honduras	1960-1961	13.6	10.7	2.9	23.8	9.8						
	1969-1970	19.6	13.1	6.5	33.9	11.4	144.1	122.4	224.1	116.3	0.807	
Mexico	1960-1961	16.7	11.0	5.7	34.3	9.1						
	1969-1970	21.9	15.1	6.8	34.7	10.1	131.1	137.3	119.3	111.0	0.847	
Nicaragua	1960-1961	13.7	10.5	3.2	25.2	8.8						
	1969-1970	16.5	12.0	4.5	28.8	8.5	120.4	114.3	140.6	96.6	0.802	
Panama	1960-1961	17.1	13.3	3.8	23.6	11.0						
	1969-1970	22.7	17.7	5.0	21.8	13.2	132.7	133.1	131.6	120.0	0.904	
Paraguay	1960-1961	10.5	7.0	3.5	29.7	9.1						
	1969-1970	15.4	11.3	4.1	27.3	10.5	146.7	161.4	117.1	115.4	0.787	
Peru	1960-1961	15.9	12.9	3.0	16.6	13.7						
	1969-1970	18.9	15.3	3.6	21.2	17.0	118.9	118.6	120.0	124.1	1.044	
Dominican Republic	1960-1961	19.6	14.7	4.9	53.3	16.7						
	1969-1970	21.9	15.4	6.5	37.4	17.0	111.7	104.8	132.7	101.8	0.911	
Uruguay	1960-1961	26.4	23.6	2.8	17.9	15.4						
	1969-1970	31.1	27.4	3.7	27.4	17.2	117.8	116.1	132.1	111.7	0.948	
Venezuela	1960-1961	22.2	15.5	6.7	39.0	18.3						
	1969-1970	24.7	18.0	6.7	34.9	19.3	111.3	116.1	100.0	105.5	0.948	
Weighted average c/	1960-1961	20.7	15.1	5.6	29.1	14.4						
	1969-1970	25.7	18.4	7.3	36.3	17.2	124.2	121.9	130.4	119.4	0.961	

Source: ECLA estimates, on the basis of data obtained from various national sources and international agencies.

a/ The total public expenditure includes the current expenditure of the Central Government and the total gross fixed public investment; these are given in the two columns which follow. The gross product employed is calculated at market prices and in the currency of each country.

b/ This refers to income from taxation as a proportion of the gross domestic product at market prices. The percentages are for 1960 and 1970 in all cases.

c/ To obtain these averages, use was made of the gross domestic product of Latin America by countries at factor cost, and the total gross investment; these are both expressed in dollars at 1960 prices.



Worthy of note is the relatively high position of Bolivia and the Dominican Republic, attributable in the case of the latter to the nationalization of industries and in the former to the nationalization of mining and subsequently petroleum.

Not all public spending contributes in equal measure or with the same degree of effectiveness to the mobilization of resources. The State acts as an important economic agent tapping resources from the private sector and assigning them to different activities which take on different dimensions from the standpoint of the use of productive resources.

Public spending, for both consumption and investment, makes a significant contribution to the mobilization of resources through demand. The State and its enterprises are an important sector of consumption for domestic production. In such countries as Brazil, Chile, the Dominican Republic and Mexico, which have many public enterprises covering a wide range of activities, intergovernmental transactions have reached an appreciable scale and are very likely to continue expanding. The public sector is also an important source of employment. In addition to its role in the reallocation of human resources towards more highly productive activities, it provides purchasing power that expands demand and markets and consequently raises the investment potential generated by improved use of idle or improperly used resources. In addition to all this, current public spending is a means of providing administrative support to complement the States' productive activities.

Public sector fixed capital formation contributes directly to the mobilization of productive resources, although its impact varies depending on the productivity or efficiency of the activities to which the investment has been assigned and their "lead time", i.e., the length of time that elapses before the effect of investment shows up in production.

The participation of the State in total capital formation - which is an excellent indicator of the productive effort of the public sector - varies a great deal from country to country. In the period 1969-1970 for the region as a whole it represented 36 per cent of total gross fixed investment, and in some countries it was close to 60 per cent. This important contribution to the investment effort has the advantage of having been directed towards the priority sectors of the economy, under an overall development plan or investment programme, which to some extent is a guarantee that such investment genuinely benefits national development. A further guarantee resides in the mechanisms and institutions that the State has created to undertake the investment directly. These activities have yielded excellent experience in the management of the human and technological resources available.

/In most

In most of the countries of the region there is a clear trend towards expanding State action to include industrial and commercial activities through the establishment of public and semi-public enterprises, in association with private capital 14/. For differing reasons of economic and political strategy, the State has to take on responsibility for very large enterprises in a wide variety of areas in cases where private enterprise is generally unable to act because there is a shortage of national capital or lack of interest in investment that will not yield an immediate or attractive return. The other possible alternative, namely direct intervention by foreign capital, is often discarded when the State has the capacity required to set up public enterprises, with the help of suitable external financial and technical assistance.

(b) Structure and evolution of public spending

During the 1960's, both current general government expenditure and fixed public investment grew more rapidly than the gross domestic product. As seen above, the sum of these two variables in relation to the product was around 25 per cent in the period 1969-1970. If the estimated operating expenditure of the public enterprises is added to this figure, the ratio rises to an average of approximately 33 per cent for the region as a whole. These figures give a picture of the volume of goods and services mobilized by the public sector.

Between 60 and 80 per cent of public spending corresponds to current expenditure and the remainder to real investment. These figures do not have any relation to the size of the investment coefficient or the scale of public spending. Furthermore, some three-quarters of current spending is for consumption, i.e., for purchasing goods and the payment of remunerations, while the remaining quarter goes to subsidize services and public enterprises, the private sector, payment of interest on the public debt, etc. The proportion of consumption expenditure is as low as 55 per cent in those countries where public activity has expanded most and the public enterprises have more weight, especially those which show losses and require supplementary financing from the government.

Between 1960-1961 and 1969-1970, the ratio of current general government spending to the gross domestic product rose by 22 per cent, while the ratio of fixed public investment to the product rose by 30 per cent, except in a few countries.

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14/ ECLA, "Public enterprises: their present significance and their potential in development". Economic Bulletin for Latin America, Vol. XVI, N° 1, first half of 1971.

Public investment did not grow as steadily as current spending, as the latter represents commitments that the State can virtually not avoid and that are always on the rise, thus acting as a brake on the steady growth of investment.

(c) The investment effort

The coefficient of fixed public investment rose from 5.6 to 7.3 per cent during the decade. Since the coefficient for total gross fixed investment for the region rose from 19 to only 20 per cent over the same period, it may be estimated that the contribution of public investment to total capital formation rose from 29 to 36 per cent. This would indicate that, while there was a rapid increase in public investment, private investment remained stationary or declined in relation to the total product.

The shortage of capital resources in the region is a serious brake on the possibilities of mobilizing development potential. During the 1960's, the coefficient of total fixed investment fell in 5 of the 18 countries considered, and in 2 countries it increased only slightly. The public sector, despite the financial effort involved, managed to raise the rate of growth of public investment above that of private investment in 11 of the countries considered.

Tables 8 and 9 show how the public investment coefficient moved during the 1960's in the various countries. A total of eight countries, including these with the strongest economies in the region, whose coefficient was between 5 and 7 per cent at the beginning of the decade, had moved to levels ranging between 6.5 and 9 per cent by 1969-1970. Changes were less significant in the remaining countries. These indicators, however, do not reflect the sharp fluctuations in public investment from year to year owing to lack of financing, or the completion of public works or large-scale projects, which have the greatest impact in the countries that are relatively smaller in economic scale.

The effect of the growth of public investment on private investment can be seen in table 7 which gives the relative magnitude of each. In three countries, public investment accounts for virtually half or more of total fixed investment, while in six countries it accounts for more than one-third. This can be considered as further proof of the fact that the region is moving towards a mixed public and private economy.

Table 9  
COEFFICIENTS OF FIXED PUBLIC INVESTMENT

	1960-1961	1969-1970	1971
9		Brazil Chile	
8		Bolivia Argentina	Bolivia  Argentina Dominican Republic
7	Chile Brazil Ecuador	Mexico Venezuela Honduras	Venezuela
6	Mexico Bolivia	Colombia Dominican Republic	Costa Rica  Mexico Nicaragua
5	Argentina  Dominican Republic	Panama Costa Rica Ecuador  Nicaragua	Ecuador Honduras
4	Costa Rica Panama  Paraguay Colombia Nicaragua	Paraguay  Uruguay Peru	
3	El Salvador Honduras Uruguay Guatemala	El Salvador Guatemala	Guatemala
2			

Source: Table 7.

/The countries

The countries in which public investment has reached the highest proportions are generally - with some exceptions - those at the highest level of economic development or those in which the public sector has taken on increased responsibilities as a result of the nationalization of basic resources and industries.

(d) The structure of investment

As regards improving the use of scarce productive resources, the rate of growth of public investment is a less important factor than the way it is allocated to priority areas and how efficient it is, i.e., the extent to which it generates increases in production per unit of additional capital.

In view of the nature of the projects normally undertaken by the public sector, in particular in the economic and social infrastructure, which yield their benefits only over the long term and indirectly, it is impossible to reach any clear conclusions as to their economic return. It is useful, however, to analyse and compare the structure of public investment, in the various sectors.

Although the data are not strictly comparable in each case, some conclusions can be drawn regarding the use made by the public sector of its investment resources. One such conclusion is that countries devote between 66 and 86 per cent of their public investment to productive activities, and close to 15 per cent to the social sector. In Chile and Panama, these proportions are 43 and 47 per cent respectively, while the contribution of public investment to housing construction in these countries is well above the average for the region (see table 10).

In the Central American countries (excluding El Salvador and Guatemala, for which comparable data are not available) and Ecuador, between 63 and 77 per cent of investment goes to projects for the transport, communications and electric power infrastructure, with transport and communications receiving the lion's share. These countries do not allocate a great deal of resources to other productive activities, except for a small proportion which goes to agriculture. This seems to be characteristic of the smaller economies, except those which concentrate on a particular productive activity.

Table 10

## ALLOCATION OF PUBLIC INVESTMENT BY SECTORS

(Percentages of total public investment)

Country		Sectors of production					Total	Social sectors			
		Agriculture	Mining	Industry	Petroleum	Energy, transport and communications		Education	Health	Housing	Total
Argentina	1969-1970	1.1	-	3.1	-	71.5 a/	75.7	3.7	5.3	1.4	10.4
Bolivia	1970-1971	5.9	8.5	5.3	20.6	46.0	86.3	2.7	1.6	-	4.9
Brazil	1969-1970	1.4	4.1	3.2	9.0	48.7	66.4	4.0	1.5	-	5.5
Colombia	1969-1970	16.5	0.8	3.1	-	43.4	73.0	8.0	4.0	2.4	19.4
Costa Rica	1970-1971	1.6	-	0.3	-	69.1	71.0	7.5	10.0	6.5	24.0
Chile	1969-1970	6.4	5.6	8.7	-	22.3 b/	43.0	5.0	3.1	26.2 c/	34.3
Ecuador	1969-1970	3.1	-	-	-	63.0	66.1 d/	6.0	3.3	8.5 e/	17.8
Honduras	1970-1971	8.1	-	-	-	76.9	85.0	3.7	2.1	2.3	8.1
Mexico	1971	14.5	-	3.9	23.4	34.3	76.1	5.4	2.7	0.7	8.8
Nicaragua	1969-1970	5.8	-	-	-	65.2	71.0	4.9	5.9	4.8	15.6
Panama	1970-1971	12.3	-	3.0	-	32.0	47.3	4.8	11.9	32.3	49.0
Paraguay											
Peru	1971	16.2	1.5	2.7	10.8	38.4	69.6	3.0	2.0	8.6	13.6
Dominican Republic	1969	13.4	0.3	10.5 f/	-	41.5	65.7	6.3	1.1	7.7	15.1
Uruguay											
Venezuela	1970-1971	19.6	-	3.5	-	45.0	68.1	9.9	4.8	3.3	18.0

Sources: Same source as for table 7.

a/ Includes mining and probably the petroleum industry.

b/ The electrical energy sector was not included.

c/ In addition to housing includes urban development and improvement.

d/ There is a heading "machinery and equipment" which accounts for 16 per cent and which it has not been possible to allocate to any sector.

e/ Includes the construction of buildings.

f/ Refers exclusively to the sugar industry.

/In the

In the remaining countries - with the exception of Argentina - the proportion allocated to transport and energy ranges from 48 per cent in Brazil to 22 per cent in Chile, with higher proportions going to the other productive sectors, notably the petroleum industry in Bolivia, Mexico and Peru and the sugar industry in the Dominican Republic.

The agricultural sector receives between 12 and 20 per cent of public investment in Mexico, Panama, Peru, the Dominican Republic and Venezuela. These figures are probably influenced by a number of sizable irrigation works. The proportion is between 6 and 8 per cent in Bolivia, Chile, Honduras and Nicaragua.

The proportion of investment assigned to the three principal social sectors ranges from slightly over 4 per cent in Bolivia to 18 per cent in Venezuela. Chile, Ecuador and Panama have been excluded from the comparison under this heading as the construction of public buildings, urban development projects and even the improvement of physical facilities, are included under housing.

Education receives about 5 per cent of total public investment on average, ranging from a fairly low level in Bolivia and Peru to 7.5 per cent in Costa Rica and 9.9 per cent in Venezuela.

Investment on health is relatively high in Costa Rica and Panama (10 and 12 per cent respectively), but the average for the region is around 4.5 per cent.

The greatest differences between countries are in the housing sector. While Argentina devotes only 1.6 per cent of its investment to housing, Panama devotes close to one-third.

As regards investment on social projects and installations, increased allocations show up more clearly in the figures for administrative expenditure and purchases of consumer goods, which are generally made by departments coming under the relevant ministries. This is why a substantial proportion of the total expenditure of the central government appears as having been allocated to social activities.

/Towards the

Towards the end of the 1960's, approximately 18 per cent of total central government expenditure was allocated to education, the proportion being as high as 30 per cent in Costa Rica and 25 per cent in El Salvador and Uruguay. The proportion assigned to health was an average of 9 per cent. The percentages for total expenditure on housing construction vary so radically from country to country that any average would be meaningless.

There is a noticeable increase during the decade in the proportions assigned to education and health, which at the beginning of the 1960's accounted for close to 16 per cent and slightly more than 7 per cent respectively of total investment.

(e) Public saving and investment

During the 1960's, tax revenue generally was unable to grow as rapidly as current expenditure, and this jeopardized the formation of savings and made it increasingly necessary to tap sources outside the public sector in order to finance capital expenditure.

Although savings trends vary a great deal from country to country and also over time, a rough picture does emerge from an examination of the situation at the end of the 1960's or the beginning of the 1970's (see table 11).

Savings covered approximately three-quarters of capital expenditure in Brazil, Chile, Ecuador and Venezuela, but less than one-third in Bolivia, Costa Rica, Guatemala and Honduras, even though in the last two countries the data refer only to the financing of investment expenditure. The remaining countries of the region fall in an intermediate position ranging from 44 to 66 per cent. The same is roughly true for the savings investment ratio, although with even more marked differences between countries.

No clear trend emerges, moreover, as regards capital expenditure financed by loans. In Argentina, Brazil, Colombia, Chile, Ecuador and Venezuela, credit from national financial institutions predominated, covering between 10 and 25 per cent of capital expenditure. The differences are much more marked in the proportion represented by external loans, ranging from 5 per cent of capital expenditure in Chile and Venezuela to as much as 50 per cent in other countries, chiefly those with the smallest economies. The use made of external credit, as well as depending on the formation of domestic savings and the possibilities of increased domestic indebtedness, also depends on factors connected with the volume of the public debt, principally debt servicing and the external payments capacity.



Table 11  
FINANCING OF CAPITAL EXPENDITURE  
(Percentages of total)

Country	Average	Current savings	Credit		Current savings Fixed public investment
			External	Internal	
Argentina	1970-1971	56.7	16.0	23.1	67.4
Bolivia <u>a/</u>	1970-1971	31.8	40.7 <u>b/</u>	27.6 <u>b/</u>	31.8
Brazil	1969-1970	71.5	12.3	16.3	82.7
Colombia	1970-1971	50.7	21.0	21.6	104.5
Costa Rica	1969-1970	30.4	64.1		89.5
Chile	1969-1970	77.7	3.6	16.8	100.0
Ecuador	1969-1970	74.3	10.6	13.7	114.0
El Salvador	1969-1970	66.1	23.5		213.7
Guatemala	1969-1970	33.5	51.9	8.8	80.6
Honduras <u>a/</u>	1970-1971	29.0	46.1 <u>b/</u>	21.3 <u>b/</u>	29.0
Mexico	1969-1970	49.8	46.3 <u>b/</u>		62.7
Nicaragua	1970-1971	45.6	41.1	1.4	77.3
Paraguay	1969-1970	46.9	33.6	12.7	81.0
Peru <u>a/</u>	1970	95.3	10.9 <u>b/</u>	-6.2 <u>b/</u>	116.8
Dominican Republic	1970-1971	44.1	24.3	12.4	83.9
Venezuela	1970-1971	79.4	5.6	10.4	197.5

Source: Same source as for table 7.

a/ In Bolivia, Honduras and Peru, this refers to the financing of public investment.

b/ Refers to net loans, excluding the amount of amortization.

(f) Public expenditure financing

The growing commitment assumed by the public sector in the promotion of economic development requires a continuing and increasing flow of resources to finance it. The government obtains nearly 90 per cent of its current income from tax revenue, the expansion of which is limited by the same problems as those affecting development in the Latin American countries, such as those related to low levels and unequal distribution of income. The expansion of tax revenue depends partly on the financial capacity of the broad mass of taxpayers and of potentially taxable groups or sectors, and partly on the government's administrative capacity to collect those resources.

Reference has already been made to the increase in current expenditure and public investment during the past decade. The expansion of tax revenue - including contributions to social security institutions - was also, generally speaking, slightly greater than that of current expenditure, and certainly considerably less than the growth of public investment, with a consequent logical deterioration in regional public saving, in relative terms.

Governments have great difficulty in expanding their tax income at the same rate as their spending. This situation is aggravated as the tax burden increases or when there are difficulties in expanding activities which are the source of an appreciable proportion of tax income. However, Latin America has also devised other means of attenuating the loss of elasticity of taxation, such as the creation of financial intermediaries for directly tapping surpluses in the private sector and channelling them into public investment.

Another expedient with the same object which is likely to become an important source of future financing is that of tapping the operating surpluses of public enterprises. The possibility of such action proving successful depends both on the profitability of the enterprises and on the size and composition of the State-controlled area of activity.

The lack of a well-defined trend in the evolution of public expenditure and income makes it difficult to forecast the future behaviour of current saving vis-à-vis the dynamic growth of public investment. Leaving aside the expansion of other sources of financing, this depends to a great extent on tax income, which, as shown by its low elasticity in relation to expenditure, could encounter serious obstacles in continuing to increase its contribution, at least within the existing tax structures.

Between 1960 and 1970, tax income rose faster than the gross domestic product in all the Latin American countries except El Salvador and Nicaragua. This trend, contrary to what might have been expected, bears little relation to the absolute or per capita levels of the gross product, owing, among other factors, to the composition of the tax structure; in the case of countries of relatively less economic importance, taxes on external transactions represent a high proportion of the total.

Although the data on the tax burden shown in table 8 are not strictly comparable, some principal situations may be identified. The weighted average for the countries under consideration was approximately 17 per cent in 1970, compared to 14.4 per cent in 1960. Above the average for 1970 are Brazil and Chile, with over 20 per cent, closely followed by Venezuela and Ecuador. At the opposite end of the scale, with around 10 per cent, are the Central American countries (except Costa Rica with 14 per cent), Bolivia, Paraguay and, curiously enough, Mexico.

The tax burden shown in table 8 excludes contributions to social security institutions, which in some countries are fairly considerable. The inclusion of these contributions in the case of Uruguay, for example, would push up the tax burden from 17 to 27 per cent; in Chile, from 21.8 to 29 per cent; in Costa Rica, from 14 to about 17 per cent; and in Argentina, from 15 to approximately 20 per cent.

The tax income elasticity in relation to public expenditure in the 1960's was slightly below 1 for the region as a whole (see table 8). It might therefore be assumed that the possibilities of tax revenue continuing to grow at the same rate as public spending were gradually being exhausted. It is worth noting, however, that in 7 of the 18 countries considered in the region the coefficient was close to or above 1, and that in several of these countries (Brazil, Chile, Venezuela and Peru) the tax burden is already fairly heavy.

(g) The tax structure

The need to accelerate the growth of tax income or the attainment of certain economic policy aims connected with income distribution, the promotion of specific activities and other objectives has resulted in a constant readjustment of tax systems, without reaching the point of a substantive reform, so that at the end of 10 years the tax structure had undergone appreciable changes.

/Taxes on

Taxes on external transactions represented a significant share of the tax structure prevailing in 1960 (see table 12). In 9 of the 18 countries considered, tax income from foreign trade accounted for an average of 62 per cent of the total revenue. Of the rest, 24 per cent was obtained from indirect taxes and only 14 per cent from direct taxes (direct taxes are not considered to include social security contributions). An outstanding factor in this group of countries was the large share of taxes on petroleum production in Venezuela. Other members of this group were the Central American countries, Ecuador, Bolivia and Paraguay, all with similar economic structures where foreign trade plays a significant role compared with domestic production.

In four other countries - Argentina, Colombia, the Dominican Republic and Mexico - tax income was obtained in fairly equal proportions from the three broad tax categories. In Chile, Peru and Uruguay, on the other hand, indirect taxes predominated in 1960 (45 per cent of the total), while external taxes represented 33 per cent, and direct taxes 22 per cent.

The tax structure in Brazil and Panama differs from the pattern described above. In both countries direct taxes represented one-third of total revenue. There were marked disparities, however, in taxes on foreign trade (49 per cent in Panama and only 11 per cent in Brazil), the proportions logically being reversed in the case of indirect taxes.

The steady decline in the relative economic importance of the external sector, the changes in the composition of imports in favour of less taxable essential products, and the loss of significance of foreign exchange surcharges which were only of importance in countries where there were multiple exchange systems in force were factors which contributed to the shift towards greater internal taxation. A similar trend was observable in the five Central American countries, where the share of external taxes decreased, on an average, from 60 to 33 per cent. In addition to the increasing freedom from customs duties for products from the area, industrial promotion laws were passed in a number of countries permitting the duty-free entry, under certain conditions, of capital goods and raw materials for some favoured industries. Thus the ratio of duties to imports for Central America as a whole declined from 24 to 12 per cent between 1960 and 1970.

Table 12  
CHANGES IN TAX STRUCTURE, 1960-1970

(Percentages of total)

Country	Year	Direct			Indirect	External	
		On income	On inheritance	Total		Imports	Exports
Argentina	1960	24.4	6.2	30.6	40.5	28.9	
	1970	18.7	12.9	31.6	52.1	16.2	
Bolivia	1960	14.9	2.5	17.5	32.1	47.3	5.7
	1969	17.6	0.1	17.7	24.9	50.5	6.8
Brazil	1960	32.2	...	32.2	56.7	11.1	-
	1971	28.5	...	28.5	64.8	6.7	-
Colombia	1960	34.3	...	37.3	38.9		23.8
	1970	33.2	...	35.2	46.6		18.2
Costa Rica	1960	12.1	5.4	17.5	21.5	56.0	4.9
	1970	19.9	3.0	22.9	48.4	27.7	1.0
Chile	1960	16.9	5.5	22.4	43.3	20.6	13.8
	1970	20.4	3.5	23.9	45.8	11.4	19.0
Ecuador	1960	9.2	4.6	17.3	36.4		46.3
	1970	14.1	3.5	21.1	29.3		49.5
El Salvador	1960	8.7	3.8	12.5	25.4	45.1	17.0
	1970	15.1	8.4	23.5	33.6	24.6	18.3
Guatemala	1960	8.0	2.5	10.5	37.6	40.5	11.4
	1970	12.6	4.1	16.7	52.2	25.2	5.9
Honduras	1960	15.5	1.2	16.7	28.2	49.9	5.1
	1970	26.3	1.2	27.5	41.0	29.9	3.6
Mexico	1960	37.6	-	37.6	34.5		27.8
	1970	51.1	-	51.1	35.7	11.6	1.6
Nicaragua	1960	10.0	4.1	14.1	23.4	59.5	3.0
	1971	11.0	11.0	22.0	43.3	33.7	1.0
Panama	1960	25.5	6.4	32.6	18.1		49.3
	1970	42.2	5.3	48.1	22.6		29.2
Paraguay	1962	11.8	5.4	17.2	17.3		65.5
	1971	11.1	7.9	19.0	36.2		44.8
Peru	1965	21.1	-	21.4	43.2	32.1	3.3
	1971	23.4	2.0	27.3	42.3	27.8	2.6
Dominican Republic	1960	...	...	34.9	27.1		38.0
	1970	21.4	4.5	30.1	21.9	43.9	4.1
Uruguay	1960	8.1	14.3	22.4	49.0		28.7
	1970	7.9	9.4	17.3	67.9		14.8
Venezuela	1960	9.7	-	10.0	8.2	11.0	70.8
	1971	13.6	-	14.2	8.2	5.7	71.9

Source: Same source as for table 7.

/In Paraguay

In Paraguay the share of external taxes dropped from 66 to 45 per cent, and their ratio to total imports also declined, although for different reasons from those mentioned in the case of the Central American countries. On the other hand, there was no great change in the tax structure in Venezuela, Bolivia and Ecuador during this period.

To sum up, then, the tax structure in the region was quite different in 1970. The number of countries with a higher proportion of foreign trade taxes had dropped from 11 to 6, which obtained half their tax income from that source. In another 10 countries, indirect taxes accounted for an average of 51 per cent of total revenue, external taxes for 24 per cent, and direct taxes for 25 per cent. This group includes Brazil, with indirect taxes amounting to 65 per cent, and Argentina, which raised its indirect tax income to 52 per cent, at the expense of taxes on imports. Mexico, like Panama, increased the proportion of direct taxation to about 50 per cent, also at the expense of taxes on external transactions, whose share dropped by half (13 per cent) in Mexico.

It is not possible to describe in detail the reasons for the changes in tax structure in every case. However, it is interesting to note the greater relative importance of internal sources, which, at least in principle makes public income policy more independent, even though it requires more complex machinery for its implementation and control.