

UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



GENERAL
E/CN.12/891
10 March 1971
ENGLISH
ORIGINAL: SPANISH



ECONOMIC COMMISSION FOR LATIN AMERICA
Fourteenth session
Santiago, Chile, 27 April to 8 May 1971

CHANGE AND DEVELOPMENT

Latin America's great task

by

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(Chapters I and VIII)

Conference document

Note by the secretariat

The secretariat is distributing an extract from Dr. Raúl Prebisch's study containing a broad outline of the situation and a number of conclusions for action, in view of its relevance to the discussion of the item "Latin America and the Second United Nations Development Decade", on which the debates of the fourteenth session of the Commission will concentrate.

Chapter I

INTRODUCTION TO THE DEVELOPMENT OF LATIN AMERICA AND ITS PROBLEMS

1. The lack of the required degree of dynamism

(a) Spurious absorption of manpower

This report is geared to action. For the Latin American countries can no longer put off the decision to take deliberate steps to influence the course of their economic and social development, if they are to overcome serious handicaps which the passage of time is more likely to aggravate than to remedy.

In reality, the development process has been taking place in complete disregard of the population explosion. The region has not as yet been able to cope with this phenomenon, or with the other contradictions which the march of science and technology brings in its train, alongside the far-reaching possibilities of human welfare that it opens up.

Scientific and technical progress has implications for the labour force - including the population explosion - which in the last two decades have become increasingly apparent. Only a part of the economically active population is productively absorbed. A very high proportion constitutes redundant manpower in the rural areas, where the surplus labour force has been and still is large; and the migrants from the rural areas who ceaselessly pour into the bigger towns merely shift the scene of their redundancy. In their new environment, they needlessly swell the motley ranks of the services sector, in which a substantial proportion of the natural increase in the urban labour force itself is also skirmishing for jobs. Thus the result is a spurious rather than a genuine absorption of manpower, if not unemployment pure and simple.

This phenomenon is characteristic of the Latin American economy's lack of the required degree of dynamism. Its rate of development has been too slow to meet the peremptory demands deriving from the population explosion, and a large amount of human potential is wasted in one way or another, to the detriment of economic growth, equitable income distribution, and social harmony.

Disparities in income distribution date back for centuries in Latin America, and privilege is deeply rooted in the region's history. During the phase of outward-looking development which preceded the world depression of the 1930s, no solution to the problem was forthcoming; on the contrary, the increases in income which development brought in its train, and which in many countries were substantial, were concentrated in the few hands that already held land and wealth in their grasp. Since then, in the phase of

development which has continued to the present time the effects of the process have undeniably been more widely spread out; although it is also true that new patterns of concentration of income have emerged. Those at the top of the social pyramid have conspicuously prospered; the urban middle strata, too, have increased in size and have raised their level of living, although less than might have been the case, and far from enough to satisfy their growing consumption aspirations. But the benefits of development have hardly touched the broad masses relegated to the lower income strata. The percentage of the population represented by the last-named groups may possibly have diminished, although precise data to substantiate such an assertion are lacking. In any event, they still constitute as much as about 60 per cent of Latin America's total population, both in rural and in urban areas, although the proportions vary from one country to another. They would seem to have decreased in relative terms; but at the same time the gap between the lower and upper strata has widened.

Nor is this all. The advances made in mass communication techniques - almost inconceivable in bygone days - are giving rise to new phenomena, the scope of whose implications defies prediction. The broad masses of Latin America's rural population, formerly cut off by the illiteracy which kept them from access to books and newspapers, are swiftly becoming receptive to the radio and the television, which bring them nearer and nearer to the beguiling mirage of city life. Beguiling at first, only to prove later on a hotbed of tormenting frustration: the frustration bred of social marginality in the larger towns. ^{1/} It is not just a matter of consumption aspirations. There is something of greater social and political significance. The rural and urban masses are awakening to consciousness of their long-forgotten dignity as human beings, of their pathetic relegation to ways of life long abandoned by developed countries.

The social integration of these stranded masses is of primary importance. It is a question of fair distribution. Let there be no misunderstanding, however. Redistribution measures alone will not suffice. The income distribution pattern is defective, and could undoubtedly be ameliorated to some extent by existing circumstances. But there will be no substantial and lasting improvement unless the rate of development is speeded up.

^{1/} The serious phenomenon of urban marginality largely originates in the cities themselves. But it has been greatly aggravated by the exodus of rural population, in the main of people who in one way or another were socially integrated in their places of origin. There is a direct link between the increase of marginality and the incapacity of urban activities to absorb the population increment in productive employment.

Economic considerations are not necessarily at variance with social needs, but when growth is sluggish, distribution is almost always unsatisfactory. The practice of social equity calls for a vigorous rate of development, as well as for the political art of distribution, a delicate business in itself.

(b) The occupational structure and the waste of human potential

It is common knowledge that the migration of manpower from the countryside to the towns has always been a spontaneous product of development, whatever the economic and social system in force; and equally well-known is the importance of the dynamic role that industry, construction and mining are called upon to play in the productive absorption of the labour force from the rural areas. In Latin America they have failed to do their part in this respect, at any rate during the last two decades. Only two countries are exceptions to the rule, and for very different reasons in each case.

If the production of goods in all these non-agricultural activities absorbs fewer people than it should, and employment in services increases disproportionately, a serious imbalance inevitably results: the proportion of the labour force that wishes to consume goods but does not produce them expands beyond all reasonable bounds, while the proportion that does produce them shrinks to an abnormal extent.

The scale on which this is happening is truly disconcerting; an approximate idea of it can be obtained from a glance at figure XXX (see chapter IV), which clearly shows how the proportion of the economically active population working in industry, construction and mining ^{2/} steadily declines instead of rising, whereas the opposite is the case in the services sector, where the aforesaid spurious absorption of redundant manpower occurs, while part of the labour force is left jobless altogether. It is essential to correct this distortion of the occupational structure by reversing the trends described.

The mere correction of the occupational structure of the labour force would have highly important consequences. Suffice it to reflect that the attainment of this objective, by means of a more rapid rate of capital formation and the fulfilment of other requirements, would mean that the annual growth rate of the aggregate product rose to 7 per cent by the end of the current decade, instead of the average of 5.2 per cent recorded in 1950-1969. The average annual growth rate of the per capita

^{2/} For the sake of simplicity, this group of activities will henceforward be referred to as "the industry group".

product would thus increase from 2.5 per cent to 3.9 per cent. Even so, it would take a very long time and a still more rapid rate of growth of the aggregate product to compensate for the lack of dynamism.

Exceptional significance attaches to this projection. It must be borne in mind that the calculation was based for demonstration purposes on the assumption - afterwards discarded - that neither in agriculture nor in the industry group would the growth rate of the product per worker be more rapid than in the past. To achieve these remarkable results, productive occupation of the redundant manpower migrating from the rural areas would be enough.

The explanation of this vital fact is well-known. In agriculture, the average product per active person is very low, or purely nominal; and the occupation of former agricultural workers in the activities forming the industry group, where the average product per active person is much higher, suffices in itself to bring about an appreciable rise in the average whole economy.

The problem of the enormous loss of income thus sustained by the Latin American countries derives not only from that proportion of the active population which leaves the agricultural sector and is not productively absorbed elsewhere, but also from the redundant manpower remaining in agriculture. The reduction of the agricultural labour force will have to continue as the product per worker increases thanks to more efficient use of the land and to technical progress. Hence it will become even more imperatively necessary to give powerful impetus to the development of the industry group.

The idea of placing the emphasis on agriculture and paying little attention to industry is dying hard; but it is indefensible in the light of the foregoing considerations. The industry group needs to develop much more intensively than before in order to fulfil one of its principal dynamic functions, and to provide the manufactured goods required for speeding up development.

Incidentally, the exodus of agricultural workers is inevitable if the level of living of the rural masses is to be raised. What is not inevitable is the appalling congestion in the big towns, due mainly to this population shift. In this as in other respects, the Latin American countries are suffering some of the drawbacks of the development process in advance, long before they have reaped its benefits. In the present instance, the disadvantage they have to combat is that of over-concentration in the larger towns. This again is not an ill that can be left to remedy itself. Quite the contrary; it will have to be tackled with a determination of which no categorical evidence has yet been given by the Latin American countries - not even by those in which this social ill is most flagrant.

(c) Social integration and the domestic market

The social integration of the lower income groups in the development process, so that they can progressively enjoy its benefits, must now be understood in its true significance. As has already been stated, these lower strata comprise about 60 per cent of the population of Latin America. Victimized as they are by the social inequity with which the economic system operates, the consumption of the members of these groups is meagre in relation to their rapidly multiplying numbers. According to conjectural estimates, not even as much as 20 per cent of the total supply of manufactured goods reaches their hands.

The integration of these lower strata is a pressing social necessity. It is also an economic need, for it will extend the frontiers of Latin America's industrial development process. This is the only alternative that the dynamics of development afford. The growth of industry can no longer depend, as it did before, on import substitution alone. The fruit has been squeezed too hard by now for the flow of juice to be as plentiful as at first. New solutions, new markets must now be sought. There is a potential market of which scarcely any advantage is taken: that of the under-privileged masses. But their social integration is the only means of opening it up.

The frontiers of industrial expansion will be extended, inasmuch as the absorption of redundant manpower in industry - together with the improvement of the income levels of the rural population - will generate a considerable and continuing demand for manufactured goods, and will also give a vigorous fillip to demand for agricultural products, at present largely pent up by the lower income groups. Thus agriculture and industry will derive a more powerful stimulus from their reciprocal demand and will give each other mutual support, propagating their growth throughout the rest of the economy.

Such is the significance of the social integration of the under-privileged masses. The task is one that cannot be postponed, but this does not mean that it can be accomplished independently of others. It is frequently argued that this internal social integration must first be achieved, and then industrial integration at the Latin American level. A great mistake. Internal integration calls for the acceleration of development. And for that a sine qua non is the integration of the dynamic industries at the Latin American level, in default of which it will be impossible to ease the external constraint that is slowing up economic expansion. This in no way belittles the importance of other measures designed to assist in correcting regional imbalances within individual countries themselves.

(d) The progress of science and technology, and its contradictions

Clearly, then, development must be speeded up. The task is much more difficult than that with which the advanced countries were faced in their own

development process. For although the progress achieved by science and technology in the developed countries - and the spectacular advances that continue to be made - open up broader prospects of human betterment for the Latin American countries, they are attended by grave contradictions which did not arise in former times, or at any rate not to such a marked degree. The population explosion, of course, is one of the striking consequences of the progress in question. In order to cope with it, capital formation on a very large scale is required, both on account of the increasing numbers for whom work must be provided, and because the technology originating in the great industrial centres entails a steadily rising capital/worker ratio.

This difficulty is aggravated by another of the effects of scientific and technical progress, which unremittingly militates against capital formation. The higher income strata in the Latin American societies are prone to imitate the living patterns of their counterparts in the developed countries; and thanks to the ever-increasing might of mass communication media, these living patterns are forcing their way into the lower income groups, whose members are incessantly confronted with the alluring image of a consumer society to which their straitened means deny them access.

Thus, the advance of science and technology has conflicting implications which are likely to widen the disparity between population growth and capital formation. Moreover, it adversely affects Latin America's export trade, and helps to generate the persistent external bottleneck.

2. The acceleration of development and the obstacles in its way

(a) The march of ideas in the international field

These conflicting implications of scientific and technological progress partly explain why the dynamic impetus of the Latin American economy falls short of what is required. They are reflected in a number of internal and external factors which, within the context of the existing economic and social structure, have done much to hold back the development process. In the present report, however, the accent is placed on the internal factors of development, whose fundamental importance we do not always explicitly acknowledge when these problems are discussed at the international level. It is essential to restore the balance, although what is said of them here will certainly help to rekindle the flames of controversy.

With regard to the external factors that cramp development and the action that can be taken to influence them, controversy is already bearing fruit. Ideas which were considered inadmissible up to only a short time ago are now infiltrating into circles where they used to be labelled unrealistic, if not flagrantly irresponsible. Such ideas, which had been evolving and

establishing themselves in the developing countries, and particularly in Latin America, were crystallized in the United Nations Conference on Trade and Development (UNCTAD), and are now among the many important concepts and recommendations embodied in the Pearson report. 3/ Thus they are endorsed by the moral authority and intellectual prestige of its authors, who deserve great credit for their sponsorship. The only trouble is that in the meantime some of these ideas have been left behind by the demands of an increasingly complicated set of circumstances. This, however, does not detract from the great significance of the document. Highly important, likewise, is the recent report on the Second Development Decade prepared by the United Nations committee of experts under the chairmanship of Professor Tinbergen. 4/ He is one of the few eminent economists in the northern hemisphere who long ago grasped the nature of these problems and the need to tackle them on the basis of a carefully-concerted strategy. A man of deep convictions, Professor Tinbergen will beyond all doubt continue his unflagging work of persuasion. Another noteworthy report is that prepared by Professor Isaiah Frank, 5/ who had already adopted a highly constructive approach to these questions before. A report still more recently submitted to the United States Government 6/ also vigorously defends some of the primary aspirations of the developing countries, although unfortunately it does not set up a target for financial co-operation.

Thus, more and more outstanding figures in the advanced countries are espousing the cause of effective international co-operation in the development of the Third World. As far as they are concerned, we have no need to preach to the converted. But the progress achieved on the intellectual plane does not warrant complacency. Considerable energy will still have to be expended, if the conviction felt by men like these is to be communicated to the policy-makers who have to take the major decisions which international co-operation entails. The path is beset with formidable obstacles, and in my view it will be difficult, if not impossible, to forge ahead unless the efforts made in this direction are given definite support.

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- 3/ See Partners in Development: Report by the Commission on International Development (New York, Praeger Publishers, 1969).
- 4/ See Committee for Development Planning: Report on the Sixth Session (5-15 January 1970), United Nations document (E/4776), Economic and Social Council, 49th session, supplement No. 7.
- 5/ See Committee for Economic Development, Assisting Development in Low-Income Countries: Priorities for U.S. Government Policy (September 1969).
- 6/ The reference is to US Foreign Assistance in the 1970s (Washington, March 1970), a report which a group headed by the distinguished banker Mr. Rudolf Peterson has submitted to President Nixon.

This does not mean mere praise and appreciation. The Latin American countries must give manifest proof of their unhesitating determination to effect basic structural changes and adopt new attitudes of mind, and to apply a rigorous and socially meaningful discipline of development. This determination must be reflected in a strategy with clearly defined objectives. Such is the firm foundation on which international co-operation should rest.

The time has come to shake off the all too common habit of attributing the inadequacy of Latin America's rate of development of external factors alone, as though there were no major internal stumbling-blocks in the way. We must fully recognize our own responsibility. While development strategy is undeniably our countries' own internal business, it is equally true that international co-operation policy is an internal affair of the advanced countries. "At the international level" is only an abstract term. In reality, development calls for a number of convergent measures which must be adopted by both groups of countries if it is universally acknowledged that the problem is common to all.

There can be no more convincing proof of the need for such convergent action than the testimony of past experience. In reviewing it here, the aim has been to draw lessons from it rather than to demarcate areas of responsibility. The matter is of such importance that it is worth while to insert a few remarks here, in anticipation of its fuller treatment in a later chapter.

(b) Financial co-operation and internal development policy

International financial co-operation has failed to play as dynamic a role as might have been expected, not only because its volume has been insufficient and its terms unsatisfactory, but because of basic flaws in the development policy of the Latin American countries themselves.

Owing to this combination of external and internal factors, the funds received from abroad have not served to promote more intensive mobilization of the region's own resources. The direct effects of investment of these funds are undeniable. But in none of the countries on which data were available for the purposes of the present study - and which account for nearly 90 per cent of Latin America's total product - has the coefficient of investment with domestic resources increased to any marked extent. On the contrary, it has tended to decrease in the region as a whole, and in some of the individual countries the decline is striking. Part of the explanation also lies in the neglect of internal measures which might effectively have counteracted the unfavourable influence of this and other external factors.

The burden of amortization and reimbursement of foreign capital has been very heavy, and so has that of interest, although in a lesser degree. It is estimated that total annual service payments on public international funds alone are equivalent to 19 per cent of the debt outstanding. There is

no economy in existence - however great its potential - that could withstand such pressure with impunity. And in addition, account must be taken of the adverse effects of the deterioration in the terms of trade which has taken place during the greater part of the last two decades. These outflows have represented a heavy drain on internal investment resources. All these issues are discussed in due course in the present report, together with the question of private foreign investment.

Suffice it to point out here that private foreign investment, along with its favourable aspects, involves a number of problems which in order to work out ways and means of living in economic and political harmony with the developed countries must be examined from a completely objective viewpoint. In the context of these problems, it is impossible to disregard the concern aroused in Latin America by certain forms of foreign investment which in some cases have an adverse effect on the balance of payments, and in others, instead of helping Latin American enterprise to achieve financial and technological leeway, are more liable to keep it indefinitely at a disadvantage.

It is only fair to recognize that the unfavourable impact of such situations on the coefficient of investment with domestic resources might have less if the persistently expansionist trend of consumption - especially in the higher and middle income groups - had been restrained.

In short, for international financing to have played the dynamic role expected of it, it would have had to be granted on a much larger scale and on reasonable terms; and internal measures would have had to be adopted to ensure the progressive growth of investment with domestic resources.

The decisive importance of this latter requisite must be stressed from the outset. Latin America has not succeeded in dealing satisfactorily with its capital formation problem. If the next few years are to witness a transition to a satisfactory rate of development, investment with domestic resources will have to increase faster than consumption. To allow a considerable external debt to pile up, without energetically promoting the mobilization of the region's own resources until the point was reached at which they could fully meet capital formation requirements, would be to invite deplorable consequences.

Unless Latin America makes a strenuous investment effort, it will be unable to remedy the economy's lack of dynamism and the social ills inherent in it. External co-operation is important, but only as a means of supplementing and stimulating internal action, not as a substitute for it. Any other formula is inconceivable, and, moreover, would be self-defeating from the economic standpoint and politically inadmissible.

Of great importance also is the role that financial resources from abroad are called upon to play in the gradual elimination of the external

bottleneck. Here again they have failed to do their part. On the contrary, the burden of interest and amortization payments makes matters worse, since it has shown a disquieting increase in proportion to the purchasing power of exports and the saving of foreign exchange achieved through import substitution.

For this and other reasons, resolute action in respect of foreign trade is essential. The great industrial centres have left the countries of Latin America, like the other developing countries, to drift along as best they can. They have made no basic moves to offset the adverse influence exerted by their technical progress, directly or indirectly, on Latin America's export trade. Rather have they erected what in some instances are formidable barriers. This is yet another case in which the blame must not be laid solely on external factors, for Latin America could have done much more than it has to relieve the external bottleneck. Export opportunities have often been missed because of the negative effects of certain measures, or for want of a policy of steady encouragement.

Still more serious is the waste of Latin America's considerable intra-regional trade potential. It is true that the expansion revealed by the relevant figures is by no means negligible; but at the same time, little has been done in the field of industrial integration agreements relating to the intermediate and capital goods for which demand tends to boom as development advances. 7/

The Latin American countries have left undone many of those things which they ought to have done in the past twenty years, and the developed countries - in particular the United States - have failed to do what might have been expected of them. There has been a want of concerted action reflecting - without the slightest suggestion of pressure from above or of paternalism - a definite consensus of opinion with respect to the attainment of certain development objectives, and the nature, scale and scope of the measures required for attaining them. This is the unequivocal lesson of the past. The inadequate and incompatible measures that have been adopted at the international level cannot be called strategy. To transfer far less resources than are needed and yet be in a hurry to recover them is manifestly inconsistent; and so it hampers the export trade which must provide the means of making interest and amortization payments and meeting the large-scale import requirements attendant upon the development process.

7/ It is a very encouraging circumstance that in the Cartagena Agreement signed by the members of the Andean Group special importance is attached to measures of this kind.

Nowadays all this can be clearly seen. Formerly, perhaps, it was not so plain. Hence the value of past experience. To fail to take advantage of it in facing the future would be inexcusable today. The present report, I hope, will help to guard against such neglect. It is motivated not only by decision - a worth while end in itself - but, above all, by the conviction that the Latin American countries can no longer put off in favour of deliberate and far-sighted action to influence the forces of development. They must draw up their own strategy and define their common denominator and their patterns of concerted action, both in the sphere of their relations with the developed countries and in that of their relations with one another, where much of great importance can and must be done.

(c) Time is no panacea

In this as in other respects, the acceleration of development demands sweeping changes in structures and in mental attitudes. They are essential if technical progress is to be assimilated, its advantages turned to account, its contradictions resolved and its adverse effects counteracted. It is essential also for the promotion of social mobility both for its own sake and because it too is one of the indispensable requirements of technological progress. Social mobility is not merely a matter of general education and technical training; it is a basic question of structures.

I think it my duty to speak very frankly in this report. Latin America stands in need of the changes to which I refer - with all due acknowledgement of the reforms already introduced - and it likewise needs a development discipline which has rarely existed, and when it has been applied has seldom lasted long.

Such a discipline is indispensable in order that the region may enter upon a new stage of development, since the dynamic impetus of the present phase has gradually slackened. Powerful expansionist forces exist, but they are being obstructed. A determined effort must be made to clear the way for them. What has been achieved by virtue of these forces is no good reason for continuing the status quo. There is no room for complacency in Latin America. It is often displayed in face of striking evidence of progress. The impressive growth of the region's cities, their remarkable degree of modernization, and the development and diversification of their industries are sometimes taken as irrefutable proof of an encouraging process of development. It is forgotten, however, that the urban activities have shown themselves incapable of fully and productively absorbing the manpower increment and that this and other circumstances, are generating increasingly acute social tensions. It is forgotten, likewise that the progress made in urban areas has not spread to the countryside and that on the contrary it is the countryside that is invading the towns. Its emissaries are people who have broken loose from their own economic and social

constellation without becoming properly incorporated into the urban setting. All they do is to transfer their poverty-stricken way of life to the wretched shanty towns in which the marginal population of the cities takes refuge.

The progress of the urban areas should promise a steady improvement in conditions of well-being which have been attained only in part, and their extension to those broad strata of the population to which they have not yet spread in any appreciable measure.

If all these ills are to be remedied, it is essential to accelerate development. This report will have served its purpose if it carries conviction of the necessity and possibility of doing so; a conviction which must be implanted both inside and outside Latin America.

The developed countries do not always understand this need to speed up the rate of development. It has averaged 5.2 per cent yearly over the past two decades, with wide inter-country disparities. This figure cannot be described as modest in itself, since it is similar to that recorded in recent times by the developed countries in the private-enterprise group. What is more, their rates of development in the past were usually lower than those of Latin America.

Why such impatience, then? Why try to force the pace of events? If the countries now at advanced stages of development took a long time to get where they are, why should not the Latin American countries keep to the same rhythm? Cannot time perhaps solve their problems too?

Questions such as these are frequently asked at international meetings and in academic discussions, although less often than used to be the case. I hope the answer may be found in the present report. For it is highly important that in international circles - and particularly in the United States - full awareness of Latin America's problem should exist. It is a problem that we shall have to solve ourselves, in one way or another. Only it so happens that the way we go about it matters a great deal, and may be considerably influenced by the patterns of international co-operation policy in the coming decades. The economy's lack of the required dynamism cannot be corrected by the mere passage of time, and the longer the time that goes by, the harder will this weakness be to cure, and the greater will be the social and political cost, or, in a word, the cost in human terms.

3. Development options and international co-operation

(a) Immediatism at the international level

The times we live in do not seem particularly favourable to a policy of international co-operation. Immediatism - that is, the desire (very understandable from the political standpoint) to show quick results - generally prevails over long-term policy in the Latin American countries, and has also

predominated in the attitude of the developed countries towards international co-operation. There is something more in this than short-term pressures exerted by narrow economic or political interests. It is an increasingly striking fact that countries which have made giant strides in technology have not managed to forestall the attendant evils. Too much trust has been placed in the spontaneous forces of the economy, and there has been a want of far-sighted policies capable of overriding the interaction of those forces where they could not operate effectively. They can do much, but not everything. This is being recognized nowadays; and the idea of consciously looking ahead, which used to be entertained very little or not at all, is progressively gaining ground. But it has not yet extended to relationships with the developing countries; it is not being crystallized in a policy of genuine international co-operation.

It was not foresight that motivated certain attitudes which favoured the developing countries, during the iciest spell of the cold war. They found expression mainly in temporary expedients, seldom dictated by a broad strategy in which economic and social development played a basic and continuing part.

It is certainly true that the cold war has had its repercussions in Latin America. But it would be a grave mistake to ascribe to them the role that events themselves have been playing, and will continue to play to an ever-increasing extent if the rate of development remains the same as in the past. I have no belief whatever in the incoercible determinism of events, for the simple reason that there is great development potential in this part of the world: a potential that consists in human as well as natural resources. Creativeness abounds, and finds expression in a wide variety of ways. Latin America has great vitality, but its creative impulses are held in check, and their power to stimulate economic expansion is fettered.

Herein lies the great problem and the great open question with which Latin America is faced. The problem is that of releasing these expansionist forces by means of changes in structures and mental attitudes, and taking conscious and deliberate steps to influence them. And the open question is whether this will be done in time, and whether it will be possible to rely upon an equally timely, as well as energetic and enlightened, policy of international co-operation.

(b) Two methods of development

The transition from a relatively low rate of development with little social significance to one which will give the economy the requisite dynamic impetus and will be socially meaningful entails a considerable effort, an authentic development discipline. This is inevitable. If strong opposition to a conscious and deliberate discipline is put up, development by compulsion in one form or another will be the ultimate outcome. For frustration is no alternative, whether it be the frustration of a policy of laissez-aller or

the frustration of populism. One good point about the latter is that it has uncovered major social ills and has aroused legitimate aspirations for the social integration of the masses. In the absence of strong convictions however, and in default of a well-knit system of ideas, populism resorts to the unflinching device of using emotion in order to exalt charismatic figures. It sidesteps difficult problems and puts immediatism in respect of income redistribution before the need for over-all changes, before the basic solutions demanded by development.

Populism, therefore, is not an acceptable alternative to a development discipline. Such a discipline is an essential requisite for the considerable capital formation effort required in order to give the economy the additional dynamism it needs. It is not conceivable - much less desirable - that this should be done mainly with foreign capital. A great internal effort will be an imperative and inescapable necessity. Will it be possible without resource to compulsion?

The reply depends not only upon the political art of development, the ability to tackle basic problems and combine immediate expedients with long-term measures, but also upon international co-operation. In a strategy for the acceleration of development there is a difficult but decisive initial phase: that of preparing the economy for the capital formation process to be put into effect without undue tensions. What is needed is a large-scale contribution of financial resources from abroad, to stimulate the rapid expansion of the economy through the utilization of idle or inefficiently used resources and other internal measures converging towards the same goal. Obviously, when the economy expands in this way, it becomes less difficult to promote capital formation without sacrificing consumption beyond certain limits.

This is the initial dynamic role of international financial co-operation: to act as a spur to domestic capital formation. With that end in view, the terms on which it is extended would have to be very different from those offered in the past.

I have no wish to put forward arguments in this report which might appear to detract from its sobriety, but I cannot attempt to hide the growing concern felt in Latin America, and among the enlightened men of the northern hemisphere to whom I have referred, with respect to the turn taken by this co-operation. I have reflected a great deal on this matter and have discussed it with people who view the facts with objective impartiality. In these discussions one question invariably arises: will the Latin American countries be able to avoid coercive methods of capital formation if external financing does not make a much bigger contribution on appropriate terms?

The experience of the socialist countries has always been followed with great interest in Latin America, although in recent times this interest has also extended to private enterprise countries which have attained very

high rates of development, in particular Japan. Perhaps the most important feature of the experience in question has been the method of capital formation. Needless to say, Marx had envisaged a different process of radical transformation of the system, one which would be ineluctably brought about by the determinism inherent in the evolution of capitalism, once a large amount of capital had been accumulated and the whole machinery of production had been concentrated in a few hands. In the specific experience of the socialist countries it was precisely this substantial accumulation of capital which did not exist, and the want had to be supplied at considerable social and political cost. In reality, socialism has been a method of development rather than a method of transforming an advanced economy.

The gradual aggravation of the ills besetting the Latin American economy is, of course, creating a propitious atmosphere for ideologies which advocate transforming the system, root and branch. But irrespective of such ideologies, the course of events might lead to the socialist method of development even if that had not been the original intention of those who set themselves to strengthen the dynamic impetus of the economic system.

(c) The underlying political assumptions

Frankness is called for in this vitally important connexion. If external financing were not obtained on a large enough scale and at the right time, consumption would inevitably have to be more tightly restricted in order to speed up the rate of development. There would seem to be a possibility of doing this. The Latin American countries are not making the savings effort which their average per capita income would allow. And the distribution of this income is such that the restriction of consumption in the upper strata might enable the investment coefficient to be appreciably increased. The problem is quite simple from the statistical standpoint, but very difficult in actual fact. The power structure is undoubtedly a major obstacle, although not an insurmountable one, since it might conceivably be changed through the political process. Even so, there would be room for doubt as to the possibility of too drastically restricting the consumption of the higher income groups without arousing strong opposition, cloaked or overt, weakening investment incentives and precipitating the flight of capital abroad on a far greater scale than at present.

If this were to happen, if the operation of the economy were thus distorted, events themselves might impel the State to take over the very sources of income of the upper strata by a process of socialization - of the major enterprises at least - even if no ideological considerations were involved. Ideologies would come later to justify faits accomplis and strengthen their significance.

This brings us to the heart of the matter. I do not wish to reiterate the time-honoured arguments with respect to State enterprise. It is a

different aspect of the question that I want to stress. The fact that those who had gained political power realized the need to consolidate their authority by managing public enterprises efficiently would not necessarily mean that they could do so within the ordinary system of party politics. The pressure of electoral interests has always been a factor militating against the satisfactory operation of the State machinery in Latin America. What is more, in some countries where public enterprises used to operate at a reasonable level of efficiency, the economy's lack of the required degree of dynamism has induced the State of overstaff them, to the detriment of the efficiency previously achieved.

Hence a question of decisive importance arises, namely, whether the determination to ensure the success of this experiment is compatible with periodic party strife, with each party's constant restless anxiety - by no means inevitable - to buttress its position by granting immediate benefits which generally conflict with basic solutions. Unless this and other defects are corrected in time nobody would have cause for wonder - however much for regret - if the sheer force of economic circumstances succeeded in imposing patterns of political organization which, while tending to give continuity to the groups in power, would at the same time permit them a freedom of action which they would not otherwise enjoy.

These considerations do not apply solely to issues of economic management. Any system which fails to imbue the economy with the required degree of dynamism, and to promote more equitable income distribution, will have irrevocably forfeited the right to survive. The requisite remedial measures entail substantial economic and social outlays and investment. It would be hazardous to conjecture whether the savings capacity which the higher income groups are at present wasting would or would not be sufficient to meet all these requirements. It might well prove necessary to tap the resources of lower income strata, where the new ruling groups, however great their power and their moral justification, might encounter a serious obstacle: the very understandable need to put the satisfaction of pressing consumption aspirations before capital formation.

It would be unthinkable, of course, to inflict further hardship on the rural population that ekes out so precarious a livelihood, or on the under-privileged masses that have not been incorporated into the urban development process. Consequently, it would have to be the middle strata of society that were drawn into the savings effort. Given their propensity to adopt new consumption patterns, it would be very hard to curb their aspirations, and still more difficult, in case of need, to lower their present standards of consumption.

Thus the same question arises as before: can the consumption of the middle strata conceivably be affected without recourse to compulsion? Could

the restrictions be persistently maintained under the system of ordinary party politics?

The objective study of these problems calls for a very explicit definition of the underlying political assumptions, especially when supreme importance is attached to the progressive strengthening of certain values and objectives which, despite setbacks and compromises in the course of the political development process, continue to hold up an ideal image as the goal of the long journey that still lies ahead of Latin America.

This is where international co-operation could play a very significant part by helping to make the initial phase of transition to a higher rate of development less hard and to prevent it from entailing the sacrifice of political convictions formerly regarded as sacrosanct. This phase of transition is inevitable whether the economic and social system merely undergoes changes or is transformed altogether, and whether the process is carried out by design or dictated by the force of circumstances themselves.

d) Inescapable necessities

In any event, no system will have sufficient intrinsic virtue to evade certain necessities imposed by hard fact. A case in point is that of foreign trade. The tendency towards imbalances which might perhaps be mitigated but could not be corrected altogether unless the structures hamper export trade are progressively modified. Even socialist economies of enormous size, like the Soviet Union, have not found it possible to dispense with foreign trade; on the contrary, they are making strenuous efforts to expand it..

Still more intensive is the effort that must be made by smaller socialist countries such as those of Eastern Europe, with respect to trade not only with the Soviet Union, but also with the rest of the world, and particularly with the developed capitalist countries.

Where Latin America is concerned, the cost of import substitution must count for much in economic calculations, in the requirements of a rational approach, irrespective of the economic and social system in force. The need to expand industrial as well as primary exports must arise in any event, and so must the necessity of promoting the integration of basic industries within the framework of regional or sub-regional agreements.

Competition, too, is an essential requisite in any case. It would not be indispensable for a country that was content to continue using its resources inefficiently, as is the general rule in Latin America at present. How, then, could productivity be rapidly increased and the levels of living of the masses improved? There is a stage at the start when enthusiasm for the construction

of a new order might serve as a powerful spur to more efficient production. But later comes the need to introduce competition, with the stimulus it provides and the economic incentives attendant upon it. This is what is happening in the socialist countries at present: socialist competition in a market system which, despite its limitations, is called upon to play an important role from the standpoint both of the consumer and of the efficiency of enterprises. As I see it, socialist competition does not represent a swing-back in the direction of capitalism, but rather a quest for new modus operandi compatible with the collective ownership of the means of production. 8/

e) Development and "developmentism"

All these are issues which cannot be shirked at the present time. For Latin America must blaze new trails, must shake off the burden of the past, and must shun ideological preconceptions. The lack of the required degree of dynamism is not an episodic phenomenon, but the outward and visible sign of the critical state of that phase of development which began with the great world depression of the 1930s. This phase has long since served its purpose, and is now generating another crisis -- and a notable one at that -- especially among those of the younger generation who are beginning to concern themselves with economics and the social sciences: namely, the crisis of "developmentism". As with all these terms that spring up in the course of ideological discussion, there is some confusion about the meaning of "developmentism". Perhaps it may be interpreted as the refusal to believe that major changes are necessary in order to accelerate the present pace of development, and the belief that social disparities will gradually be smoothed out by the dynamics of development process itself. The essential thing is to develop; then we shall see! Such attitudes as these jar on the social conscience of the younger generation and of others who have long left youth behind.

Nor is this all. While those who mistrust developmentism do not deny the value of technology as a means of freeing mankind from the age-long burden

8/ I make no claim that this view of the role of incentives is universally shared by technical experts in this field. Perhaps I may be permitted a personal reminiscence here. When Comandante Guevara was the head of the Cuban delegation to the General Assembly of the United Nations, he was good enough to come to see me in my office in New York, a few months before he left Cuba for ever. We had met in 1961 at the Punta del Este conference, and had established cordial relations in Geneva at the first session of UNCTAD in 1964. At the time of the interview to which I refer, there was a great deal of talk about Liebermann in the Soviet Union and about the system of market prices and incentives which he advocated.

of heavy labour, the subordination of the human factor to technology causes them extreme concern. Prevalent among them, too, is the idea of a genuinely national effort incompatible with old or new forms of dependence, in economic affairs as in intellectual life and cultural patterns. They would like to tackle the problems of man and society as a whole; and without underrating the importance of a healthy economy, they do not see it as an end in itself, but as one of the means of attaining the fullness of living, of drawing nearer to the inaccessible goal of human excellence.

It is a salutary crisis, which leads to the re-statement of the problem, to a re-examination of its terms, to discussion of where the Latin American societies are going and where they ought to go: all essential prerequisites for conscious and deliberate action to influence the manifold forces of the economic and social complex. This is no light task. The easy way out afforded by privilege and makeshift expedients is no longer conceivable. Can it be that the new generations are trying to cling makeshift methods, despite the increasing intricacy of the problems they have to solve? Or do they fully recognize the imperative need for calculation and rationality in face of the constant advances of science and technology: the need to take advantage of this progress to improve the lot of the Latin American population and to fulfil designs extending beyond the economic system? Emotional impulses often override calculation. Emotion has generated great collective movements and has led men to perform memorable feats. But neither would it have been possible to get very far without rationality. Whether the aim is to introduce such changes in the system as will give it dynamic force, or to replace it by another, rationality is in any case indispensable in man's great adventure of development.

8/ (Cont.)

Since I asked him for his opinion, Comandante Guevara, who could reason dispassionately and weigh his words with care, strongly emphasized the sacrifice which the revolution in Cuba had represented, and for that very reason rebutted Liebermann's theory, which he regarded as contrary to the essence of socialism and its design about a radical change in the motives of human action.

Chapter VIII

CONCLUSIONS FOR ACTION

The aim of this report has been to consider the great task of change and development which Latin America must face in order to give its economy the additional dynamism it needs and to promote social equity. The emphasis has been placed on how much there is to do. But this does not mean that what is being done in our countries is disregarded. Significant changes are being brought about in the land tenure system, and in some countries concern for income redistribution is very marked. Notable efforts are also under way in the field of export expansion. And it has been demonstrated that relatively high rates of development can be reached and maintained, although they are still below the level at which the redundant labour force could be satisfactorily absorbed.

This is the great problem. It is better understood nowadays. A backward glance reveals how the region is gradually becoming fully aware of its significance, and of the serious consequences - to a large extent already apparent - that must ensue if a laissez-aller policy is adopted. Moreover, the ability to influence the course of events is much greater now than it used to be.

But this awareness of the problems to be dealt with has not yet gone very deep in political circles, where it is often blurred by certain ideological confusions or by the influence of outdated ideas which are not consonant with Latin America's real circumstances. Decisive headway must be made in the political art of development, which is certainly by no means easy. Nor is it an academic exercise. For all this in fact implies a great adventure, which calls for the intensive mobilization of the Latin American communities.

This regional awareness has also failed to spread to the international field, where convergent political decisions likewise have to be adopted. There should be no further delay in drawing up the broad outlines of a development and international co-operation strategy. The purpose of the present report is to collaborate in this task, which can be put off no longer. The main conclusions which might serve as guides to practical action are presented below.

I

The lack of the required degree of dynamism in the Latin American economy, and its social and political effects

1. There are considerable expansionist forces in the Latin American economy, but they are held in check by an unfavourable constellation of internal and external factors. The way must be cleared for them so that the rate of development can be raised, with a view to progressively imbuing the economy with the additional dynamism required.
2. The most serious symptom of insufficient dynamism is the steady growth of the redundant labour force. There is a great deal of redundant manpower in the rural areas; and the population migrating from the countryside to the town largely takes its own redundancy with it, for as it cannot be productively absorbed in the industry group (industry, construction and mining), it either finds its way into all sorts of urban services where income is very low and where it is not really needed beyond a certain point, or else goes to swell the ranks of the unemployed. This involves an enormous waste of human potential, even in relation to the prevailing production techniques. The indispensable improvement in these techniques will increase productivity per worker, thus aggravating the redundancy problem, unless the rate of development of the whole economy is energetically speeded up. Absorption of redundant manpower, technical progress and acceleration of the rate of development are thus indispensable objectives.
3. The inability of the economic system - as it operates at present - to absorb the redundant labour force at a satisfactory level of productivity is one of the reasons why the increase in income in Latin America has benefited the lower income strata only in a minimal degree. Instead of growing narrower, the gap between these strata and the middle and above all the upper income groups has been gradually widening. This is a very grave matter, for these lower strata would seem to constitute some 60 per cent of the Latin American population, while their share in consumption is only 22.5 per cent.

On the other hand, the urban intermediate strata have expanded and have raised their level of living, although it still falls far short of their growing aspirations for higher standards of welfare.
4. Owing to the spurious rather than genuine absorption of manpower in the services sector, plus actual unemployment, employment in goods-producing activities has been increasing less than it should. A serious

deficit is thus created, since not enough goods are produced to meet consumer requirements.

Such is the background of the social tension in the cities and the ceaseless battle for the distribution of what will not go round. Despite their parlous living conditions, the rural masses take only a sporadic part in this struggle for redistribution. But there are manifest signs of a change in attitudes, as a result of which the tensions are spreading to all social strata.

5. With some differences from one country to another, the social integration of the under-privileged masses is a fundamental problem throughout Latin America. Not only is it an urgent social and political need; it is also an imperative economic necessity. For a progressive rise in their purchasing power will extend industrial development possibilities by broadening the domestic market.

6. This potential market is immense, both for industry and for agriculture. If the income levels of the lower strata are rapidly improved by virtue of the progressive absorption of the redundant labour force and an increase in its productivity, there will be a noteworthy expansion of domestic demand, whose inadequacy, besides being one of the principal causes of the slow growth of agricultural production, hampers the progress of industrial development, as the impetus resulting from import substitution slackens.

II

Structural changes and the rate of development for the current decade

7. But the dynamics of agricultural and industrial production and - in a broader sense - of development itself also call for changes in the economic and social structure. The defects of the land tenure and land use systems are all too well-known. Those of an industrialization process which, with very few exceptions, is broken up into isolated microcosms with a high degree of protection are also becoming increasingly patent.

The structure of industry must be changed, concomitantly with that of foreign trade. These changes are indispensable if the way is to be cleared for technical progress, equitable income distribution furthered and social mobility promoted.

8. Better land use and technical progress will tend to aggravate the problem of redundant manpower in the rural areas and intensify the need to transfer labour from agriculture to other activities. This is a universal phenomenon from which Latin America is not and cannot be exempt. The trouble is that here the exodus from the countryside is accompanied by over-concentration of the population in a few large towns, with the resultant grave problems.

In consequence of the economy's inability to absorb this manpower in productive urban activities, the disquieting problem of urban marginality - in which the redundancy of labour finds striking expression - is becoming yet more acute. In Latin America as a whole, the proportion of the non-agricultural labour force employed in the industry group has declined over the last two decades instead of rising. In 1950 it was 35 per cent, and today it is estimated at about 30 per cent. This implies a serious loss of ground which can only be recovered if the rate of development is speeded up. In two countries only the aforesaid proportion reaches 40 per cent. This should constitute a reasonable goal for the development process in Latin America. There can be no solution for the problem of insufficient dynamisms, unless exceptional impetus is given to the industrial development of Latin America.

9. The attainment of this objective will entail the expenditure of steady and vigorous effort during the coming decade. It is estimated that in Latin America as a whole, with due regard to the well-known inter-country differences, an over-all rate of development of 8 per cent would have to be reached within the space of ten years, in the first place to prevent the distortion in the occupational structure of the labour force from becoming more serious, and then to correct it by gradual degrees.

During the past two decades the average annual rate of development was 5.2 per cent. To form a clearer idea of the exertion involved in reaching a rate of 8 per cent, it should be noted that this virtually implies raising the growth rate of the per capita product from 2.3 per cent in 1950-1965 to 3.6 per cent in the 1970s and to 5 per cent in the 1980s. This would mean increasing the per capita product in Latin America as a whole from about 400 dollars (at 1960 prices) to 900 dollars, in the course of the next twenty years.

10. The sole purpose of presenting this quantitative development target is to indicate the dimensions of the problem, the requirements it entails, and the results that might be achieved. There is no question of formulating an over-all strategy for Latin America as a whole. Development strategies and programmes must be the business of each individual country, and

drawn up in line with its structure, its stage of development, and the special character of its problems. The target serves, however, to give some idea of the internal effort required and at the same time to permit of a first rough estimate of international co-operation requirements.

III

The convergence of the internal effort and supplementary international co-operation

11. Such a rate of development necessitates a considerable capital formation effort. The investment coefficient, which is 18.3 percent, should rise to approximately 26.5 percent by the end of the 1970s and be kept at that level during the 1980s.

Domestic saving must be the mainstay of this investment effort. International financial resources cannot take its place, but should help to encourage it, especially in the initial stages. Latin America's aim should be to raise its level of domestic saving high enough for external resources not to be indefinitely required.

12. In the past two decades external funds have failed to play this promotional role, both because of grave shortcomings in international financial co-operation and because of the weakness of the internal development measures taken by the Latin American countries.

The amount of financial resources transferred has been inadequate and the burden of the corresponding service payments excessive. In the case of public funds, it is estimated that annual amortization and interest payments have now come to represent about 19 percent of the debt outstanding. These heavy service payments have been partly responsible for reducing the coefficient of domestic investment resources, and in recent years have exceeded the gross inflow of funds from abroad. In combination with the deterioration of the terms of trade, they have had a highly prejudicial effect on the mobilization of domestic resources and on investment. If Latin America's rate of development is to be speeded up, this situation must be substantially altered.

13. Convergent international and internal measures are needed to modify the trend of events in this respect. The United Nations has recommended that the industrial countries should contribute the equivalent of 1 percent of their gross product to financial resources for transfer to the developing countries, a proportion which in the case of public funds would amount to 0.7 percent. The Pearson report firmly supports the latter recommendation and proposes that this percentage should be gradually approached,

and attained by 1975. If with the inclusion of the contribution made by private capital the target of 1 percent were reached, and Latin America maintained at least the minimum share in resources of this type that has fallen to it in the past, the financial resources required to support domestic capital formation would be secured, provided that the burden of service payments were lightened and no sharp deterioration in the terms of trade supervened.

In order to attain this objective, it would be desirable for the developed countries to engage to earmark for such financial transfers a steadily increasing proportion of the additional monetary resources they obtain from the International Monetary Fund (Special Drawing Rights). Another indispensable requisite is that this co-operation should be permanent and should be reflected in commitments to finance development plans. Permanent, and also flexible enough to be adapted both to development requirements and to any contingencies which may arise in the development process.

On the other hand, a great responsibility is implied for Latin America: that of progressively improving its savings capacity until it attains self-sufficiency and no longer needs special co-operation measures. And this also involves making an almost unprecedented effort to generate exports which will enable the region to cope with external debt servicing, as well as with its increasing import requirements, without the creation of major tensions.

In all this the collaboration of the international financing institutions, in particular IDB, is of basic importance. And it is to be hoped that the developed countries will support their efforts to tap resources in the international capital markets, by abolishing the restrictions which still persist.

All this will help to pave the way for a stage at which the Latin American countries - some earlier and others later - will be able to gain free and direct access to the capital markets in question in order to obtain the financial resources they need.

14. It is increasingly recognized that this international co-operation policy cannot and should not be based on considerations dictated by particular political or trade circumstances, but on a long-term view of the relations between the countries of Latin America and the developed countries - especially the United States - which seeks to discover a common ground of interests in relation to fundamental economic and political issues.

15. It is of primary importance that this external financial co-operation should be accompanied by steadfast action on the part of the Latin American countries to raise the domestic savings coefficient. Otherwise it would be virtually impossible to accelerate their rate of development. The consumption increment of the strata possessing real savings capacity would have to be restricted, especially as the rate of income growth increased.

Despite this savings effort, by the end of the decade the average consumption of the population would have expanded much more rapidly than in the 1950s and 1960s, especially in the lower income strata.

16. In order to raise the level of domestic saving a firm development discipline is an inescapable necessity during the difficult period of transition to an 8 per cent growth rate of the product. In this phase, not only the structural changes which will release the expansionist forces of the economy are needed, but also special measures to provide the resources, indispensable for their operation, or, in other words, to foster investment and discourage the expansion of consumption beyond certain limits

IV

The role of foreign trade: a new tempo, and structural changes in its composition

17. During the transition period foreign trade will have to fulfil a highly important function: that of preventing the external bottleneck from frustrating internal development efforts. Imports in this period will tend to increase faster than the product. This will be impossible without a substantial expansion of exports and other external resources. It would be unwise to assume that current exports, a large proportion of which consists of primary commodities, will increase much more rapidly in the 1970s than in the 1960s.

Consequently, powerful impetus will have to be given to new export lines, comprising both primary commodities and manufactured goods. But however successful export promotion measures may prove, it will be indispensable to step up the import substitution process with exceptional vigour, mainly in respect of intermediate and capital goods, for which demand will expand at a very rapid rate. Generally speaking, these are goods whose manufacture entails a complex technology and heavy investment and calls for specialization and broad markets. Thus, if import substitution in respect of such goods is to be an economically sound proposition,

it should be effected in the framework of the regional market or of subregional markets linked to it.

18. Accordingly, integration agreements are a sine qua non for the industries producing intermediate and capital goods. Unfortunately, up to now no really significant agreement of this type has been concluded.

It is a very encouraging fact that the Andean agreement makes provision for this type of integration. The countries forming the Andean Group constitute a sizable economic space, comparable to that of the Latin American countries with the largest markets. This will enable them to make rational progress in substituting domestic production for major import lines. But for other items it will be essential to pursue the import substitution process in the much broader setting of ALALC. It is clearly realized that this linking-up of the subregional markets with that of the region as a whole is of great importance as a precaution against slipping into new forms of fragmentation of the Latin American economy.

It is likewise necessary that links should be forged between Latin America as a whole and the Central American Common Market, whose success might be somewhat undermined by recent regrettable events.

19. All this brings us to the problem of the countries which, because of the size of their markets or owing to special circumstances, are not reaping the full benefit of reciprocal trade. It is essential that the more highly industrialized Latin American countries should resolutely assume responsibility for co-operating in the development and the industrialization process of the rest. There are reasons of definite economic expediency for doing so, as well as supremely important motives of political and social solidarity.

20. The import substitution effort on these new bases, and the promotion of exports, especially of manufactured goods, are matters of primary importance.

If the Latin American governments reach agreement on a policy with these ends in view, great significance will attach to the co-ordinated action of international credit institutions with respect to the financing of multinational Latin American enterprises.

The Inter-American Development Bank, which is called upon to play an essential role in this field, is in a privileged position to support integration agreements, concurrently with other credit agencies and in particular the International Bank for Reconstruction and Development (IBRD).

This latter in its turn could play a very important part in the financing of projects designed to increase exports to the rest of the world. Consideration of the IDB proposals under study, in respect of contributing to the more intensive promotion of Latin America's exports, should be given priority by the countries of the region.

V

External cooperation in the field of trade

21. Imports tend to expand rapidly as development proceeds, while the growth of exports is relatively slow. Hence the persistence of the tendency towards an external bottleneck. The developed countries have not co-operated effectively with the developing countries in counteracting this process. On the contrary, in many instances they have helped to intensify it by restrictive measures.

What is more, the Latin American countries have been lent less than they needed; very heavy amortization and interest payments have been required of them, in addition to the remittances of profits on foreign private capital; and the major industrial centres have not adopted export promotion measures of any significance under which these payments could have been made without involving the serious problems that have hampered the development of the Latin American countries.

Hence the inescapable need for a trade policy which will facilitate the expansion of the developing countries' exports. In this connexion it is encouraging that the Pearson Report has endorsed the principal UNCTAD recommendations. The Rockefeller Report, in its turn, has also placed emphasis on trade policy requirements, although not on financial questions.

22. Thus, financial co-operation must be combined with an enlightened trade policy. "Trade or Aid" is a false disjunctive, at any rate during the transition period. Both trade and financial resources are needed. Financing will be required until domestic saving has reached the necessary level. Trade, on the other hand, is a permanent factor in autonomous development.

23. The autonomy of development must be founded on multilateralism, not only in financial matters but also in trade. The Latin American countries should diversify the composition of their exports, and their markets as well, at a multilateral level.

They might find the autonomy of their development and their ability to make their own major decisions seriously prejudiced if their foreign trade depended increasingly upon a single large market. Hence the long-term political significance of a system of general and non-discriminatory preferences to encourage the developing countries' industrial exports.

The European Economic Community (EEC) carries a responsibility of considerable historical importance in all this, since the continuance and extension of the discriminatory preferences which it grants foment the idea of breaking up the world into areas of influence, and, in the light of this principle, establishing a system of hemispheric preferences between Latin America and the United States.

Nor will it do to blind ourselves to Latin America's own share of the responsibility. For that reason the concerted action of the Latin American countries begun by the Special Committee on Latin American Co-ordination (CECIA) with the Consensus of Viña del Mar is of great importance: not only as regards the United States, but with respect to EEC and the rest of the developing countries, including the socialist countries, as was wisely decided.

24. Nevertheless, Latin American action is somewhat one-sided. The developed countries are urged to adopt measures which will help to enlarge the market for the region's exports; but the Latin American countries are not displaying the same zeal in opening up their own markets to one another.

Not only are indispensable industrial integration agreements deferred, but there is open reluctance to undertake the automatic or programmed reduction of tariffs in order to bring them down smoothly and gradually to a moderate level which will promote trade and competition in Latin American industry. This is an essential step towards increasing productivity, serving the consumer's needs more efficiently and on a more economic basis and promoting exports of manufactured goods.

25. It is a grave mistake to contend that internal integration must come first and then the regional or subregional integration of the dynamic industries and the adoption of other measures which will lead little by little to the establishment of a common market. For internal social integration and the opening-up of wider possibilities for industry call for the acceleration of development, and its tempo cannot be quickened unless the integration of basic industries is embarked upon and great impetus is given to exports to the rest of the world.

VI

The role of domestic and foreign private enterprise

26. The guiding principle in these operations should be the strengthening of Latin American enterprise, which today is at an obvious disadvantage both technically and financially. New formulas must be devised to enable it to combine with foreign enterprise in such a way that this disparity can be remedied and its indefinite perpetuation prevented.

The Inter-American Committee on the Alliance for Progress has undertaken studies of major importance on this subject, which should be carefully considered in order to arrive at formulas acceptable to all the interested parties.

According to one of these formulas, when foreign private enterprise - in cases where its admittance is considered to be desirable - is reluctant to associate itself with Latin American enterprise in the initial stages, a procedure should be established for it to do so after an agreed period of time. Once this period was over, the control of the enterprise would pass into Latin American hands.

To this end, great importance would attach to the approval of the project for the establishment of a subsidiary or affiliated branch of the IDB empowered to promote and support Latin American initiative, both in national and in multinational enterprises.

27. Basic national development and balance-of-payments considerations make it advisable that the areas of activity in which the Latin American countries want foreign private enterprise to operate should be clearly demarcated. A selective policy is a necessity. Foreign enterprise should be regarded as desirable not in those fields where production techniques are already familiar to Latin Americans, but in those where they are not accessible for the time being or where foreign experience might be of great value, as, for instance, in the development of exports to the rest of the world.

In any event, foreign investment policy should be compatible with the basic principle of national autonomy in decisions that are important to a given country.

Another indispensable requisite to buttress Latin American enterprise is a strenuous effort in the direction of the adaptation and creation of technology, without which Latin America will not be able to take maximum

advantage of its own resources, or make up its technical leeway in the vast process of transfer of world technology.

With the clear-sightedness called for in this connexion, the IDB and the United Nations Development Programme (UNDP) would have to mobilize far more resources than are at present available for the purpose, so that our countries may be enabled to make bold use of their creative imagination and to join in the great march of contemporary science and technology.

VIII

Strengthening of multilateralism

28. Multilateralism is consonant with the requirements of national autonomy. An idea is gaining ground that has long been battled for: namely, that international financial co-operation should be increasingly channelled through multilateral conducts. The Peterson Report likewise recommends that bilateral co-operation should be effected within a multilateral framework. Since it has roots in Latin America, IDB plays, and unquestionably must continue to play, an exceptionally important part in this multilateral action. And the same is true of the Inter-American Committee on the Alliance for Progress (CIAP).

Any world mechanism to guide a strategy for international co-operation with the developing countries is inconceivable without the active participation of these and other regional institutions pertaining to the inter-American system and to the United Nations, so that they can contribute what they have learnt from experience and wield effective influence at the international level, where co-ordinated action on the part of the developing countries is an increasingly indispensable necessity.

29. Multilateralism acquires special significance in connexion with the financing of the Latin American countries' development plans. Naturally, it involves analysis of the plan and of the progress of plan implementation by the international financing institutions.

In the light of the experience of recent years it seems advisable that this analysis too should be multilateral. The suggestion put forward is that it should be undertaken by groups composed of experts from the financing institutions together with independent experts belonging neither to them nor to the governments concerned.

To obviate the duplication of this work of analysis, which has been hampering negotiations, it would be essential for the experts from the credit institutions to make final pronouncements at the technical level on behalf of the institutions to which they pertain, although this would not imply any intervention on their part in decisions as to financing, which would be the exclusive prerogative of the governing bodies concerned.

30. These groups responsible for evaluating plans and plan implementation should operate independently under the aegis of CIAP, to which they should present their recommendations so that it can pronounce an opinion on sound bases. This would help to strengthen the influence that its verdict might exert on the decisions adopted by the multinational and bilateral financing institutions.

31. It is of great importance to perfect mechanisms - both international and national - whereby the aims of multilateralism can be more effectively achieved. But multilateralism will not acquire its full significance unless the amount of financial resources transferred to Latin America is increased, and, above all, unless steps are taken to lighten the burden of service payments, which have been absorbing an increasingly large proportion of export earnings and of the foreign exchange saved by means of import substitution.

VIII

Development discipline

32. The acceleration of development is no light undertaking. None of the tasks of primary importance in the period of transition to a higher rate of development can be described as easy. A true development discipline is needed in competition, in reciprocal trade, in the promotion of exports, in capital formation and in determined State action to further the changes required.

33. In other words, a discipline for drawing up and implementing a development plan as the expression of a national strategy. Considerable obstacles are still placed in the way of a planning process based on a real strategy for change and development. Strategy and planning are not incompatible with the market mechanism, which cannot be effective if it is founded on structural bases that are inimical to the expanding operation of the economy's dynamic forces. The State must take conscious and deliberate action to influence these forces in order to accelerate development and make it socially meaningful.

34. This calls for a far-sighted outlook which at the same time should not disregard immediate problems. It is equally wrong to be exclusively concerned with immediate needs and to ignore them. Short-term solutions must be the starting-point for longer-term action. This is of decisive importance in the political art of development. It will take time to make up the economy's lack of the required degree of dynamism. But social tensions cannot wait. It is essential to begin the transition period with a carefully thought-out expansionist policy which, while looking after the most pressing needs of the lower income strata, will at the same time enable the economy's idle capacity to be fully utilized, with the resulting impetus to the growth of the product. In this way consumption and saving can both increase simultaneously.

In such an expansionist policy a major role is incumbent upon investment in economic and social infrastructure. But international financial resources will be needed to supplement domestic efforts, especially as long as export earnings are insufficient to satisfy the increasing demand for imports which economic expansion brings in its train.

35. Without this combination of immediate action with measures that take time to bear fruit, it would be very difficult, if not impossible, to establish the essential development discipline to which reference has been made: a discipline which is needed both for structural changes and for rational action to influence the forces of economy. And if this is not achieved, the sense of frustration will continue to grow: either the frustration of allowing the dynamic impetus of the economy to fall increasingly short of what is required, or the frustration of populism. However much it may have served to uncover major problems, populism - with its leaning towards immediate solutions, and its want of strong convictions and of an organized system of ideas - has almost always shunned basic solutions.

Development discipline, or development by coercion. Coercion would not necessarily stem from an ideology, but might be the result of events themselves, of failure or inability to influence them with foresight. It has already been proved that the rate of development can be stepped up by coercive measures. But there must be no misunderstanding as to the great social and political cost, the great cost in human terms, which this implies.

36. These problems are not always discussed in Latin America with the necessary objectivity, since the atmosphere is increasingly charged with emotion. There is a great deal of ferment and unrest among the youth of the region, which is not merely a form of contagion, although it involves some degree of violence that is imitative of what is happening elsewhere.

The attitude of inconformity apparent among the younger generations, as well as among those who have left youth behind, has roots that strike very deep. Poverty in the rural areas, social marginality in the cities, glaring disparities in income distribution, limited opportunities for dynamic personalities in a wide range of human activities, all go to form the background of such attitudes of mind. But the phenomenon is too complex to be explained solely by reference to economic conditions.

Perhaps one of the principal problems arising in Latin America is that of resolving the contradiction between the rising generations' legitimate desire to take part in the solution of the major problems of community life, and the hesitant or piecemeal response - if any - made by political and social movements with a view to translating their dynamic energy into effective forms of action.

37. Latin America must find its own path, its own solutions. The region's development phenomena are different in the main from those with which the advanced countries were confronted in their time. The promise of technology is tremendous. But the contradictions involved in the progress of science and technology are also very grave: the population explosion, and the assimilation of increasingly capital-intensive production techniques. And, also, techniques which ceaselessly inculcate consumption aspirations that in the upper and middle income strata militate strongly against capital formation.

38. This growing imbalance between the increase in the population and capital formation must be corrected. But let us not stumble into the oversimplified belief that birth control is an alternative to an energetic economic and social development strategy. This strategy must of course be the expression of sacrosanct national decisions, in which demographic policy is a component that must be clearly defined in the light of long-term considerations which by their very nature cannot be strictly confined to the economic sphere.

39. Rationality and foresight are essential in development strategy. And also in international co-operation. The movements gestating in the developing world are of vast dimensions and historic importance. The industrialized countries will not be immune to what is going to happen in Latin America and throughout the Third World if it is still left to drift along as best it can: much less will they be so in view of the conspicuous unity of feeling which mass communication techniques are helping to create on a world-wide scale.

40. The Latin American countries need to co-operate effectively with one another. They need to take common action carried out with great energy

and strength of conviction. This concerted action should be based on a lucid conception of their objectives, targets and resources in their economic and social development, as well as of their aims in their mutual relationships, and of the co-operation they need and the way in which they intend to use the resources provided.

41. And now a word for ourselves, for the peoples of Latin America: what is the image of the society we want to establish, and what are its political and human values? From the very outset, we must look beyond the economic system. But if such a society is to be built, the economic system will have to acquire complete efficiency, so that the kind of welfare which is measurable can be extended to the whole community, to the broad masses of the population. This in its turn is a sine qua non if values which are sensed, but cannot be measured, are to be consolidated at this supremely significant turning-point in Latin America's history.

42. Complete mutual understanding has not been reached as yet in Latin America. To achieve it, dialogue is a pressing and indispensable requirement. A dialogue must be maintained with men concerned in politics, economics and trade union organizations, with men who move in other spheres of thought and action, especially those who belong to the new generations. Dialogue of this kind can and must lead to the discovery of common ground, to a pragmatic consensus of opinion conducive to the action that will accept no further delay.