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BASIC ASPECTS OF LATIN AMERICAN DEVELOPMENT STRATEGY

Conference document

Note by the secretariat

The secretariat has thought it appropriate to revise and update the study entitled "Basic aspects of Latin American development strategy" that was presented to the Commission at its thirteenth session. It is distributing the revised version of the study at the present session because the topics it deals with, in particular the process of economic and social development in Latin America and the basic aspects and objectives of development policy and strategy, are of cardinal importance for discussions on agenda item 5, which concerns Latin America and the Second United Nations Development Decade.

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Chapter I

DEVELOPMENT IN THE PAST DECADE: EXPERIENCE AND PROSPECTS

1. Experience in the past decade

Various developments and trends are characteristic of Latin America's experience in the 1960s. It is not easy to summarize them from an over-all standpoint, since they present features which are often contradictory, and they reflect progress and favourable changes side by side with obvious weaknesses and deficiencies.

Certain general points are fairly clear, however. One is that the rate of growth of the region, and of most of the countries' economies, despite improvements in individual cases, has stayed more or less at the levels reached in previous periods, and has not caught up with that of the more dynamic economies in other regions. This fact stands out all the more in the light of the population increase, as a result of which Latin America has shown one of the least favourable trends, only those of Africa and east and south-east Asia being still less favourable.

If account is taken of the acceleration in growth rates during the past three years, the gross domestic product of the region as a whole has grown at an average annual rate of 2.5 per cent. The over-all picture naturally conceals marked disparities between countries. Only seven attained the over-all growth target set by the Alliance for Progress.

Another all-important point relates to the general trend of Latin America's foreign trade. Although the increase in regional exports was by no means insignificant, particularly in the last years of the decade (see table 2), it reflects only partly the exceptional growth of world trade during that period. Furthermore, Latin America's share in the volume of trade declined in relation to that of the more dynamic regions, such as the European Economic Community (EEC), the United States and Japan.

/Table 1

Table 1

LATIN AMERICA: AVERAGE ANNUAL RATE OF GROWTH OF THE GROSS DOMESTIC PRODUCT AT FACTOR COST, 1960-1970 a/

(Percentages)

	Total product	Per capita product
Argentina	3.7	2.1
Bolivia	5.6	3.2
Brazil	5.8	2.9
Chile	4.3	1.8
Colombia	5.2	1.8
Costa Rica	6.8	2.9
Cuba	...	...
Dominican Republic	3.7	0.4
Ecuador b/	4.6	1.2
El Salvador	5.8	2.5
Guatemala	5.2	2.2
Haiti	0.5	-1.8
Honduras	5.2	1.7
Mexico	7.2	3.6
Nicaragua	6.7	3.6
Panama	8.0	4.6
Paraguay	4.4	1.1
Peru	4.9	1.7
Uruguay	1.3	-0.1
Venezuela	5.8	2.4
Latin America	5.5	2.5

Source: ECLA, on the basis of official statistics.

a/ Provisional estimates, subject to revision.

b/ Figures for the period 1960-1969.

/Table 2

Table 2

SHARE OF PRINCIPAL REGIONS AND COUNTRIES IN TOTAL WORLD EXPORTS, 1960 AND 1969

(Millions of dollars f.o.b.)

	1960		1969		Value of exports in 1960-1969	
	Value	Percentage	Value	Percentage	Percentage increase	Annual growth rate
Total	126 340	100.0	271 100	100.0	114.6	8.9
Developed regions and countries	81 001	64.1	183 611	67.7	126.7	9.5
United States	20 412	16.1	37 444	13.8	83.4	7.0
Canada	5 554	4.4	13 796	5.1	148.4	10.6
European Economic Community	29 740	23.5	75 560	27.9	154.1	10.9
European Free Trade Area	18 480	14.6	35 700	13.1	93.2	7.6
Japan	4 055	3.2	15 991	5.9	294.4	16.5
Oceania a/	2 760	2.2	5 120	1.9	85.5	7.1
Developing Regions	26 212	20.7	47 954	17.7	82.9	6.9
Latin America	9 012	7.1	14 304	5.3	58.7	5.3
Asia	7 630	6.0	12 820	4.7	68.0	5.9
Africa	5 300	4.2	11 480	4.2	116.6	9.0
Middle East	4 270	3.4	9 350	3.5	119.0	9.1
Countries with centrally-planned economies	13 240	10.5	27 900	10.3	110.7	8.6
Other regions and countries	5 887	4.7	11 635	4.3	97.6	7.9

Source: United Nations, Monthly Bulletin of Statistics: for 1960, vol. 22, N° 6 (June 1968); for 1969, vol. 25, N° 2 (February 1971).

a/ Australia and New Zealand.

/In addition

In addition, this trend was accompanied by other important factors, such as the deterioration in the terms of trade; little diversification of exports, which still consist mainly of a few primary products; the region's marked dependence on imports of capital goods and basic inputs; and a high degree of concentration in the geographical distribution of trade.1/

Another point which must be mentioned is that the external financial position of the Latin American countries is highly vulnerable and is becoming more so. Their indebtedness has more than doubled, and service payments absorb an excessive proportion of their exports, to the point where remittances of profits and interest, and amortization and other payments on foreign capital, have come to represent over 35 per cent of the current value of exports of goods and services for the region as a whole.2/

Another matter of grave concern is the volume and the spread of private foreign investment in the acquisition of Latin American enterprises engaged in traditional economic, financial or other activities, without there being any technical or other justification for these foreign take-overs and the weakening of Latin American enterprises.

There are, however, some important positive developments, which include the advances made in economic and social research; the efforts to integrate development problems in a more fruitful interdisciplinary context than in the past; a firmer and more widespread conviction of the need for institutional and structural changes; a greater understanding and practical knowledge of development problems; and the technical competence that Latin America has shown in its attempts to organize planning and the preparation of plans, notwithstanding the difficulties and lack of previous experience in this field.

1/ See ECLA, Economic Survey of Latin America, 1968 (United Nations publication, Sales Nº: E.70.II.G.1), Part One, Chapter III, and Economic Survey of Latin America, 1969 (United Nations publication Sales Nº: E.71.II.G.1), Part Two, Chapter V.

2/ Ibid.

/Attention must

Attention must also be drawn to the progress made in public sector planning, firmer action in curbing inflation, the launching of agrarian reform programmes in some countries, and the extension of social services in respect of education, health and housing.

Outstanding developments at the regional level were the policy decisions which set in motion the regional integration processes and the institutions designed to promote development, including the Inter-American Development Bank (IDB). Particularly significant was the co-ordinated action of the Latin American Governments in the discussions of foreign trade and financing, especially in relation to UNCTAD's activities.

The financial and technical co-operation programme of the Alliance for Progress represented the first attempt at organization to ensure the external co-operation required for national development plans, although it was eventually frustrated by a combination of factors. Particularly during its initial stage, this programme gave impetus to planning; it established economic and social development goals; and it encouraged the channelling of external resources towards the participating countries.

While there is no denying these and other advances, there is still a feeling of profound disquiet regarding the ultimate course of Latin American development, founded on the fact that social unrest and conflict have been aggravated, and on the realization that the long-standing obstacles to economic growth have taken on new dimensions and characteristics. In actual fact, at the close of the 1960s, the regional economies were far from having established the basic institutions and structures that would ensure more definite and stable progress. There is therefore a growing conviction that the effectiveness of the growth model and of national economic and financial policies needs to be evaluated, and the shortcomings of international co-operation and the severe limitations which the industrial countries' policy places on the development of the Latin American countries must be recognized.

For a more accurate view of Latin America's situation it seems essential to examine some particular features and consequences of the development process, which show the sharp disparities or disequilibria that have arisen.

/It is

It is not easy to generalize in Latin America because of the different stages of development and the wide range of economic and social structures to be found in the countries of the region. Some aggregate figures may be considered, however, since they are indicative of essential aspects of the economic and social situation prevailing in the Latin American countries. The precarious conditions they indicate may be worse than they really are in a few countries, but at the same time they err on the side of understatement about the conditions prevailing in the others.

The over-all magnitude of Latin America's economic and technological backwardness is reflected in the estimated figure for the average product per person employed, which is barely 1,400 dollars. This productivity ratio is one-quarter to one-sixth of that recorded in industrialized countries like the United States and those of Western Europe. The low average is undoubtedly determined by the minimal productivity of a large proportion of the economically active population which may be regarded as structurally unemployed. The scale and nature of this backwardness stand out even more clearly, however, when they are considered in the light of the fact that probably less than 10 per cent of the labour force is employed in enterprises or units which may be termed relatively up to date in Latin America, and which produce about 50 per cent of total output, while at the other end of the scale one-third of total employed manpower accounts for possibly less than 10 per cent of the aggregate product.

These differences in productivity levels, which were observable in the past between rural and urban activities, are becoming more and more pronounced in all economic sectors. In the more advanced industrialized economies there are also sizable disparities in the product per person employed in different economic activities, but in those countries they occur at much higher levels and are not so marked as they are in the Latin American countries, nor do they affect such large sectors of the population, particularly in the rural subsistence sectors and marginal urban activities. Moreover, in the region they are linked to other factors that make up the stereotype of economic and social backwardness.

/Productivity increases

Productivity increases very slowly and very unequally in different sectors, and even in different strata of the same economic activity. Thus, in the rural subsistence sectors and in various urban services, the product per employed person is virtually at a standstill or is even diminishing, on account of the pressure of surplus manpower. The course of events has been very different in the industrialized countries, where there is a tremendous dynamism which extends to all activities. The growth rate of Latin America's over-all productivity is half that of many industrialized countries, and even less than half that of those of Japan and some of the socialist countries. These disparities are particularly striking in the agricultural sector, whose backwardness is one of the most serious problems of Latin American development.

Productivity is a highly complex problem in Latin America. In the industrialized countries, increases in productivity are constantly being favoured - in broader and more diversified markets - by the improved techniques which they themselves develop; in the developing countries, any long-term improvement depends fundamentally on capital formation, better manpower training and organization, the expansion of domestic markets, and access to external markets.

The weakness of the Latin American economic process is apparent in its inability to absorb the working population in productive employment. This is undoubtedly due to the slackening of the economic growth rate since the mid-1950s and the fact that the population growth rate is the highest in the world. Other factors which are bound up with the conditions and structure of the Latin American economies and the patterns of income distribution have had a particular influence on structural unemployment, as will be seen later in this survey.

A study of the position in 1960, the conclusions of which are no doubt still valid, showed that about 40 per cent of Latin America's economically active manpower was underemployed, openly unemployed, employed in what are to all intents and purposes unproductive services, or in minimally productive activities. This section of the labour force included workers on sub-family agricultural units, artisan-type workers and the superfluous staff employed in trade and general services. This was the state of affairs in agriculture, in trade and other services, including government, and, on a lesser scale, in artisan-type industry and construction.

The low average product per person employed, the marked disparities in productivity in all economic activities and the scale of structural unemployment are three interrelated factors which account for the low average of income prevailing in the region. Together with the other factors connected with income distribution, they also explain the extreme inequality in the distribution of income and, consequently, of consumption. Although there are appreciable differences between countries - Argentina having the highest income and the least inequitable income distribution - the over-all figures are useful in assessing the magnitude of the problem. In real terms, average per capita personal income is only about 410 dollars a year; but while for half the population the per capita average is probably some 120 dollars, for the upper strata, representing 5 per cent of the population, it is 2,600 dollars.

Consumption in the low-income strata comprising 50 per cent of the population represents only two-tenth of total consumption, while three-tenths are absorbed by the upper 5 per cent. In other words, while the bulk of the population subsists under the unsatisfactory material and cultural conditions shown by these indexes, a relatively small proportion has attained a level and range of consumption similar to those found in countries with much higher incomes. Although these figures cover differences in income and consumption between the countries of the region, in some of which these disparities may be less pronounced, and although they are the result of preliminary estimates based only on the incomplete data available, there is no doubt that they indicate orders of magnitude that bear out the seriousness of Latin America's economic and social problem.

/2. The

2. The basic causes of the lack of economic dynamism and the social disequilibrium

The lessons of the 1960s have again shown that the basic causes of Latin America's economic and social backwardness are deeply rooted in the operation and structure of the economy. Unless something is done to remedy them, it will be impossible to speed up the process of development and achieve a more equitable pattern of income distribution which will, after a reasonable lapse of time, enable the "other half" of the Latin American people to join actively in the production process, appreciably improve their living conditions and find a place in an effective plan for social development.

It is not proposed here to describe in detail the economic, social and institutional factors that are blocking the development of the Latin American countries, but rather to draw attention to the more generalized structural factors, even though they differ in degree from one country to another.

(a) Political and institutional conditions

The basic causes of Latin America's lack of dynamism and economic and social backwardness must be sought largely in the organization and functioning of the Latin American societies. These causes consist essentially in the low pace of political and social change and the opposition to the establishment of new institutional conditions that would facilitate the key decisions required for development, and also in the sluggish reaction to changing conditions of international trade. All this is highly significant because, although the possibility exists of adopting fundamental development measures, the determination to carry them through on the necessary scale is lacking.

Experience in the 1960s has been illuminating in regard to the decisive importance of these factors for development. For example, national planning, which was initiated so enthusiastically, has not been so effective as could have been desired, because in practice it merely represented an added official administrative component of a traditional political and social decision-making structure in which there was no substantial change. In fact, progress was made only in administrative

/matters. Although

matters. Although the technical efficiency of governments improved, major decisions were not pushed through so rapidly or so comprehensively as was required, simply because the conditions that would make them feasible did not exist. This is illustrated by the slow progress of agrarian reform programmes and the vacillation and opposition with which they have met; the failure to adopt bank and financial reforms and to introduce substantial changes in the existing tax systems; the absence of national policies with respect to foreign investment, which, among other results, is opening the way for foreign take-overs and the weakening of national enterprises; and, lastly, the obstacles to the expansion of intra-regional trade and to the establishment of a more competitive and more efficient economic system arising from the situations created. In fact, what are generally considered as obstacles to development are largely the outcome of those circumstances, and political and institutional changes are necessary if they are to be overcome.

(b) Spread and concentration of technical progress

The marked contrasts in productivity levels in the economic structure of Latin America may be ascribed to the varying degree of technical progress and absorption of new techniques in the different economic sectors and branches of activity.

Absorption of technical know-how has never been a widespread process in Latin America, nor has it reached all sectors of activity or all strata of the labour force. Throughout the range from the traditional exporter enclave to the newly created industrial production units, technical progress has usually represented a limited form of modernization which, with the productivity and income it is capable of generating, has given shape to a modern sector that is separated by a great gulf from the rest of the economy.

For such a system to be effective over the long term, the modern sector would have to expand progressively and incorporate an increasing proportion of the active population; but this process has not been sufficiently intensive in Latin America.

/As the

As the productivity and income gap between the modern sector and the rest of the economy has widened, other factors which accentuate that disparity have gradually been strengthened. In other words, the very dynamism of the process tends to strengthen this pattern of growth, and it is superimposed on other factors which are characteristic of earlier phases in Latin American development. For example, from this point of view there was no great difference between what has been called outward-directed growth and inward-directed growth; when exports were the main stimulus to growth, the modern sector expanded principally on the basis of export activities and supplementary foreign trade services, which had little effect on the rest of the economy. Subsequently, the prevailing trend towards import substitution mainly favoured industrial development, but again through the establishment of new modern units which were superimposed on a whole slowly evolving economic structure. For the same reason, the transition from the first to the second stage did not change but rather consolidated the high degree of geographical concentration of economic activity, since the major urban centres became the most suitable locations for the installation of new modern activities.

(c) Capital formation and income distribution

For economic and social development, the essentials are an immediate increase in the product per economically active person and a structure which is capable of absorbing manpower while stepping up the growth rate of productivity and income, especially in the social sectors which are lagging behind. These aims can be achieved only by accelerating capital formation, spreading modern technical know-how and introducing more efficient forms of production, training the labour force and ensuring that resources are allocated for specific economic and social ends.

In Latin America aggregate capital formation is relatively low. During the 1960s the coefficient of gross fixed investment, discounting changes in stocks, was 17 per cent, which is less than in countries with a higher economic growth rate, but is quite high given the average level of income in the region. There is such a high concentration of income in the upper social strata, however, that the coefficient could be much higher were it not for the high consumption levels in those strata.

/Moreover, if

Moreover, if the high relative prices of capital goods compared with consumer goods are adjusted, and investment is calculated at its true value, the gross investment coefficient will probably not be more than 12 per cent.

This coefficient would seem to indicate that the capital-output ratio is more favourable in Latin America than in other developing areas. It signifies an average historical gross marginal ratio of 2.5, whereas it is more than 3 in many developing countries. While this index undoubtedly reflects the general shortage of capital resources in relation to the labour force, it has also been influenced by the distorted economic structure in Latin America, in which a large proportion of the social product derives from the abnormally high absorption of surplus manpower in trade, financial services and other general services, including government activities.

Apart from the shortage of capital, there is another fundamental problem connected with its sectoral distribution, that is, with the structure of investment. The large proportion accounted for by consumption in the high-income groups has an impact on demand for goods which come into the category of luxury items in comparison with the average living level of the vast majority of the people, particularly in so far as durable consumer goods are concerned. This distribution of resources limits the subsequent extension and magnitude of the potential social effects which the development process should be producing at the stage it has reached in Latin America. It is essentially a cumulative process in which the concentration of income stimulates demand for certain items and keeps demand for consumer goods low in the poorer population groups.

The resources which are directly or indirectly assigned to satisfying the needs of the high-income groups reduce the amount available for investment in the traditional industries producing consumer goods in popular demand, such as food and clothing, and for expanding the social services that should be provided by the State, namely, housing and education. They also curtail production and imports of essential intermediate and capital goods which would raise productivity in the more backward sectors of the economy and permit more manpower to be employed.

/The establishment

The establishment of durable consumer goods industries, which has proceeded apace, especially in the countries with a more advanced industrial sector, has undoubtedly had a multiplier effect on other economic activities to some extent or other, depending on the proportion of domestically produced inputs used, and has created a wide variety of new activities which have had their effect on the industrial skills available in the Latin American countries. However, the point at issue here is whether the potential economic and social effects would not have been greater if such resources had been earmarked for the other purposes envisaged or for building up an industrial structure capable of competing on the world market for manufactures and semi-manufactures.

If those resources had been used in other ways, as suggested, they would have provided the national economies with a broader base for expansion, made income distribution more equitable and helped to eliminate, or at least ease, the external bottleneck through which development must force its way.

(d) Agricultural production

The institutional, social and economic conditions prevailing in the agricultural sector are one of the most formidable obstacles that Latin American development has had to face. In spite of the shift of population towards the towns, a large proportion of the structural unemployment that exists is still found in rural areas, and this, added to low wage levels, keeps the annual per capita income of two-thirds of the economically active rural population down to the tiny sum of 275 dollars.

In recent years, the growth rate of the agricultural sector has shown signs of quickening. However, in many countries it has not done so sufficiently to satisfy domestic demand, although this has been increasing very slowly on a par with income, and the inflexibility of agricultural production has often created inflationary tensions that have reduced real wages. Moreover, opportunities of developing certain exports have been lost, and it is necessary to import large quantities of agricultural commodities which could be supplied by expanding local or at least regional production.

Because of its very nature and magnitude, the economic and social problem of agriculture is a built-in and significant part of the problem of Latin American development as a whole. Its fundamental causes are well-known: the land tenure system, technological backwardness, low productivity and the small volume of investment. The land reform programmes launched in various countries are meeting with serious obstacles and opposition of different kinds. More far-reaching, generalized and prompt action must be taken to sweep these obstacles away, since only in this way can rural income be raised and its distribution improved, and the national economies fired with greater dynamism.

(e) <u>Import-saving industrialization</u>

The industrial growth that has been taking place in Latin America has provided the impetus for development in the last ten or fifteen years and has played a decisive part in shaping the economic and social structure of the Latin American countries. Much has been gained in the way of experience, knowledge and industrial skills, and it is clear that these countries now have a much sounder foundation on which to build a more efficient economic and social development policy. This must be recognized even though the process of industrial development may be attacked from every angle, and these attacks may, in fact, be justified, since it has obvious defects which are obstructing the future development of the Latin American economies.

Indiscriminate import substitution under the shelter of much too high tariff walls has led to an extensive industrialization which, at its present stage, is characterized by a distorted structure of production that is both costly and inefficient in some vital aspects. Efforts have been made to produce the goods that are most profitable from the standpoint of the national or foreign private entrepreneur in the light of market requirements. Durable consumer goods industries have thus been developed, in the more advanced countries in particular, instead of strengthening strategic development activities such as steelmaking, and the chemical, petrochemical and machinery and equipment industries. The establishment of a large number of plants of unsuitable sizes has meant a squandering of capital and low productivity. Where economies of scale could be meaningful, they have not been achieved, and much of the capacity is

/under-utilized. Lack

under-utilized. Lack of specialization in industrial plants helps to keep costs up. Traditional family-type management is another barrier to the modernization of enterprises. Their technical shortcomings have thus been compounded with financial weakness, particularly in the inflation-ridden countries. These, then, are the factors that partly explain why more and more Latin American firms are passing into foreign hands.

This type of industrial structure has been determined by the lack of an industrial policy with clear-cut development goals, and by production purely for national markets. It will be no easy task to rectify this structure and gradually introduce a climate of competition into Latin American industry that will lead to greater efficiency in the use of the resources and production capacity available. This may be done much more easily if a fresh impetus is given to industrial development, which seems to have been flagging in the last few years. In a development strategy, two things are clearly essential: to strengthen national markets and to make industry export-oriented. The absorption of surplus labour in productive activities, a policy of income redistribution and a programme of land reform will immediately help to do the former. Integration and the sale of industrial goods outside the region will bring with them the advantages of a broader market and the incentives for continuing the process of industrialization in a more efficient way.

(f) Inflation and its consequences

Inflationary pressures, with the resulting disruptions, persist in many countries of the region, slowing down Latin American development and limiting its social scope.

This is not the place to examine the immediate or indirect causes of inflation or to go into its many consequences, but it is useful to recall its obvious links with the problems analysed above, both because they help to set off the inflationary spiral, and because they are aggravated by it and obstruct its cure.

It must not be concluded from this vicious circle that until certain structural features or deficiencies are remedied no steps can be taken to curb or control inflationary pressures. This is borne out to some extent by the different effects inflation has had on economies with very similar characteristics.

/Inflation is

Inflation is a serious stumbling-block preventing countries from framing and maintaining economic development policies or decisions. There is no doubt that an inflationary situation checks and hampers any important or far-reaching decision that should be adopted on such vital matters as income and prices, exchange rates, and public income and expenditure.

These are among the most costly - and not always properly appreciated appreciated - effects of inflation, and they have had considerable influence on the sluggish and irregular development of some countries.

(g) External structural factors

The origin and nature of the external bottleneck in the Latin American countries, and the way it makes the development process undynamic and vulnerable, are well known. A policy centred largely on import substitution, and the want of effective measures to make the necessary adjustments to produce a structure of economic growth that would be geared to the more dynamic international trade activities, keep these countries dependent on primary commodities and their traditional markets, with all the limitations and instability that this implies.

For reasons which are only too well known, import substitution has failed to remedy the chronic deficit in the balance of payments and has established external relations that are extremely inelastic in that imports have been confined to essential intermediate goods and capital goods, although more flexible conditions do exist, especially in the countries that have made least progress with import substitution. External borrowing, the other remedy that has been tried, has made the situation even more inflexible and has increased the vulnerability and dependence of the Latin American economies because of the tremendous burden placed on them by debt and investment servicing and the close connexion that has been established between the growth rate and external indebtness. Things have now come to such a pass that, if their external capital inflow were to diminish, many countries would be faced with an insoluble problem, since, in order to service their external debts and investment, they would have to slash imports to an impossibly low level.

/Although export

Although export income has been growing more vigorously in recent years, notworthy in this respect being the growth of manufactured exports, in particular in Brazil, the external bottleneck is still very much in evidence. It is all too well known that the economic growth rate of many countries would have been much higher, even with current policies, if there had been no such obstacle. This is confirmed by the improvement in the growth rate achieved or about to be achieved by those countries which have had fewer external difficulties to grapple with, and by the immediate response of the growth rate in every country when there is an expansion of exports or of external purchasing power, except when stabilization policies are being applied.

It may not be out of place to go further into another aspect of the influence of the external bottleneck on economic trends, namely, its repercussions on the mobilization of domestic savings. When the potential trade gap is greater than the potential domestic savings gap and a country has to borrow to cover its balance-of-payments deficit, it is highly probable, as Latin American experience has so often demonstrated, that the economy will eventually adapt itself by creating idle capacity or reducing the domestic saving coefficient. In both cases, domestic resources are squandered and future development is undermined by the burden of debt servicing. Adaptations of this kind are even more undesirable when the relative increase in consumption takes place, as it is most likely to do, in response to the pressure of demand from the high-income groups, thus accentuating the concentration of resources in the production of certain lines of durable consumer goods and widening the consumption gap between those groups and the lower income strata. The results are similar when the potential savings gap is closed by external loans, even if the export and import situation happens to be more favourable. This does not mean that external contributions are unnecessary or necessarily harmful. What must be made clear is that an effective policy is needed to ensure that any such resources fulfil their true purpose of facilitating the mobilization of domestic resources for productive ends, and that the only sound and lasting remedy for the external bottleneck is essentially to develop exports.

/(h) The

(h) The lack of an effective foreign trade policy

Latin America has never had a vigorous foreign trade policy reflecting a clear conception of regional development. Confronted with balance-of-payments problems, the region has resorted to the easiest and most immediate solutions, namely, borrowing and import substitution, which have ended by aggravating the problems themselves. For want of such a conception, trade policy has been instrumental in determining an internal structure and a level of efficiency that are impeding the further development of the Latin American economies. It is obvious from its action in the international sphere that Latin America has not been strong enough to forestall or influence the adoption of decisions that have proved increasingly prejudicial to its interests, and that it has failed to act with the rapidity and vision necessary to adjust to the changes that have been taking place in international trade as a result of the economic and technological progress of the industrial centres.

The industrial countries have developed their trade to a remarkable extent by incorporating the new products created by the unceasing advance of technology, and this helps them to diversify their patterns of consumption. Such trade has been a factor of paramount importance in their economic growth. Strangely enough, this trend of development has been accompanied by an upsurge in their production of major primary commodities, with the result that they have ousted Latin America from its traditional markets and placed difficulties in the way of its entering other areas. In varying degrees but to an ever-increasing extent, the industrial countries have now become major exporters of primary commodities. This is very largely the consequence of a highly protectionist policy, of technological advances in methods of agricultural production which have led to a spectacular increase in the product (side by side with a decline in the economically active population in rural areas) and in those countries' power to finance more costly exports.

The evolution of the Latin American economies has been entirely different. Great strides have been made in industrialization, although to different degrees in the large, medium and small countries; but the ensuing changes in the internal structure of production and improvement

/in the

in the management of the economy have had virtually no effect on exports. Under the pressure of the economic policy of the major centres, the technological innovations that herald new substitute products, and the low elasticity of demand, exports still consist in the main of primary commodities. In their foreign trade, the Latin American countries, even those with the most advanced industrial sector, perpetuate the traditional pattern of the international division of labour, of which they have to bear the unhappy consequences.

These countries have preserved their ties with the traditional centres in an attempt at self-defence that has ultimately proved unfruitful for them. Owing to lack of vision or difficulties of other kinds, they have failed to diversify their commodity markets. They have not reacted promptly to the changing conditions of international trade which would undoubtedly require a more efficient and competitive type of industrialization. It is a well-known fact that the measures they might have taken to escape from this situation were severely curtailed by a certain group of interests. It is equally certain, however, that they have taken an isolated stance in their foreign trade in defence of a position that has gradually been undermined, and have failed to summon the energy and drive required for a sounder and more lasting solution.

/3. Prospects

3. Prospects and possibilities for economic development in the 1970s 3/

An analysis of projections of the prospects for economic growth will help to give a more comprehensive picture of some of the important points raised in the preceding section relating to the basic causes of the economic and social backwardness of the region, and to provide criteria on the basis of which the nature of the problems and the basic objectives of development policy and strategy can be defined more precisely. The projections cover four fundamental components of the growth rate: (a) population trends; (b) the mobilization of domestic resources, with special emphasis on savings; (c) external trade requirements; and (d) external financing.

(a) Population trends and projections

The population of Latin America has been growing at an amazing speed over the last fifty years. Its annual growth rate, which was only 1.8 per cent at the beginning of the century, has now risen to 2.88 per cent. If this rate continues, the population will increase by 95 million to a total of 379 million for the region as a whole by the end of the 1970s. The factors underlying this population growth are the development of health care, and medical discoveries, which have reduced mortality, in combination with a birth rate that has remained relatively high.

Population growth is far from uniform in all the Latin American countries. In some, such as Argentina and Uruguay, growth is slow, and the urban population very large. In others, like Bolivia and Haiti, with lower income levels, high mortality is still keeping growth down. But in the majority of the countries, which account for more than 80 per cent of the total population, the population increase is over 3 per cent annually, and the rural population constitutes more than 40 per cent of the total for these countries.

3/ See "Latin America: Macroeconomic projections for the 1970s" (E/CN.12/865).

This population trend is very important for development policy and has its own special characteristics in Latin America. If the region is considered as a whole, it will be seen that average population density is low, that the ratio of population to resources is rather better than in other areas, and, what is highly significant, that the geographical distribution of the population is extremely uneven. Major urban centres and certain rural areas are heavily populated, while vast tracts of land in the interior are almost uninhabited.

It is only in two of these countries, which achieved a relatively high income level a long time ago, that the process of urbanization has been accompanied by a reduction in the birth rate. This has also started in Cuba and Chile.

Elsewhere the population is growing even more rapidly despite intensive urbanization in the last twenty years. This can be attributed to the large numbers of people living in rural areas, where the birth rate is higher, and to the failure of migrants to the towns to adapt themselves in any real sense to the living conditions, customs and habits of the urban population. It is also due to the fact that the people's knowledge of and ability to obtain the means of birth control are limited by the lack of information and financial resources. Moreover, it is unlikely that the process of urbanization will influence the birth rate quite so quickly, relatively speaking as mortality has been reduced.

There are, however, unmistakable signs that population development will be passing through a transition period in the next decade. Trends in recent years and an analysis of projections to 1985 point to the following conclusions: (a) the growth rate of the population has been increasing at a slower pace in the last thirty years; from 2.37 in the 1940s it rose to 2.80 in the 1950s and to no more than 2.88 in the 1960s; (b) the projection of current trends indicates that the growth rate will not be more than 3 per cent in the next decade; (c) if these trends are assessed in relation to factors that may reduce the birth rate, the lowest hypothesis postulates a population growth rate of 2.7 to 2.8 per cent for

/the next

the next fifteen years. If, on the other hand, birth rates remain high, the steady drop in the death rate will mean that the population will grow at a higher rate - 3.1 or 3.2 per cent - during that period.[4/]

In short, it appears that: (a) the trend of the economically active population during the next decade has already been determined and will be unaffected by the course of the birth rate in the next few years; the population will tend to grow rather more than before, at an over-all rate of 3 per cent for the region and of 3.5 per cent or even more in many countries; (b) the proportion of growing children and children of school age (up to fifteen years old) may vary with the birth rate, although the anticipated decline in mortality will play an important part in offsetting any reduction that may take place; it is only if the birth rate grows at the lowest possible rate in accordance with the most extreme hypothesis, that there will be a decrease of any appreciable size in this population group compared with the present trend; and (c) the growth rate of the total population may rise in those countries where mortality is still relatively high.

It is still too early to predict what effect the spread of birth control may have on the trend of natality during the next ten years, and possibly the 1980s as well. So far, there have been indications of a policy of birth control only in a few isolated cases, but in at least one country - Argentina - a definite policy of population expansion has been officially decided upon. However, it appears that, in any case, population rates will range between a minimum of 2.7 to 2.8 per cent and a maximum of 3.1 to 3.2 per cent, with substantial variations from country to country.

(b) The potential domestic savings gap

Technical studies of eighteen Latin American countries show that, despite the high concentration of income in certain strata, not enough savings are being generated to raise the current economic growth rate to

4/ See ECLA, Social change and social development policy in Latin America. (United Nations publication, Sales N°: E.70.II.G.3) and "Population trends and policy alternatives in Latin America" (E/CN/12/874).

any significant extent.[5] Unfortunately, an analysis of this kind inevitably has serious limitations, since no studies exist showing the sources of savings, their movements and shifts, and their uses in Latin America. Hence, any analysis has to be based on the savings that eventually become investment capital. Nevertheless, despite these limitations, it is useful to discuss this topic because of its important implications for development policy.

It might be expected that as income increased, the savings coefficient would rise and thus speed up the rate of capital formation, but this does not appear to be the case in Latin America. It is clear that the external bottleneck, as a result of a number of factors, makes it difficult to use domestic savings productively, but other components of the economic and social structure are also responsible for this phenomenon. Recent experience in Latin America includes cases in which a relatively high growth rate, stimulated by external financing, has resulted in an increase in investment and in the domestic savings coefficient. These relationships favour development, since the external debt then has the effect of strengthening productive capacity and of increasing the mobilization of domestic resources, which, in turn leads to a self-sustaining growth rate. This is the exception to the rule, however, and in many countries this process has not led to any significant rise in the savings coefficient.

Therefore because of external factors, the consumption pattern of the high income groups, or the extremely low income level of the vast mass of the population, two facts stand out as being significant for future economic development. First, the savings-investment process does not have the flexibility in Latin America that it has in the industrialized countries; and, secondly, it cannot be said that the process is self-sustaining in the sense that an increase in income, even if the result of external financing, automatically leads to increases in the savings coefficient. This depends on structural changes and on deliberate action rather than on the free interplay of the variables involved.

5/ See document E/CN.12/865, op.cit.

In the study analysing growth rates and savings trends in a group of eighteen countries two hypotheses are examined. One assumes a target growth rate of the product following past trends, although distributed among countries, and gives an over-all annual growth rate for the group of 5.5 per cent. The other assumes an accelerated growth rate generally rising in all countries to an annual figure of 7 per cent in the period 1975-1980. The average annual growth rate of the countries as a group over the period 1970-1980 is placed at 7.1 per cent.

The analysis shows that if the ratio of ex post saving to national income follows past trends, under the low growth hypothesis (5.5 per cent) fourteen of the countries can be expected to have a savings gap in 1975 (see tables 20 and 21 of document E/CN.12/865). These potential savings gaps are quite considerable in some cases, and in seven countries represent more than 20 per cent of gross investment. By 1980, thirteen countries are expected to have a savings gap, which means that only one country would have improved its position.

Under the accelerated growth hypothesis (an average of 7.1 per cent), all eighteen countries can be expected to have a savings gap that will gradually widen during the decade and would amount in total to over 10,000 million dollars in 1975. This amount is equal to the amount of net external financing that will probably be needed to sustain the growth rate targets. The seriousness of the problem stemming from these potential savings gaps is evident if it is remembered that the maximum amount of external financing received by the region as a whole has not exceeded 2,000 million dollars in recent years. It should be noted that the estimates refer to ex post saving, since they are based on investment trends and do not measure the amount of savings that may actually be generated in these countries. Hence, in some cases they may exaggerate the true size of the potential savings gap.

Nevertheless, irrespective of the effect of these disparities and of the technical limitations of the figures, these estimates do give an idea of the huge problem involved in mobilizing domestic resources to speed up economic growth.

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In many cases the potential savings gap is greater than the balance-of-payments deficit resulting from the trade gap, as will be seen in a later section. Moreover, the gaps may be more pronounced in the initial stages of speeding up the growth rate. If in these hypothetical circumstances the savings gap were to be covered by external financing in order to attain the growth target fixed, the economy would adjust itself, and imports might be stimulated over and above anticipated requirements. Moreover, it is most likely that there would be an increase in imports of luxury or non-essential consumer goods or the imports would take the place of goods which might be domestically produced. In addition, a policy of this kind would tend to act as a disincentive to export expansion programmes.

This analysis is more than a mere academic exercise. A careful examination of trends in several countries of the region would show cases in which restricting the potential growth rate has more effect on domestic than on external factors. Moreover, at least part of the external financing used is needed, not because of a lack of capacity to import, but because of the lack of savings for investment. In such cases the external debt functions more as a substitute for domestic saving than as an essential complement to it.

Two variables must be considered in order to assess the possibilities of reducing the potential savings gap: one is the capital-output ratio, which determines the amount of investment, and the other is the ratio of savings to income, which provides the bulk of the resources for domestic financing. The first point to be considered is the possibility of reducing investment needs by raising the capital-output ratio.

Much is to be gained by making more efficient use of capital, and this should become a basic objective of development policy. There is idle capacity in several branches of industry; productivity and production in the agricultural sector can be increased considerably without any heavy capital investment; a well-designed policy for investment and the replacement of machinery, and the adoption of technologies more in line with the Latin American productive process and environment, are other general points which show the great potential for increased efficiency. In addition, a change in the productive structure could save capital, while the new economic and social environment established by development policy would encourage the

/direct employment

direct employment of labour in rural and urban areas in capital-saving construction and public works of various kinds for the infrastructure.

Nevertheless, these savings, however large, will probably not be enough to offset the relatively greater increase in the amount of investment required to speed up economic growth and social development. The infrastructure must be expanded in such fields as energy, transport and communications, which have long lead times and low capital-output ratios. The same is true for housing construction and the expansion of public services. It must also be remembered that producing essential intermediate goods and capital goods requires modern methods of production and comparatively more capital. Hence, it may well be that the current aggregate capital-output ratio will remain the same or even rise over the long term, given a different and more efficient structure.

Furthermore, if the capital-output ratio for the economy as a whole is lowered, this should not be taken as a sign that there is less need for savings, but as evidence that the rate of growth can be speeded up even further, in which case, as is clear from the projections, there would again be a savings gap.

In brief, in terms of the savings gap, the possibility of speeding up the growth rate depends on the efficiency with which capital is allocated and used, the comprehensiveness of institutional reform, and the effectiveness of the policies required to increase the amount of investment capital. A relatively large increase is needed in the investment coefficient, in order to change matters. For example, the gross investment coefficient, which now stands at around 18 per cent for the region as a whole, would have to rise to 24 per cent to sustain an annual growth rate of 7 per cent. In no case can it be expected that this increase would be financed by external borrowing. Quite apart from the feasibility or rationality of such a course, suffice it to recall that, even in the years when it was at its maximum, net external financing was never as much as 2 per cent of the product. In the final analysis, speeding up economic and social development will require restraints on the growth of personal consumption, at least in

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the initial stages, the brunt of which will be borne by the high-income groups. Hence, the possibility of significantly raising the growth rate depends upon the feasibility and comprehensiveness of the policies adopted.

(c) The potential trade and balance-of-payments gaps

The other basic factor to be considered in this evaluation of the projected growth rate relates to foreign trade needs and, in particular, the economy's ability to finance the minimum amount of imports required to attain specific growth targets. This analysis is therefore based on three main variables: projected exports, import requirements and service payments on the external debt and foreign investment. In broad outline, the study of the group of eighteen countries shows that, under present conditions, unless there are substantial changes in world economic and trade policy, or active export promotion programmes are carried out at the national level, or there is progress in integration, current foreign exchange receipts will increase much more slowly than imports, resulting in sizable potential deficits in relation to the accelerated growth target. The situation looks even blacker when the interest and returns on the debt and foreign investment are considered, because of the size of the potential balance-of-payments gaps. The most striking conclusions drawn from the technical analysis undertaken are given below.

Under existing conditions, and in order to illustrate the nature and scope of the external problems hampering Latin American development, it was thought appropriate to examine the implications of three hypotheses regarding exports: a low growth rate, an intermediate growth rate and a relatively high growth rate.

These three hypotheses give average annual growth rates for the region as a whole of 4.5, 5.4 and 6.3 por cent respectively, compared with the average recorded in the period 1966-1968. Table 17 of document E/CN.12/865 gives detailed data on each of the countries.

/Separate analyses

Separate analyses were made for each country of the volume of exports and of prices for major exports; account was taken of past trends, the probable effect of current export promotion policy and, partly at least, the most recent results of integration, particularly in the Central American area. These were the basic criteria for formulating the low and intermediate hypotheses. The intermediate hypothesis assumes more favourable growth rates for traditional exports and better results from export promotion policy. The high hypothesis must be interpreted as a desirable alternative that will require more profound policy changes and more propitions domestic and external conditions than at present. The growth rates under this hypothesis were determined by adding 1.5 percentage points to annual growth rates under the intermediate hypothesis.

These hypotheses assume that exports will expand relatively rapidly in comparison with past trends, for over the past twenty years the real value of exports in terms of purchasing power grew at an average annual rate of slightly over 3 per cent. It is only the recent upsurge that has raised the rate for the 1960s to 3.9 per cent; over the past three years, the purchasing power of exports,has grown at an average annual rate of 6.4 per cent.

It was noted above that, in order to determine the potential trade and balance-of-payments gaps, it is necessary to project import needs in relation to the growth targets. The projections were calculated on the basis of past trends in the ratios between the product, investment and imports. Under the low growth rate hypothesis (5.5 per cent), imports by the region as a whole will have to increase by between 3.9 and 4.4 per cent each year, starting from the average levels achieved in 1966-1968; while under the accelerated growth rate hypothesis (an average of 7.1 per cent during the 1970s), import needs would tend to expand very rapidly and imports would be expected to grow by an average of 7.5 per cent annually up to 1975 and by 6.2 per cent during the second half of the decade. 6/

6/ See document E/CN.12/865, op.cit., tables F and G.

These figures are a good illustration of the effect on the balance of payment of speeding up the process of economic growth, the main component being the high import content of investment which has to grow very rapidly in order to make it possible to speed up the growth rate, even with the import substitution process continuing. It should be noted that for many countries these projections of imports should be regarded as minimum requirements, for the estimates assume that import substitution will continue at the same pace as in the past, something that does not seem likely unless there is more rapid progress in integration.

The above figures provide a basis for examining the balance of trade and payments prospects of the Latin American countries.

In order to simplify matters and to give prominence to the most important aspects, the following paragraphs will refer only to the balance-of-payments situation under the accelerated growth hypothesis in comparison with the intermediate and high hypotheses for the growth of exports.

Taking first the projections under the intermediate hypothesis for the growth of exports, it appears that by 1975 fifteen of the eighteen countries will have a potential trade gap totalling close to 2,270 million dollars and that by 1980 all eighteen will have a trade gap totalling some 4,600 million dollars. The balance-of-payments deficit is considerably greater if account is taken of payment in respect of interest, profits and foreign investment. If these factors are calculated in accordance with present trends and it is assumed that financing for all the cumulative potential trade gap shown by the projections will be drawn from the various sources in proportions similar to those currently recorded, then by 1975 the total potential balance-of-payment deficit for the fifteen countries would attain the high level of 5,900 million dollars. 7/

Under the accelerated economic growth hypothesis and the high hypothesis for the growth of exports, the picture changes considerably. By 1975, thirteen countries would have a potential trade gap, but this

7/ See table 23 of document E/CN.12/865 which gives the figures for 1980 and indicates which countries are expected to record a trade balance surplus.

/would total

would total only 1,500 million dollars, while by 1980 fourteen countries would have a trade gap totalling some 2,500 million dollars. In this case, too, the figures would be higher if account is taken of the corresponding payment of interest and profits.

These appreciable differences in the potential trade gap are illustrative of the great influence of variations in exports on the capacity of the economy to increase its rate of growth. In other words, the most favourable growth hypothesis for exports promises more rapid over-all economic growth. It must now be determined what are the main possibilities that would reduce such gaps to tolerable proportions. In principle, there are three points on which to work: imports, exports and servicing.

It does not seem feasible, in principle, to lower the import coefficient still further, and thus reduce foreign exchange needs, particularly if import substitution continues to be confined to domestic markets, not on account of technical difficulties but because of the greater economic efficiency required in each country's industrial development. Obviously, fairly extensive saving is possible in respect of imports, especially of goods and inputs which are directly or indirectly destined for luxury or deferrable consumption and which in one way or another contribute to the potential gap projected on the basis of past trends. It would be impracticable, however, to curb imports of essential intermediate products or capital goods, particularly in the first stage of speeding up economic activity. Moreover, situation might well arise where it was necessary to increase external supplies of popular consumer goods over and above those projected. These limitations of import substitutions are much more severe in the case of the small and medium-sized countries of the region.

The expansion of exports clearly represents the soundest and most effective solution. The projections show the considerable importance of the growth of exports in reducing the potential gap, because of its effects on the trade balance and servicing. With a larger volume of exports it may be expected that the growth rate will be higher and that conditions for a more efficient industrial policy may be established. In this respect, external financing is not an alternative to the expansion of exports. The

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latter is an essential objective and the former a supplementary and temporary recourse. The possibilities of increasing export earnings depend on the specific results that may be obtained from international action in the field of primary products, and on the ability of the Latin American countries to break into world trade in manufactures. Regional integration once again emerges as one of the fundamental instruments of national development because of the immediate contribution it can make towards bridging the trade gap and achieving more rational structure of the Latin American economies, by enabling import substitution to continue in a broader market and exports to expand through reciprocal trade.

(d) Future trends of structural unemployment

This analysis should be rounded off by a few words on the future trend of structural unemployment, which has reached such alarming proportions that it must be a key issue in every development strategy. There are obvious signs that the population trend will enter a transition stage in the 1970s, but that the labour force will be increasing more rapidly than in the 1960s. It is estimated that the annual growth rate of the economically active population in the region as a whole will rise from 2.8 per cent to 3 per cent. In a large number of small countries this rate will be as high as 3.5 per cent, and only in Argentina and Uruguay will the growth of the labour force be relatively small.

Hence, if the rate of economic growth continues to be the same as in the past, the problem of structural unemployment will become even more acute and will assume extremely serious proportions because of its social repercussions. According to statistical estimates for the region as a whole, employment has grown more slowly than the active population; consequently, open unemployment has gradually increased, while at the same time the problems of under-employment and employment in unproductive activities have become more acute. Underemployment and unproductive employment are generally at least as serious as open unemployment, if not more so. In all probability, 40 per cent of the total labour force is underemployed, employed in activities with minimal productivity, overtly unemployed, or employed in services, which may be regarded as unproductive

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activities. It is estimated that open unemployment alone represents about 10 per cent of the economically active population. Since during the 1970s the active population is expected to increase by 3 per cent annually, if employment continues to grow at no more than its present rate of 2.6 per cent annually, open unemployment is bound to double by 1980, when it will represent more than 14 per cent of the active population. And the situation will tend to get worse as the ratio of the supply of labour to the active population increases. This gap between the labour force and actual demand will continue to widen. Moreover, if domestic production retains its present growth rate of slightly above 5 per cent, the situation with respect to unproductive employment and underemployment, which were not taken into account in the above figures, will also worsen.

If structural unemployment is to be reduced, employment must grow much faster than the active population and the per capita product must also rise more rapidly than in the past. The first condition directly affects the use of redundant manpower, and the second is an indication that this labour is being productively absorbed.

If employment were to increase by 3.5 per cent yearly, open unemployment - which is assumed to cover 10 per cent of the active population - would still represent over 5 per cent of the active population in 1980, and the proportion would come close to normal levels only in the course of the 1980s. In order to solve the other aspects of structural unemployment, it would be necessary to step up the growth of the product per person employed. Assuming that productivity were to grow by at the rather slow pace of 3 per cent instead of at the present rate of 2.6 per cent, the over-all product should increase by an average of 5.5 per cent over the whole decade. But, transforming and modernizing the structure of production will probably require a rate of 7 per cent or more.

On the other hand, if unemployment were assumed to cover 15 per cent of the active population - which is nearer to the actual situation in many countries - even if employment grew by 4 per cent, open unemployment would have risen to more than 6 per cent by 1980, and the over-all product might reach an average growth rate of perhaps 7.5 per cent.

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This is a much more serious problem for those countries with higher open and disguised unemployment coefficients whose population is increasing by more than the average rate of 3 per cent yearly which was applied in the above calculations. In these cases, a much higher over-all growth rate would be required to reach the employment targets set. It is perhaps unnecessary to note that these over-all figures simply provide an idea of orders of magnitude.

These rough projections illustrate the huge effort that must be made to tackle the structural unemployment problem, and state the great problem of Latin American development in unequivocal terms. On the one hand, there are the heavy limitations placed on economic growth by the potential savings and balance-of-payments gaps, and, on the other, there is the urgent need to speed up such growth in order to find productive employment for a rapidly growing labour force and to eliminate the extensive structural unemployment that has accumulated.

If present trends persist, that is, if nothing is done to reduce the potential balance-of-payments gaps or to apply a policy that would radically alter the mobilization of financial and real domestic resources during the 1970s, unemployment will increase and income distribution will become even more uneven, thus adding to the vast numbers of people who are now living from hand to mouth. This will happen even if the Latin American economy continues to grow at its present tempo. The prospects may of course vary from country to country, since the problem of employment will be less critical in some, but in others it will be even more acute than the over-all figures for the region and for the years examined would suggest.

(e) Basic conclusions to be drawn from the analysis of the projections

The following conclusions can be drawn from the analysis of the projections described in the previous sections: (a) unless the necessary structural changes are made to mobilize investment resources on a larger scale, it will clearly be impossible to step up the present rate of growth, increase productive employment and improve income distribution; (b) a technically feasible growth target of 7 per cent for the regional domestic product in the 1970s would entail radical changes in economic policy and

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the production structure; (c) the restrictions that would have to be imposed on consumption in order to raise productive investment could apply only to consumption in the higher income groups; (d) the possibilities of achieving a more dynamic rate for productive investment will depend on the rapid growth of export income; (e) the expansion of regional trade through the integration processes now under way and other potential agreements offers immediate possibilities of achieving the specified development objectives; (f) contributions of external resources are needed, especially to solve the problem of the potential external deficit; and (g), external financial co-operation of this kind will have to be provided on highly favourable terms because of the heavy indebtedness of the Latin American countries.

/Chapter II

Chapter II

THE OBJECTIVES OF THE STRATEGY AND THE MEANS OF ATTAINING THEM

1. General consideration of the objectives

(a) General definition

It is impossible to envisage a standard development strategy and policy for the Latin American countries. This cannot be done even for each of the traditional groups (large, medium-sized and small) into which the countries are generally divided for purposes of analysis, because there are considerable differences between the countries which they comprise. Nevertheless, just as structural development problems and obstacles have been identified as prevailing, in differing degrees, in the region, it is also possible to define essential features of development strategy which are fairly broadly applicable, although their practical implementation would depend on the particular conditions in each country and on the decisions of their Governments.

The main objectives that should be set for a Latin American development strategy are evident from the discussion in the preceding chapters.

The first objective must obviously be to raise and speed up the growth rate so that it rises steadily and continuously. This objective, which is of a quantitative and general nature, must be complemented by others that relate more directly to the nature and content of the development process.

The second objective, therefore, is to ensure a more equitable distribution of the benefits of increases in production. This presupposes sweeping changes in several fields, which include: (a) absorbing the unemployed, the underemployed and those whose employment is really disguised unemployment into genuinely productive activities; (b) disseminating technological progress in order to even out the imbalances characteristic of Latin America's development, which have become more acute with the

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passage of time. This involves not only reducing the differences between urban and rural productivity, which is of key importance in many countries, but also correcting the imbalances within each of the sectors of economic activity that exhibit a markedly uneven absorption and dissemination of technical know-how; (c) improving the distribution of resources among the main regions in each country, in order to prevent economic activity and social progress from being concentrated in too few areas, to take full advantage of the development potential inherent in some areas and thus to benefit their inhabitants, who have little opportunity to move to more dynamic areas; (d) ensuring the functional and personal distribution of the income generated by the process of economic development so that each social group receives its fair share of the available goods and services.

(b) Objectives for the external sector

The strategy, however, must consist of more than mere changes in the intensity and content of internal development. Internal objectives must necessarily be related to objectives for the external sector. On the one hand, there are problems - as noted in the preceding chapter - that must be overcome if the vulnerability and dependence of national development is to be reduced or eliminated. On the other, in order to fulfil this objective it is of decisive importance to expand external trade substantially and to improve the terms of trade.

Consequently, another basic objective of development strategy must be to reduce or eliminate the factors that make for dependence and vulnerability in the external sector and to establish a more favourable framework or system for trade and co-operation within Latin America itself and vis-á-vis the rest of the world, especially the industrialized countries. Of obvious importance in this respect are such matters as the expansion and diversification of exports, regional integration and external financial co-operation.

/(c) Consistency

(c) Consistency of the objectives

It might be thought that these objectives were interdependent and that the speeding up of economic growth, for example, would suffice to solve the employment problem, improve the distribution of income among the social strata and promote integration of the national economies. While there is undoubtedly some interrelationship between all of these, their effects have not been rapid or far-reaching enough. Moreover, as has been seen in reviewing the internal obstacles to development, there are factors inherent in the structure of the Latin American economies which limit the economic and social effects of the evolution of those structures. What is more, unless suitable strategy is adopted, in tune with the conditions peculiar to each country, those objectives may conflict with instead of supporting each other. This fact is illustrated below.

The productive absorption of redundant manpower and of the additions to the labour force deriving from population growth does not depend exclusively upon the rate of economic growth. Other vital factors are the structure of that growth, the sectoral and regional allocation of investment, and production techniques in so far as the participation of capital and manpower is concerned. Thus, the objective of raising productivity may be incompatible with that of increasing employment. An income redistribution policy which results in the expansion of total public and private consumption may slow down the ultimate rate of economic growth and create acute inflationary pressures unless proper attention has been paid to the formation of productive capacity or steps have been taken to correct the structural factors limiting production in specific activities, such as agriculture. Likewise, the acceleration of the growth rate, left to the free play of the forces implicit in the present economic structure, may merely accentuate regional disparities and the unequal distribution of income. Further, it may so happen that deliberately chosen regional development aims are not compatible, in a given period, with the over-all objective of attaining maximum growth in that period.

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In short, the problem that must now receive full consideration in national planning is that of achieving compatibility between these different essential objectives. Some aspects of this subject are dealt with later.

(d) Development policy and population

Before discussing the basic economic and social objectives in detail, it may be useful to relate them to a more general point examined in chapter I, namely, population growth.

It is quite clear from chapter I that the basic aspects of development strategy cannot be allowed to depend upon natality trends in the 1970s. There is no doubt, moreover, that the implementation of the fundamental changes and reforms necessary for development will contribute to the process of population change which is beginning to make itself felt in Latin America. This can, of course, be strengthened by measures specifically designed to give people knowledge about and the means of effective family planning. It is obvious, however, that it must not be assumed that a reduction in the birth rate will free resources and thus make the need for institutional reforms and the policies of mobilization envisaged rather less pressing than at present. A reduction in the birth rate would, of course, improve the living levels and educational possibilities of young people much more rapidly, and would also help to raise the average consumption level of the population as a whole; but the nature and magnitude of development problems in Latin America are such that the urgently needed economic explosion must come, and it cannot even be conditioned by the fact that the population explosion may taper off in the coming years.

Now that the salient aspects have been brought out, it may be useful to dwell further on some of the considerations expounded. It is obvious that the average level of per capita consumption could have been higher over the last twenty years or so if the birth rate had grown less rapidly. A decline in the birth rate would to some extent make it possible to achieve the essential objective of improving the living levels of the masses in a shorter space of time. This is particularly important for

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countries with a high rate of population growth. However, the situation varies so much from one part of Latin America to another that it does not lend itself to generalizations.

In any event, a population policy cannot be exclusively concerned with quantitative aspects. It must take into account problems relating to the distribution of population between rural and urban areas and between large and small towns; and, above all, it must concern itself with the qualitative aspects of the full economic and social integration of the people. By doing so, it will enable the family to take conscious and responsible decisions about family size and other important aspects of its economic, social and spiritual life.

2. Speeding up the rate of growth: possibilities and requirements

(a) The growth targets

It is outside the scope of this document to determine the economic growth target that Latin America may attain in the 1970s. It is impossible to do so on the basis of a general analysis such as this; a more specific study must be made of the conditions and prospects in each individual country. Moreover, the rate of growth will depend on how intensive and far-reaching are the measures it is decided to adopt to remove internal structural obstacles, and on how successfully the problem of the external bottleneck can be solved. Broadly speaking, the analysis of projections has provided useful criteria for clarifying this problem. It shows, on the one hand, the severe obstacles represented by the potential savings and foreign trade gaps and, on the other, the need for a vigorous and large-scale drive to absorb the labour force.

If an attempt was made to put forward a general estimate, in the light of these data, regarding a growth target for Latin America of 6 per cent, which is the target established for the developing countries in the International Development Strategy, two considerations would be relevant.

First, several countries have already achieved such a rate, others are already close to it, and the region as a whole has achieved it during the past three years. Secondly, if the serious problem of unemployment is taken into account, the target should be significantly higher for many countries. But in evaluating the structural factors, and especially the external bottleneck, it may be concluded that a target of around 7 per cent for the region as a whole would perhaps be the best working hypothesis.

Consideration should, however, be given to the region's economic and technological backwardness and to the seriousness of the social problems that are threatening to become even more acute for half the Latin American population. The question must be asked whether, in view of this situation, the Second Development Decade should not be translated, in essence, into a firm determination on the part of the Latin American countries and a specific commitment on the part of the industrial countries and the international community to adopt the major decisions that will enable Latin America to double its aggregate income by the end of the 1970s, through the full utilization of its resources and a more equitable distribution of income among the different social strata.

There is one important aspect of strategy which relates to the movement of the growth rate over time. It is usually suggested that the rate should be raised in stages, starting from past trends and moving up gradually until a specific target rate is attained at the end of a fairly long period.

A more effective alternative, however, would be to speed up the tempo of economic activity, which for the sake of convenience and brevity can be referred as to the growth rate, as soon as possible. There are two reasons for doing this: first, the urgent need to give employment to the vast mass of labour available, and, secondly, the fact that the increase in the growth rate brought about by higher employment and other factors makes it easier to institute the changes, structural reforms and adjustments that are needed, particularly with respect to income redistribution. A strategy of this kind will be easier to implement

/precisely because

precisely because the labour force is larger, because of the significant and immediate effect of action to increase productivity and efficiency, and because of the large amount of idle capacity existing in the essential and consumer goods sectors.

Account should also be taken of the great flexibility shown by the Latin American countries in speeding up their growth rates, especially as they free themselves from external restrictions. Admittedly, the implementation of this strategy would require external financial assistance, most of which would have to come in the initial stages up to the time when the external bottleneck may be expected to ease or disappear.

(b) Social implications of growth

It is relevant to consider what are the conditions that are required in order to speed up the growth rate, given that this will necessitate raising the savings and investment coefficients, and also what impact this will have on the welfare of the population, especially the vast underprivileged majority. This clearly involves consideration of how the benefits of development should be distributed among the social strata.

In this connexion, and without claiming in any way that the figures represent a quantitative programme, some alternatives may be considered to illustrate the nature of the problems which have to be tackled.

For example, it is possible that the poorer half of the population would increase its per capita consumption by 4.2 per cent annually, while the middle-income groups would increase theirs rather more slowly. If this happened, the consumption of the high-income strata might contract initially and then, after a certain time, begin to return to its former level. On this assumption, the poorer half of the population of the region would raise its present annual per capita consumption of 150 dollars to 300 dollars by the end of a seventeen-year period, while the middle-income groups would need rather longer to double their current consumption.

/Another alternative

Another alternative to be considered is that of a per capita growth rate approaching 4 per cent with the poorer half of the population improving its per capita consumption by 4.7 per cent annually, the richer half increasing theirs by 2 per cent annually or more, depending on the over-all growth rate. According to this alternative, the poorer half of the population could double its consumption in fifteen years. In other words, the higher the economic growth rate, the easier it will be to provide productive employment for the labour force and to raise the level of consumption, and also the more feasible it will be to carry out the process of income redistribution referred to above.

Austerity programmes or restraints on consumption affecting the high-income groups are basically designed to increase the productive capacity of the economy. They are in no way an attempt to make a merely nominal redistribution of income - which in the final analysis would not achieve its objective - but to mobilize the potential resources that exist as a result of the high concentration of personal income, and transform them into investment.

The immediate effect of this kind of income redistribution policy would be a change in the structure of demand, since demand for mass consumption goods would increase relatively more rapidly. On the basis of the working hypothesis discussed above, the over-all consumption of the low-income groups would grow by 7.8 per cent annually, their consumption of agricultural goods by 5.6 per cent and of non-agricultural goods and services by 8.9 per cent, while the over-all consumption of the remainder of the population would rise at slightly over 5 per cent annually. Hence it is clear that there have to be changes in the structure of production and in the way resources are allocated to the various sectors.

This kind of process, which affects the structure of demand, would have two effects of special significance: it would broaden domestic markets, creating strong incentives for the expansion of industrial and agricultural production, and, as the structure of production changes under the effect of this new approach, another very important factor for the

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absorption of labour would be added to the growth rate, since it is well known that the traditional industries are the most highly labour-intensive.

The process would also influence the composition or at least the distribution of imports, although, as seen in the preceding chapter, there would certainly be a considerable increase in the need for imports of essential and capital goods. This again means that these essential objectives of development strategy are dependent to a large extent on covering the potential balance-of-payments deficit, and hence that external financial assistance, especially in the initial stages, is of vital importance.

(c) Mobilizing domestic resources

Speeding up the pace of economic growth and absorbing structural unemployment will - as noted above - require an unusually large amount of real investment directed towards clearly defined ends. It has been estimated that gross investment, which now stands at some 22,000 million dollars in the eighteen countries studied, will have to exceed 40,000 million dollars by 1975 and 57,000 million by 1980 if an average annual growth rate of 7 per cent is to be sustained throughout the 1970s. These investment needs will have to be covered by increased industrial production and by imports.

Basic intermediate goods and capital goods production has been one of the most thriving sectors of industry in recent years. It will have to grow much faster still, however, to attain the targets discussed in the present document, and this cannot be achieved unless the maximum possible amount of resources is channelled into the production of such goods. This means that the installation of capacity for the production of certain types of non-essential or luxury goods for public and private consumption will have to be curtailed. It may even be necessary to consider the possibility of shifting the allocations of resources to some extent, for example, away from the production of consumer durables.

Studies show that the large and medium-sized Latin American countries could substantially increase their production of investment goods, and also of machinery and equipment. Even the smaller countries could increase

/production of

production of some of these items. It is well known, however, that the production of capital and intermediate goods is seriously restricted by the size of markets, the amount of investment needed, or by technical requirements. A well-designed industrial policy would lay down guidelines for a rational allocation of resources in this area. Regional integration and subregional agreements have a very important part to play in placing Latin America in a better position to increase its production of essential intermediate goods, equipment and machinery. The recent figures for trade in manufactures - which include some capital goods - among the countries of the Latin American Free Trade Association (ALALC) are a promising indication of what may be achieved in the future.

Despite the progress that must be made in the domestic production of capital goods, and the impetus to development provided by integration, it is clear that Latin America will need a relatively large volume of imports, especially during the first half of the 1970s, if it is to implement a development policy that is likely to attain the desired goals. It must be borne in mind that imports of various types of capital goods and of some basic intermediate goods for capital formation account for roughly 20 per cent of the value of investment. While this proportion is somewhat lower in Argentina, Brazil and Mexico, it is higher in the majority of the less developed countries. The share of imports in the total domestic supply of machinery and equipment - but not in investment - is very high, ranging from 30 to 80 per cent or more, depending on the degree of development of the country concerned, the average for the region as a whole being approximately 40 per cent. These figures show how very vulnerable Latin America's development is and how much any policy to mobilize resources depends on external factors.

Two conclusions can be drawn from a comparison of the high import content of real investment with the large potential balance-of-payments deficit: (a) that import policy must complement an over-all domestic policy that assigns resources to productive and useful investment strictly in terms of development objectives; and (b), that, since the minimum of imports of essential and capital goods create a trade gap, external financial assistance is imperative.

/(d) Mobilizing

(d) Mobilizing idle capacity

Statistics indicate that there is idle capacity - in some cases on a considerable scale - in various branches of industry, especially those producing essential intermediate goods and consumer goods. Irrespective of the reason for this - limited power supplies, shortage of complementary goods, or institutional factors relating to the organization and management of enterprises - it is evident that Latin America cannot afford to let these resources go to waste. If idle capacity exists because of limitations in demand or shortages of complementary goods, raising the growth rate of the economy will tend to take up the slack. On the other hand, if it is due to institutional or organizational factors in either the public or the private sector, development policy will have to include appropriate measures to overcome these obstacles. Using installed productive capacity to the fullest extent possible, which might even be done by increasing the number of work shifts, would help to raise the capital-output ratio and have a direct effect on the absorption of unemployed labour.

(e) Mobilizing the labour force

The vast reservoir of manpower which is available could be tapped to increase production and investment. Without going into details, which would involve consideration of the specific circumstances of individual countries, some general points are worth noting. Naturally enough, the absorption of manpower will depend, in principle, on economic expansion and on the practical results of a policy for the utilization of capital and the adoption of production techniques that will not necessarily put men out of work while maintaining efficiency and productivity. In this connexion, it has been found that the number of employment opportunities will have to increase at an appreciably faster rate than the labour force, and that the product per person employed will have to grow more rapidly than hitherto, if the unemployed section of the labour force is to be provided with genuinely productive employmemt. It may be appropriate at this point to consider some aspects of the absorptive potential of certain economic sectors.

/First in

First in importance is the absorptive capacity of agriculture, because a good deal of the structural unemployment is in this sector, and also because it is essential in many countries for agriculture to continue to increase its rate of employment to a significant extent. Its capacity to absorb labour mainly depends on the availability of land, the methods of cultivation, and production techniques. With regard to land, the research done by the Inter-American Committee for Agricultural Development (CIDA) is particularly enlightening. The following conclusion was reached in a study of six countries: if, in minifundia areas, land and labour factors were suitably reallocated, the number of workers would have to fall from 4.4 million to 700,000. In contrast, if the same labour-land ratio that exists in minifundia areas were to be applied to half the land belonging to large estates, the ownership of which is highly concentrated, 25 million members of the labour force could be absorbed.

Improving the low levels of living of the Latin American population will require an expansion of the cultivated area, increases in production for domestic consumption, and diversification of agricultural production. This would result in higher levels of productive employment, especially with respect to structural unemployment. There must be no delay in initiating an examination of agricultural production technology as it relates to the rational use of land, labour and capital to promote greater absorption of manpower thanks to efficient operation and rising productivity. While it is urgently necessary to modernize farming methods and increase productivity, a mechanization that frees labour from certain activities may be a waste of capital if the resulting unemployment is not absorbed by other activities or if machinery is not used to capacity. This is in no way an attempt to lay down rigid rules, but rather to draw attention to the need to formulate policies that take account of the type of crops, the size of farms, the various techniques applicable to given circumstances, and population pressures on the land, which all vary widely from country to country, and even within a single country. This topic has been given virtually no study in Latin America, especially as it relates to development strategy. Public works, such as the opening up of virgin land, and building

/access roads

access roads and irrigation works, provide many opportunities for the direct employment of rural manpower. Lastly, all these aspects of employment, production techniques and the efficiency of the rural economy should be properly planned within agrarian reform programmes.

With respect to non-agricultural activities, the main possibilities for absorbing manpower reside in mobilizing idle capacity, increasing new investment, and selecting methods of production bearing in mind the employment opportunities they provide. An economic growth rate approaching 7 per cent annually would require a considerable increase, as noted earlier, in investment and infrastructure, since basic services would have to expand at the same or a higher rate, while industrial activities would probably have to grow by 9 per cent annually. Furthermore, any policy that is aimed primarily at improving the living conditions of the lowest income groups must promote the development of production in traditional activities and housing construction, both of which are highly labour-intensive. Similarly, expanding social services with the same aim in view would stimulate the absorption of the structural unemployment existing in the government sector.

(f) <u>Saving potential</u>

A policy which is aimed at redistributing income in order to improve the material and cultural conditions in which the mass of the population live, a policy that is based essentially on the mobilization of national resources, must define precisely what institutional reforms and what economic, financial and tax measures will promote a sustained and relatively steady mobilization of those resources. It is imperative to prevent that process from leading to an inflationary spiral which might create serious social disruption and culminate in failure to attain the objectives of development policy.

It must be borne in mind that among the masses the drive towards a more diversified pattern of consumption, stimulated by the habits of the high-income social groups, is as strong as it is legitimate. An essential feature of the above policy must be to establish the conditions and means which will encourage the saving needed to finance the expansion of investment.

/If large

If large segments of the population harnessed themselves to the saving effort, the result would undoubtedly be a powerful impetus towards increased consumption.

It is therefore necessary to plan the mobilization of potential saving resources along with the mobilization of capital and labour resources. Little is known about the structure of the sources of saving, or about the uses of saving in private enterprise, the public sector and the various social sectors. The lack of research on this question is reflected in the weakness of national development plans with respect to monetary and financial policy. Two factors may be noted in relation to the present saving capacity: (a) more savings are probably generated than are actually invested; and (b), the total savings in the middle-income and even in the quite low-income sectors of the population are fairly substantial. They are associated with specific areas of investment, such as the construction of dwellings, social security programmes, especially when they are first introduced, and various kinds of personal insurance. Moreover, the habit of saving is spreading, as is shown by the volume of deposits in commercial and savings banks in many countries.

As stated previously, the present volume of savings measured in relation to investment, is larger than that indicated by the saving coefficient of about 17 per cent recorded for the region as a whole. Several important factors combine to reduce this volume through the saving and investment process. While inflation may in some cases have contributed to forced saving temporarily and at a high social cost, it has had a pernicious effect on the saving-investment process, as is borne out by experience in many countries.

Domestic production of durable consumer goods has led, moreover, to the development of promotion and financing machinery which tends to absorb a sizable margin of resources that might have provided capital for essential activities. Another influential factor has been the effort to replace imported capital and intermediate goods by domestic production, since, although there is no denying the positive aspects of this trend, the higher cost of the domestically produced goods undoubtedly reduces the real value of savings.

/Lastly, the

Lastly, the severe external bottleneck affecting most of the Latin American countries, and in particular, the deterioration in the terms of trade, have had adverse repercussions on domestic income, the capacity to save and the possibility of finding adequate financing for the import component of investment. Moreover, the gfowing amount of trasfer payments under the head of debt servicing and payment of interest on domestic investment, to which must be added outflows of national capital that may be sizable in some cases, have also reduced the resources available for domestic investment.

Clearly, therefore, a policy designed to reduce the external bottleneck plan import substitution with an eye to reducing costs, rationalize public expenditure, thus increasing its efficiency and curtailing unnecessary or deferrable consumption, promote greater financial stability, organize capital markets, and adopt measures for channelling resources into productive investment for economic and social purposes would ensure that present savings were put to better use.

This would not suffice, however; a considerable increase is required in potential investment resources, and there are potential savings that must be mobilized. These resources would have to come mainly from the high-income groups, without of course excluding the contribution to be expected from the population at large as a result of the better conditions brought about by development. The potential savings that can be mobilized immediately are found precisely in the income that is concentrated in the upper strata, which account for probably three-tenths of total consumption. What must be done, therefore, is to apply an effective policy that will act simultaneously on demand and supply, so that the resources absorbed by those consumption patterns - notably durable manufactures and luxury housing - will be reduced or at least restricted.

(g) <u>The function of external co-operation in the mobilization of resources</u>

Considering that the Latin American economies are heavily dependent for essential goods on external supplies and that the export prospects are unfavourable, it is necessary to secure external financial co-operation if the goals of stepping up investment and promoting the productive

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absorption of the labour force are to be achieved. This financial co-operation cannot be even a partial substitute for the mobilization of domestic resources, nor can it represent an alternative to the expansion and diversification of exports. Its fundamental role is precisely to facilitate the mobilization of internal resources, by helping to provide the import component required until such time as domestic production can be expanded for export or for viable import substitution.

If external financial co-operation fulfils this specific function, its effects are of vital importance. An illustration of this point will not be out of place here. If, for example, the total import content of investment was assumed to be 20 per cent, and this component comprised essential and complementary goods, 100 additional net external financing units utilized in promoting investment would stimulate an actual mobilization of internal resources equal to 400 units, with the consequent effects on employment.[1/]

This multiplier effect would logically increase as the complementary import component of investment diminished in some countries. In other words, the rate of growth and the absorption of manpower can be appreciably accelerated through complementary external financing, but only provided that domestic policy promotes the mobilization of the additional domestic savings required. This is the big problem to be resolved by development strategy and policy if a rational absorption of external financing is to be achieved. It is also necessary, however, for the domestic saving coefficient to grow, so that the rate of economic growth can ultimately be freed from the shackles of continuing external indebtedness. Otherwise, the rate will slacken once again when, through the well-known process, the net contribution of external resources is cancelled out, or when, for other reasons, contributions from external sources are cut back.

1/ If account is taken of intermediate products, the direct and indirect import content of investment is probably greater than 20 per cent for Latin America as a whole.

/3. The

3. The dissemination of technological progress and the distribution of its benefits among the social strata

(a) Employment and technological progress

An examination of the production structure in Latin America, where possibly not more than 10 per cent 2/ of the labour force is employed in activities with forms of production and organization that may be regarded as relatively modern, will reveal the complexity and magnitude of the problem of absorbing the structural unemployment and the rapidly increasing labour force that are the by-product of population growth. In the interests of economic development, it is obviously essential for the economically active population to be incorporated in a dynamic process of growth, at reasonable levels of productivity which will subsequently be raised by the workings of that process. If Latin America is not to fall even further behind economically and technologically, it must absorb technical advances with increasing rapidity and disseminate them in every sector of economic activity throughout the region.

This raises two closely interrelated problems: how to increase capital formation and how to devise a policy that would make for the incorporation of technical advances and their dissemination in the backward sectors, while achieving the employment objectives which are a key piece in the strategy envisaged.

The first aspect has already been considered; it remains to point out that, under the conditions now prevailing in Latin America, the basic premise must be that the greater the mobilization of potential investment resources, the greater will be the possibilities of progressing technologically and raising productivity. However, this will not immediately change the terms in which the problem of a shortage of capital compared with the volume of available labour presents itself today.

From a broad standpoint, it may be said that the absorption of the labour force in productive activities depends on four factors: (a) the dynamic growth of investment and production in general; (b) the sectoral

2/ This percentage varies considerably from country to country.

and regional pattern of growth; (c) production technologies, from the point of view of the capital-labour ratio in different economic activities; (d) the specific measures that should be taken to draw labour into particular rural and urban activities.

The development strategy outlined will be favourable for these factors. The mobilization of domestic resources will raise the growth rate of investment and production well above their present levels. Land reform, as indicated later, will contribute very substantially to solving the problem of structural unemployment in rural areas, and may be expected to create the right conditions for a continued increase in employment. The changes that will take place in the structure of demand as a result of the anticipated redistribution of income will necessitate a more rapid increase in agricultural production and in the production of goods and services in mass demand, which are relatively labour-intensive. The expansion in the output of capital goods will also boost the demand for skilled labour, which will be of greater significance than is generally thought. Moreover, the possibilities of employment will also increase with the diversification and expansion of exports and reciprocal trade, which are the other strategic factors involved.

Nevertheless, whatever technological choices are offered within the context of the new structure of production will have to be analysed with a view to deciding on a specific policy for the assignment of capital resources in relation to the productive absorption of labour. In spite of the vital importance of this problem for the developing countries, little attention has been paid to it thus far, either in analyses or in practical action. All that can be done, therefore, is to set forth some general estimates.

In principle, great possibilities may be discerned for improving efficiency and productivity while absorbing manpower, without substantial investment being entailed. Such technological possibilities are to be found mainly in agriculture, construction, and a wide range of services; the problem seems to be more difficult to solve in industry.

There are some key industrial sectors of the economy in which great technological progress is accompanied by a high capital intensity. This is true, for example, of industries using continuous processes, such as the

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chemical, steelmaking and non-ferrous metals industries. In these and other activities, technical progress raises the minimum scales of production. On the other hand, the situation is quite different in a great many activities which account for a large proportion of manufacturing production. The metal-transforming, textile and consumer goods industries, for instance, are characterized by a greater variety of equipment and slower technological development, and there are possibilities of choosing more labour-intensive and capital-saving techniques. In practice, however, these opportunities are not turned to account. The investment incentives, credit terms, low real interest rates, over-valuation of the currency and other factors prompt enterprises, whether public or private, to use highly capital-intensive techniques.

There is another particularly important factor limiting the choice of techniques: the dependence on external supplies of capital goods, and on the assimilation of foreign know-how. In the industrial countries, unceasing technological progress goes hand in hand with a very high level of capital intensity, and those techniques often relate to an environment and a supply of natural resources which are very different from those that are usually found in developing countries. Nevertheless, their introduction is encouraged by programmes of aid and by systems of external financing, which, moreover, involve very high costs.

These general comments show that, while serious limitations exist, there are also significant possibilities. There appears to be quite a broad field for making progress in the introduction of new technology and raising productivity in the more backward sectors of the economy without necessarily hampering the attainment of certain general employment objectives. It must be remembered, of course, that new technology cannot be introduced into all sectors or activities in the same way, either because of physical limitations or because of the actual mechanics of the process. Hence, increases in productivity in a particular sector may displace labour or curtail its absorption, and this means that the process must promote a dynamic increase in investment in order to prevent unemployment. It is natural that the high-income groups in areas where technology is advancing rapidly will have a propensity to increase their consumption and

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that the concentration of income will promote demand for certain goods, thus absorbing resources that might otherwise be used to expand employment opportunities. This is where development strategy should come in, through a policy that reaps the benefits of increases in productivity by holding down consumption of luxury goods and promoting over-all saving in order to increase the amount of investment resources available to absorb labour in other areas.

In brief, this is a problem whose solution is of overwhelming importance for development strategy in Latin America. In the light of what has been said above, three general conclusions can be drawn: (a) certain activities relating to the production of intermediate and capital goods and to the expansion of exports of manufactures will have to be given priority attention on a scale and with amounts of capital consonant with technological progress; (b) there are many activities in which a well-designed policy could lead to better use of capital and greater absorption of labour; (c) solutions to the problem must be viewed within the context of national planning so that other important factors are borne in mind. Moreover, technological research will have to be intensified in Latin America, while policy will have to cover such questions as how to adapt imported technology to local conditions and how to stimulate original research. For this to be done, co-operation among the countries of the region and the implementation of joint programmes will be of vital importance, given the general similarity of the circumstances of the different countries and of the problems that have to be tackled.

(b) <u>Regional imbalances</u>

A close study must be made of the regional aspects of national development. In recent years there has been a growing concern with technical factors and practical action. Several countries are carrying out large-scale regional development projects, and a fund of experience and know-how is being built up. The most important thing is to work out clear conceptual definitions of regional problems so as to pinpoint more precisely the key elements in development strategy. As regards the practical tools for applying the strategy, it may be argued that these cannot be constructed until the regional objectives related to the economic and social

/integration of

integration of the countries themselves have been studied. Over-all national development plans are obviously weak in this respect. Progress was first made in analysing the productive structure of the economic development process, and the model must now be supplemented by an analysis of the regional structures.

It is essential to translate the major strategy objectives into regional terms and to go beyond the traditional divisions between urban and rural, agricultural and non-agricultural, so as to study the economic and social structures of the different regions in a country, of the metropolitan areas, and of the big and small towns. It is also necessary to see how the goals of greater production, the absorption of the economically active population and the redistribution of income fit into that picture; how national resources are to be mobilized, land reform carried out, production techniques applied, export trade expanded and Latin American integration speeded up, and what the effect of all these measures will be. It can be seen that when development problems are considered in relation to the geographical location of economic activity, strategy acquires a more vital significance and is more intimately bound up with the future economic and social pattern of the Latin American countries.

It is essential to know whether the economic growth that is envisaged will be taking place in the existing areas and centres, thereby adding to the concentration of resources and exacerbating the disparities, and whether the march of Latin American integration will lead to more balanced regional development within the countries themselves. Finally, it is imperative to formulate a definite regional policy in order to determine the basic features of the policy to be applied to transport and communications and to the location and distribution of energy.

Although uniform principles cannot be laid down for a regional policy covering all the countries in the region, there are some common aspects that may be brought out. If the domestic and foreign factors which have in the past determined the physiognomy of the Latin American economies are discounted, it is obvious that the concentration of resources in particular areas is justifiable in the early stages of a development process as a means of taking advantage of the favourable conditions that determine productivity.

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However, it would not be advisable to allow this concentration to continue unless the following two conditions were fulfilled: that the resources concentrated in such areas would be more productive than if they were located elsewhere, and that the areas in question are capable of galvanizing the rest of the system into activity so that a growing number of people can achieve similar levels of productivity and income.

In Latin America, and its big metropolitan areas in particular, external economies have noticeably declined. There is a tremendously high urban concentration, even compared with the more developed countries. The exceptionally rapid population growth, as a result of intensive migration from the country to the town, has outpaced the capacity of the public services and is raising the per capita costs of the infrastructure.

Under these conditions, the advantages perceived from an evaluation of an investment project are usually cancelled out by the growing social costs of any further expansion of the major centres. Moreover, the ability of these centres to act as a tonic on the rest of the economy is limited, or at least less than is required to achieve the necessary economic and social growth, to say nothing of the fact that accumulated structural unemployment creates a problem for the centres themselves.

There are several explanations for the lack of dynamism. One general reason is that when people are absorbed into economic activities in a particular centre, even in unproductive services, they naturally tend to raise the level of consumption, and the high concentration of income increases the demand for new goods, with the result that the increment in productivity is only partly transformed into investment resources, which are largely appropriated by the centre itself.

It is therefore in keeping with the strategy outlined above that there should be a well-conceived policy to drain off some of the increase in productivity to swell investment in other areas, as dictated by the rational principles deriving from a regional policy in the context of over-all national development. This is not an easy problem to tackle, and generalizations are hazardous.

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In the last analysis, the solution must be viewed in a comprehensive and long-term perspective. An immediate shift in investment might signify a lower over-all rate of growth than would be obtainable if there were no such shift since regional programmes need heavy infrastructural investment with fairly long lead times. However, the over-all growth of the economy would no doubt eventually be higher than it would have been otherwise.

What is more, regional programmes obviously have a beneficial effect on employment and income distribution and represent a decisive step towards the economic and social development and integration of the Latin American countries. The new centres would become focuses of growth whose dynamic influence would spread far and wide to other areas as yet untouched. Considerations of national policy or social desiderata may, of course, take precedence over economic criteria in this field, but the latter must always be borne in mind so that the most effective solution can be found when the policy decisions are taken.

(c) The social aspects of income distribution

A number of studies [3/] have described the peculiar characteristics of income distribution in Latin America, which was discussed in Chapter I, and have indicated the main factors underlying the prevailing situation. A knowledge of these factors is obviously a prerequisite for any attempt to formulate objectives and measures to redistribute income in a way that is more favourable to development and the welfare of the community.

These studies clearly show the complexity of the situation, particularly as regards the effect of certain factors that are often discounted or ignored. These include the factors mentioned earlier and also structural unemployment, the distribution of employment and levels of productivity,

3/ See, for example, Economic Survey of Latin America, 1969, op cit, Part Three, "Income distribution in Latin America", and Income distribution in Latin America (United Nations Publication, Sales N°: E.71.II.G.2) (in the press)

/and technological

and technological progress. Quite obviously, in order for people to be able to participate effectively in the process of income distribution, the first essential is for them to have their place in the economically active population and not to be excluded from the productive process, either because production has not yet reached certain sectors or areas, or because some of the labour force is unable to move to or be absorbed in the areas where production does take place.

Realization of such factors makes it possible to go beyond the over-simple concept of what may be termed "redistributionism", which consist of nothing more than transfering monetary or real income among individuals and groups, without modifying the structural factors that are the root cause of the unequal distribution of income among the social strata. Moreover, an appreciation of the root causes helps to give a clearer idea of the close and necessary link between the aim of redistributing income on the one hand, and development strategy in the strict sense, on the other, as noted earlier in connexion with the basic objective of raising the growth rate.

Nevertheless, however essential it may be to find answers for the problems outlined above, this is not enough in itself, to satisfy the desire for a more equitable sharing of income among the different social groups. The studies cited show that even where technological progress has penetrated and taken root, there is a tendency for there to be similar and even greater imbalances in personal income and in that of social groups, although at higher levels in absolute terms. In other words, the benefits of the increased productivity of activities that are becoming more capital-intensive also tend to be concentrated to a considerable degree, i.e., the process is not enough to ensure a progressive redistribution of income. Hence, consistent and effective action is required if individuals or families and social groups are to obtain a fairer share of income - action that must be considered complementary to, and in no sense a substitute for, any action designed to modify the structural factors mentioned above. Otherwise, its scope will inevitably be limited.

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Given the data available, it might be argued that in this latter respect any progressive changes will to a large extent depend on such changes as the following:

(a) An improvement in the bargaining power of the underprivileged groups, which means that they must organize themselves much more effectively and that the State must support and push their claims;

(b) Definite progress in reducing the all-too-apparent concentration of the ownership of property, which, in certain countries, basically amounts to ownership of agricultural land, but in others is somewhat more complex;

(c) A radical expansion of the opportunity system and, hence, greater possibilities for social mobility, especially vertical mobility in the sense of upward movement in jobs and functions. This involves, in addition to changes in the general framework, much more intensive effort and, in particular, selective action to improve access and to lengthen attendance at educational institutions, to improve health care and increase the supply of housing and other essential goods and services, in such a way that the benefits go in the first instance to the groups that have hitherto had little or no opportunity to enjoy them.

(d) Aspects of income distribution policy

In view of the foregoing, it may be appropriate to consider some of the aspects that will have to be borne in mind in a policy for redistributing income. This will be in no sense an attempt to lay down a strategy for action, but rather to identify the choices available and the complementary measures required in order to clarify the nature of the problem and assess the comparative effectiveness of different approaches. Having said this, it is advisable to differentiate between those aspects which have to do with the dissemination (or concentration) of technological progress in productive sectors, strata or regions, and those which are linked more directly to the distribution of the product among social groups and individuals.

From the standpoint of the former, it would seem evident that the key question is the amount of the potential and actual savings or surplus generated by the highly productive capital-intensive activities of what may be described as the modern sector, to which reference was made earlier, and to the way in which they are used. The actual surplus is the amount which really goes into investment. The potential surplus, which is very difficult to quantify precisely, is the actual surplus plus the amount of resources used for the consumption of luxury goods or goods with a low socio-economic priority that could be turned into self-multiplying capital.

Understandably enough, the first and most essential objective is to increase the actual surplus to the utmost so that it comes close to potential investment capacity. However important this may be, it is not, nevertheless, the most important point, which has to do with decisions regarding the use or allocation of investment resources by the most highly productive and - presumably - the most profitable enterprises.

The crux of the matter is what proportion of such resources should be assigned to the sector generating them, and what proportion to other activities, or more specifically to the infrastructure, basic services and the sectors or regions that have been relatively or absolutely deprived of investment and modernization and therefore of any increase in productivity.

What is more, it would seem obvious that unless an adequate part of the surplus generated in activities in which technological progress has been concentrated is channelled towards other activities, it will be impossible to level out the imbalances evident at different levels. Quite the reverse - if this is not done, it can reasonably be assumed that the imbalances will become more pronounced. Clearly, this is all subject to the requirements of the modern sector that is in existence or is being formed, which for obvious reasons has priority call on and decision-making power over the use of its own resources (except for the amount which the State pre-empts and re-allocates).

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While on this point, and without disregarding what was said in sections (a) and (b) of this chapter, it would seem essential to differentiate roughly between the possible alternative uses of the investment resources generated by the highly productive activities. On the one hand there are the resources used to modernize and expand the basic development centres and to meet the demand for essential goods and services, including goods and services that might be considered of secondary importance but which are already in widespread use. On the other are resources and investment used for purposes whose economic and social impact is limited and which may be associated with certain consumption patterns or be designed to satisfy the conspicuous consumption demand of high-income groups (luxury buildings, for instance) or to promote uneconomic overcrowding in metropolitan areas.

It can be agreed that the primary uses of the surplus of the modern sector cannot and should not be affected since they, in the final analysis, are the basic foundation (actually or potentially) for expanding the system and attenuating internal imbalances, to say nothing of the share required for expanding and diversifying foreign trade. On the other hand, the amount of investment going to secondary uses can clearly be reduced to a greater or lesser extent, depending on how much is earmarked for primary uses.

This leads directly to the basic question of the distribution of investment, and hence to the need to clarify and refine ideas regarding the social and over-all productivity of investment, bearing in mind the impact of income distribution from the viewpoint taken above.

Furthermore, this question is necessarily linked with that of the machinery needed to channel resources for capital formation in the directions outlined above. Although, as noted earlier, this document is not intended to go very deeply into this topic, some comments may be useful.

There are a number of alternative ways of promoting or achieving the desired objective, which are not mutually exclusive but rather complementary. The most direct method would probably be to transfer a large portion of the surplus to the State or public agencies, on the assumption that they would use it for priority investment.

/Another method

Another method would be to provide a variety of incentives to ensure the same result through the decisions of those controlling the surplus. This is what has happened with a number of regional, sectoral (chiefly in agriculture) and social programmes (the case of investment in low-cost housing) implemented in Latin America, which have yielded valuable lessons that have not yet been properly evaluated.

In addition to these and other measures that aim at affecting or influencing the distribution of investment, there are other measures that have similar aims but operate mainly by changing the composition of demand. For this it is necessary to look at the problems from the other standpoint mentioned, i.e., that of the distribution of income among social groups and the distribution of personal income.

This situation too, has been very clearly described in the studies cited earlier; consists in an excessively large share of income - compared with other areas and countries - being concentrated in the top 5 per cent of the income pyramid.

As a rough guide for purposes of discussion, three alternative methods of changing this glaringly obvious situation for the better can be considered. For example, it is possible to imagine procedures for transferring some or all of the income of this top 5 per cent which is in excess of the level of income of the top 5 per cent in industrialized countries; this might mean that as much as 10 per cent of total income, although not in absolute terms, would be transferred to the bottom half of the income pyramid.

Without going into all the serious obstacles and disadvantages that this alternative represents in many respects (operational, political, real, possible effects on savings, etc.), it would seem clear from the above that it would not appreciably or permanently affect the basic determinants of what is known as structural poverty.

A second alternative would be to collect the surplus income, mainly by fiscal means, with a view to providing the marginal population with essential goods and services either gratis or at heavily subsidized prices. Without going into all the arguments against this alternative,

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it can be stated that it is broader in scope than the first alternative, particularly because of the greater impact and consequences of certain social expenditures such as those relating to education and health. Nevertheless, it is also clear that this alternative only has an a posteriori effect on the real reasons for the plight of the underprivileged majority (unemployment, irregular or wretchedly paid work, location in minimally productive regions, sectors or activities, etc.). In brief, by itself, it would turn out to be more of a palliative than a remedy, although this is not to say that it cannot be effective or that it is of no value.

The third alternative might consist in allocating or re-allocating the potential savings to purposes that are intended to modify the basic determinants of the income structure. These might range from direct measures (such as the creation of regular opportunities for productive work, and not merely emergency opportunities, which properly belong under the second alternative) to changes in the over-all structure of development, changes in relative social bargaining power and "deconcentrating" the ownership of property.

These different methods are not alternatives in the strict sense of the term, but rather approaches that can be combined together, bearing in mind their relative importance and effectiveness and specific national circumstances, in terms of stage of development and the political and institutional framework.

Income distribution strategy, in brief, requires a coherent blend of the two types of objectives indicated, and their general and specific translation into measures and instruments that will help to bring about the desired changes in the income structure and, in the final analysis in the social content of development itself.

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4. The over-all objectives of the strategy with respect to the external sector

It is clear from what was said in chapter I and at the beginning of the present chapter that the general objectives of a Latin American development strategy have to do with three closely interrelated external factors and with action on the domestic front. These factors are: (a) vulnerability to and dependence on external circumstances; (b) the terms and conditions governing trade; and (c) the arrangements for external co-operation in national development efforts.

(a) Vulnerability and dependence

A development strategy for Latin America must lay down specific objectives and measures to deal with the region's extreme vulnerability and dependence in the external sector, which hamper and restrict its development. While it would be beyond the scope of the present study to go into this topic, because of its diversity and also because it involves decisions which are matters of State policy, some points should be noted which relate more directly to the economic, financial and technological questions discussed here.

First, Latin American development must be based mainly on Latin America's own capacity and the effectiveness of the policy and strategy adopted to mobilize the region's own resources. As noted above, external borrowing is admissible only in so far as it is complementary, and there must be a firm determination to free the future growth rate from its dependence on external assistance; otherwise, development will be at the mercy of the winds of chance and of all the different international political and financial factors that affect the flow of external resources. Here, the multilateralization of financial assistance for development projects is of primary importance.

Secondly, Latin America's virtually complete dependence on imported technology makes it very difficult to use resources efficiently. It is therefore necessary to study suitable ways and means of introducing new technology selectively and adapting it to fit local conditions and the domestic resources available, and to initiate a regional policy for technological research.

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Thirdly, Latin America's high degree of dependence on imports of essential and capital goods is another limiting factor that can be overcome only through an expansion of production and trade.

It will be difficult fully to achieve these and other objectives that affect Latin America's ability to strengthen its development and preserve the sovereign independence of its decisions regarding development, if each country acts in isolation, despite the great potential of the larger countries of the region. Stronger and more concerted action must be taken at the international level to promote Latin America's interests, and to solve the enormous problems of the introduction and stimulation of technological progress and the expansion of production, within the framework of effective regional co-operation and a community of interests. Hence, this reappraisal of the problems and obstacles encountered in regional integration is urgently necessary because, as integration becomes more firmly established, Latin America will be able to make its presence felt and increase its development potential within the community of nations.

Mention has already been made of the concern aroused by the growing infiltration of foreign capital in commercial, industrial and financial activities, part of which is used to buy up or acquire an interest in Latin American firms. The technical and other characteristics of these firms seldom make such take-overs justifiable, since neither the technological and organizational requirements, nor even the volume of investment needed, are beyond the powers of Latin American enterprise at its present stage of development.

This trend of events is liable to wreck the contribution which it is hoped that foreign private enterprise will make to Latin American economic development. The technical and financial co-operation that can be obtained from this source is very important, particularly for encouraging the growth and efficiency of Latin American enterprise. Consequently, the Latin American countries must adopt well-defined policies in this area. These policies should have two basic aims: first, the technical and financial strengthening of national enterprises, whether public or private, and of multinational Latin American enterprises forming part of the integration movement, and, secondly, the framing of a clear foreign investment policy. The ways in which foreign capital can co-operate are through the transfer of technical know-how, the improvement of the organization and efficiency of enterprises, and the elimination of the impediments which cramp Latin American development as can be done by export promotion.

With these goals, national programmes should determine the areas in which external investment is needed and the ways in which technical know-how and modern forms of organization can be adopted and popularized. The Latin American countries will have to take co-ordinated action to win the co-operation and support of the industrialized countries and of foreign enterprises and investors for their national policies, for new modes of foreign capital participation whereby the investment would be gradually transferred to the national public or private sectors, and for other measures to be taken by the capital-exporting countries to promote and support investment in developing countries. A special effort should be made to explore supplementary or alternative methods of transferring technological advances to the national economies and of ensuring their wide dissemination.

(b) <u>The basic aspects of trade policy</u>

With regard to trade policy, it would seem reasonable to start from the assumption that, unless the external bottleneck is removed, the mainspring of economic and social growth in the region will be seriously impaired and may become even weaker than in the past. However, it would be unrealistic to believe that all that needs to be done to increase Latin America's inadequate and even declining share of world trade is to open up the markets, in the hope that the spontaneous growth of exports or competition at home would automatically lead to greater efficiency and a new economic drive forward. In truth, what is needed is a clear definition of the main objectives, accompanied by a firm determination to implement general and specific measures to achieve them, which in this case obviously cannot be done without external decisions also.

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If a comprehensive picture is painted of the essential elements and functions of foreign trade policy, the following broad objectives will emerge: (a) expansion of export income as the fundamental remedy for the potential trade gap; (b) development of trade with other areas in order to avoid the limitations imposed by traditional markets; (c) acceleration of the integration movement; and (d), application of an import policy designed to promote greater efficiency in the countries' economic structure and process of growth through the rational allocation of resources. More specifically, this means the ready access of primary commodities to the markets of the industrialized countries, regulation of commodity markets, expansion of exports of manufactures and semi-manufactures, promotion of trade with the socialist countries and other developing areas, and the speeding up of the regional integration process. 4/

On the other hand, it is quite clear that of key significance among these objectives is the immediate promotion of exports of manufactures and semi-manufactures. There are three main reasons for diversifying exports in this direction: one, to increase export earnings so as to narrow the current and potential trade gaps; two, to lessen the external vulnerability of the Latin American economies; and, three, to meet the demands of modern industrial development more efficiently than in the pact. Regional integration and other means of expanding trade in manufactures and semi-manufactures in Latin America are a decisive step that should be taken immediately to forge the new structure of foreign trade.

The object of exporting industrial products does not in any way mean that the region should slacken its international efforts to improve the conditions and prospects for primary commodities, given their importance for the national economies and the fact that they account for more than 90 per cent of Latin America's export income.

4/ The Commission of the Cartagena Agreement establishing the Andean Group recently adopted a decision on a common regime for the treatment of foreign capital and on trademarks, patents, licenses and royalties, that marks an important step forward in this respect.

/(i) Commodity

(i) Commodity exports. As noted earlier, the prospects for commodity exports are frankly unfavourable. This poses two major problems for the development strategy envisaged. One is the limitations placed on the general process of economic growth by the trade gap, and the other the restrictions on the growth of production and income in the economic sectors concerned. It should be remembered, for instance, that agricultural exports represent 20 per cent of regional production, and the proportion is a good deal higher for some items. The same applies to minerals and fuels, domestic production of which sometimes goes almost entirely to foreign markets.

This creates conditions that hamper the absorption of manpower in productive activities and the achievement of the objectives that will lead to a better distribution of income. Both aspects are of cardinal importance, especially in the agricultural sector, because of the gravity of the problem in the rural areas. If production in certain activities is largely contingent on external demand and this will be growing so slowly, any improvement in income distribution will depend largely on what can be done to raise productivity per person employed, on the extent to which income is redistributed in those same activities, and on the adjustments and transfers that can be made by the rest of the economy to help these sectors. The need to diversify production becomes increasingly urgent, and in extreme cases countries may even be faced with the problem of reasigning resources.

Firm steps must therefore be taken at the international level to improve the prospects for exports of primary commodities. Efforts to achieve co-ordination must be redoubled so that Latin America's legitimate demands can be presented to the industrialized countries in a more effective way. It is more than necessary to consider the changes that should be made by the industrialized countries in their activities on the international plane and to analyse the experience acquired over the last few years, particularly in the discussions and negotiations that have taken place in UNCTAD and GATT, since concrete results have been few and far between, and

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it has proved impossible to prevent the situation from deteriorating still further or to stop conditions that are prejudicial to Latin American trade from becoming consolidated and spreading.

The major objectives of the international action taken by the developing countries in matters of commodity trade have been defined in UNCTAD. They are the regulation of world markets, easier access to the industrialized countries' markets, market diversification, and the abolition of special preferences.

International commodity agreements and arrangements and the establishment of buffer stocks are the two main instruments for regulating the markets. Little has been achieved as far as the conclusion of commodity agreements is concerned, although there has been some progress, and this augurs better results in the future. There are no other means available, and it is only to be hoped that concerted action by the Latin American and other developing countries within the policy framework put forward in UNCTAD will lead to an increase in the number of agreements or to more talks leading to the conclusion of agreements of different kinds, depending on the characteristics of the products concerned. Those on coffee and sugar are highly encouraging examples of the development of theory and practice, now that agreements of that kind are seen to be real instruments of market reorganization and planned action in the international sphere.

As has already been said, the establishment of buffer stocks is the other instrument for regulating markets. It is to be hoped that the statement on buffer stocks approved by the UNCTAD Committee on Commodities at the end of 1968, which reveals some advances in the negotiations and a greater willingness on the part of international agencies to help finance such stocks, may lead to more effective action. In this respect there has been some progress. In mid-1969 the International Monetary Fund decided that it would extend assistance to members in connexion with the financing of buffer stocks by authorizing purchases up to a maximum of 50 per cent of quota. The World Bank also agreed to give consideration to requests for additional financing in connexion with a member's participation in the operation of a buffer stock, particularly for the construction of suitable storage facilities.

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At the second session of UNCTAD, no progress was made in regard to liberalizing trade and gaining access for primary commodities to the markets of industrialized countries. The situation has been deteriorating for some time with the increase in the restrictions, the protective tariffs and the development measures adopted by those countries. In this area, there are two clear-cut aims for the Latin American countries. As regards competitive products, definite commitments must be obtained giving them a specific share in the consumption or in the consumption increment of the industrialized countries.5/ In the case of tropical commodities, the aim is mainly to obtain the removal of the barriers, restrictions and charges which limit their consumption in the developed countries, and the elimination of all discriminatory treatment prejudicial to the Latin American States.6/

5/ The problems of trade in agricultural products competing with the domestic production of the developed countries has been systematically analysed by the GATT Agriculture Committee, which selected eight commodity groups for examination in the first stage of its work. Study proceeded in two directions: (a) an examination of the structure of world markets, identifying trends in the price and volume of trade, the importance of free and regulated markets, and non-commercial transactions; and (b), an examination of the motives and general approach of production policies. At a later stage the Committee established four working groups on specific problems: (1) Measures affecting exports (subsidies, restitutions, double-pricing practices, subsidized credits, non-commercial transactions); (2) Measures affecting imports (quantitative restrictions, prohibitions, licensing systems, discriminatory practices, tariff quotas, customs duties and countervailing duties); (3) Measures affecting production (guaranteed or support prices, self-sufficiency ratios); and (4) Other relevant measures, including sanitary regulations.

6/ At the end of 1967, GATT decided to reactivate the Special Committee on Tropical Products to examine the problems of trade in tropical products and suggest means of resolving them. The Special Group agreed that it should examine problems relating to customs duties, tax rates, systems of special preferences, competition from synthetics and substitutes, price stability and markets, but it has not yet reached the stage of formulating recommendations on the measures that should be taken.

/Several procedures

Several procedures have been suggested for the elimination or gradual absorption of the special preferences accorded by some developed countries to certain developing nations, particularly by the European Economic Community to the Associated States. Nothing has been achieved so far, and these preferences are being extended to other countries and products, to the evident detriment of the Latin American region. Matters have been getting worse, not only because of the increase in recent years in the number of preferential agreements negotiated by the ECE with other countries, but because if the United Kingdom and other European countries join the ECE the trading area covered by special preferential arrangements will be considerably expanded. The proliferation of preferential arrangements and, in particular, of systems of reverse preferences, may have the effect of delaying the entry into force of the system of general preferences in accordance with the decisions adopted by the Special Committee on Preferences at the end of 1970.

The solution to this problem is complicated by the fact that the countries enjoying such preferences grant reverse preferences on imports from the developed countries with which they are associated. The Latin American States have already defined their policy on this question. They whole-heartedly support every kind of help that can be extended to the developing countries in the form of financial and technical co-operation, but they are opposed to any discriminatory treatment of these countries in the developed countries' markets. The fact that such treatment is still being applied is a source of concern to Latin America, and it tends to encourage moves to establish some kind of preferences between the Latin American countries and the United States.

There can be absolutely no doubt that Latin America must persist in seeking a lasting general solution, which can only be the liberalization of trade, since vertical arrangements that might lead to the establishment of regional blocs would ultimately injure vital interests bound up with these countries' future development. As the Latin American countries have maintained, commodity agreements may well be the best instrument for

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absorbing those special preferences. In their new form, these agreements envisage, inter alia, the marketing of products of different exporters at stable and fair prices; they may also provide for the establishment of buffer stocks, and for technical and financial assistance in the implementation of national programmes for diversifying production. Commodity agreements therefore seem an appropriate instrument for protecting the interests of the countries enjoying preferences in industrialized countries, which may even gain by the change.

The other aspect of the promotion of commodity exports is the geographical diversification of markets. This should be a fundamental aim of Latin American foreign trade policy. In essence, it consists in eluding to some extent the restrictions imposed by the traditional markets of industrialized countries and in achieving more stable and dynamic conditions for foreign trade. For example, Latin American exports to the United States show little momentum, notwithstanding the economic and financial co-operation programme that was launched in the 1960s. Market diversification is required not only for primary products but also for industrial exports, for which new possibilities must be opened up. Consideration is therefore being given to the advisability of promoting the expansion of trade with the socialist countries and with other developing areas, and particularly to the necessity of accelerating the tempo of reciprocal trade in Latin America through regional and subregional integration, without excluding other agreements or programmes that may lead to the same result.

Some progress has been made in recent years in trade with the socialist countries, and the region is anxious to tighten those links. The practical difficulties involved are well known. New experiments and new forms of agreement and new credit arrangements suggest interesting possibilities which may be of key importance for the expansion of Latin American trade in view of the market potential of the socialist countries. The effect of introducing multilateral formulas in trade with that area would be felt immediately in increased trade.

Latin America's trade with other developing areas is practically non-existent, and a study should be made of the actual prospects in this field, at least for some primary commodities and for manufactured goods in general. Although the absence of traditional trade relations, and such factors as geographical location, transport costs, etc., are undoubted obstacles to the creation of those new trade flows, some favourable prospects are also discernible. The industrialized countries' support may have to be enlisted in carrying out such a programme, particularly in connexion with items which are included in aid to developing countries or in which trade is promoted by means of subsidies or special concessions.

For some time now trade negotiations have been under way within GATT among a group of developing countries, including thirteen of the twenty-four countries in the Latin American region. It is to be hoped that these negotiations will have a fruitful outcome in the near future, so that the foundations can be established for expanding reciprocal trade among the developing countries.

(ii) Exports of manufactures and semi-manufactures. In the traditional structure of Latin American exports, manufactured products have on average in recent years contributed only about 7 per cent of the region's total foreign exchange earnings.[7/] During the 1960s, exports of manufactures expanded rapidly, at the rate of 10 per cent annually, although for the region as a whole they are still at a low level. Over two-thirds of this increase is accounted for by intra-regional trade, which indicates, on the one hand, highly encouraging progress in regional integration and, on the other, the scant development of these exports to other areas. One thing that is somewhat surprising is that the more industrialized countries of the region have not shown more interest in the past in gaining access to the world market for manufactures, although there has been progress in this respect, in recent years, especially in Brazil.

7/ These exports include the products in sections 5, 6, 7 and 8 of the Standard International Trade Classification (SITC), excluding division 68 (non-ferrous metals).

As stated earlier, exports of manufactures represent a vital element in a new Latin American development policy. Naturally, the amount and practical possibilities of such exports may differ from country to country; but to export manufactures should be the general aim of all the Latin American countries, large and small. There is a great variety of manufactures and in each individual case favourable conditions can always be found for promoting the export of particular industrial products.

Changes have been taking place in the composition of trade in manufactures between the industrialized countries which may pave the way for increased participation by the developing countries. If the industrialized countries speed up the process of specialization in the production of capital-intensive goods requiring a high degree of technology, the developing countries will be able to benefit from trade in more labour-intensive traditional manufactures and in goods which do not fit the specializations of the industrialized countries or their scales of production. While Latin America's industry must prepare itself to take advantage of these opportunities, its export policy for manufactures must not be aimed solely at achieving this dichotomy, particularly in view of the fact that it should gain much in growth and efficiency as a result of integration.

In the short term, the growth potential of exports of manufactures lies mainly in the goods produced by existing industries which are competitive in world markets, and especially goods produced by light industry, in which it may be assumed that Latin America has a certain comparative advantage. However, it is precisely this type of manufacture which is most protected in the developed countries (chiefly through progressive customs tariffs), and hence the growth of such exports also depends on the developed countries' granting easier access to their markets, as called for in recommendations adopted by UNCTAD and GATT.

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In the long term, export expansion should not be confined to these manufactures since, unless suitable programmes and policies are adopted to promote the development of more complex industrial exports embodying more advanced technology, the Latin American countries will not only get little benefit from technological progress, but will have no share in the growth of the most dynamic sectors of world trade in manufactures.

To get the Latin American economies to export manufactures will not be easy task because of the conditions and habits established by import-saving industry. Nevertheless, the experience that comes from regional integration, the multinational projects that are being developed, and the growing capacity and experience of industry - despite all its weaknesses - give good grounds for hope that, if energetic policies are applied, success will be achieved. In this respect, increasing trade in manufactures and gradually increasing competition within the region will strengthen Latin American industry and give it new opportunities to enter world markets.

It must not be forgotten that any preferences that the industrialized countries may grant will be worth nothing unless the countries of the region are in a position to take advantage of them. The lessons of regional integration are very instructive in this respect, since it has often been found that preferences alone do not promote new investment or increase trade in a larger and protected market. Moreover, margins of preference have gradually been reduced because of the liberalization of tariffs among the industrialized countries. Hence, the incentives that preferences themselves provide will be less effective than was anticipated. This means that it will be more difficult for the Latin American countries to compete, and as time goes on their difficulties will increase because of the extraordinary dynamism of the industrialized countries' trade and also because of the ground gained by other developing countries.

This is an area in which there is a clear-cut need for national and international action to converge so that specific results can be achieved in exports of manufactures. At the national level, studies are needed of each country's prospects of expanding domestic production for export and of establishing new export-oriented industries. In this, and in studies of the market potential of the developed countries, international and regional agencies can provide very valuable technical assistance. In addition, efforts will have to be made to deal with the institutional problems connected with the organization and efficiency of national enterprises, to improve quality and reduce costs, to fix specific priorities for the allocation of resources in development plans, to consider the problems of exchange rates and regulations and the institutional and financial machinery required for subsidies - in a word, to develop a comprehensive export promotion and marketing policy.

At the international level there has been recent progress in this respect. In late 1970 the UNCTAD Special Committee on Preferences approved the basis for the establishment of a system of generalized non-reciprocal and non-discriminatory preferences in favour of the exports of the developing countries. The conclusions state that the developed countries will seek legislative or other appropriate authority to enable them to put the concessions negotiated into effect during 1971. The one point of concern that still remains regarding the system of generalized preferences is that the exception lists contain precisely the manufactures, such as textiles, footwear and certain processed agricultural products, that offer immediate opportunities for expanding the developing countries' exports. Furthermore, care will have to be taken to see that the system of preferences adopted is not rendered ineffective by the application of non-tariff restrictions or the use of escape clauses. In actual fact, as noted above, owing to the process of trade liberalization, margins of preference have been reduced and the problem of access to the markets of the developed countries is now more a question of dealing with non-tariff restrictions and with a sliding scale of import tariffs, which rise steeply with the amount of processing a product receives.

/(iii) Import

(iii) Import policy. A rational import policy must be designed and implemented which will be in line with the essential aims of the development strategy. While there has been some recent progress, chiefly in the revision of tariffs, the general trend in Latin America has been one of over-all control of imports, with drastic cutbacks in times of balance-of-payments crisis. In many cases, economic criteria, aimed at making more efficient use of foreign exchange, have been invoked to limit, for example, imports of luxury goods. But in the import substitution process set in motion by the demand for these goods on the domestic market, larger amounts of foreign exchange were soon required to finance imports of the intermediate and capital goods used directly or indirectly to produce the very goods that were supposed to have been restricted.

Careful planning, and increasing competition in the larger markets established by integration agreements and also from extra-regional trade flows, will be of great benefit in promoting efficiency and productivity in domestic production. Undeniably, as exports of goods, particularly manufactures, within the region and outside it increase, and as domestic economic activity gains momentum, Latin America will be in a better position to implement a more flexible import policy and a more selective tariff policy, governed by considerations of economic expediency. The experience of the industrialized countries and of developing countries whose external sector is more dynamic than that of Latin America indicates that much is to be gained by promoting some degree of specialization within the context of a growing diversification of economic activity.

It cannot be over-emphasized that import policy is the basic instrument for the implementation of over-all development strategy. Direct control measures, protection, the structure and level of tariffs, exchange regulations and the various forms of subsidy must all meet the needs of integration and the promotion of exports of manufactures and also be in line with the over-all aim of building up a more efficient industry. The allocation of external resources through imports of goods must be directed

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towards achieving the essential objectives of increasing investment in production, and agrarian reform, which will raise employment and income levels and redistribute income in accordance with each country's own economic and social goals.

(c) External co-operation

It has been seen that, nothwithstanding differences in degree, the balance-of-payments situation and prospects are extremely unfavourable, and this has a very strong impact because Latin America relies on external capital inflows to maintain the growth rate within the context of the policies it has been pursuing. The projections show that the availability of funds is likely to be severely reduced, and that the cost of financing is rising, not only because of higher interest rates, but also because bilateral loans continue to be "tied".[8/]

Latin America will never be able to lay the foundations for its development if it continues to deal with the external bottleneck by adopting palliatives such as increased external borrowing. Undoubtedly, the most positive and effective assistance the industrialized countries should give would be to adopt measures and change their policies so as to facilitate the access of Latin America's exports to their markets at stable and remunerative prices, and to give an immediate boost to its exports of manufactures and semi-manufactures. In the meantime, until these objectives are achieved, financial assistance will be required on terms and conditions that do not lead to the same crises as at present; in other words, what is needed is an increase in the net flows of funds and services and a decrease in the real cost of external financing.

The main objectives that should be set for international action in this respect have been defined in UNCTAD. In brief, they cover the commitments that the developed countries should make to increase their

8/ In this connexion, it should be noted that certain measures have been taken to improve the terms under which the United States makes loans to Latin American countries.

net transfers of resources, changes in the terms and conditions of aid, multilateralization, and the adjustment of servicing payments on the external debt at times of crisis. The various proposals on these points now under discussion are well known, particularly those presented by the Latin American countries through the Special Committee on Latin American Co-ordination (CECLA).

It cannot be over-emphasized however, that among the objectives which are of special significance to Latin America at present are increasing the proportion of external financing which consists of aid and of long-term loans at low interest rates and with extended grace periods, providing more flexible conditions for adjustments in times of financial crisis, and more rapid progress towards the elimination of restrictions on the use of bilateral loans.

In terms of over-all development strategy, the growing multilateralization of external financial assistance and the practical application of the principle that development plans should receive financing are of particular significance. Countries must be able to rely on receiving the basic external resources they have budgeted for in their plans, and on supplementary assistance to offset any disruptions caused by unexpected declines in export receipts or by other emergencies; these topics also have been considered in UNCTAD.