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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:
Three dots (...) indicate that data are not available or are not separately reported.
A dash (—) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (—) indicates a deficit or decrease, unless otherwise specified.
A point (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.
References to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.
Individual figures and percentages in tables not necessarily add up to corresponding totals, because of rounding.

CEPAL REVIEW No. 23

Latin America: Crisis and Development Options

Executive Secretary of ECLAC
Enrique V. Iglesias

The statements made by the Executive Secretary at the ECLAC sessions are among the fullest expressions of the institution's thought. The present article reproduces the address delivered at the Third Plenary Meeting of the Twentieth Session (April 1984), the aim being to present an overview of the present economic situation of Latin America.

The purpose of the first and second sections is to identify the origins and the special characteristics of the crisis and the decisive part played in it by the external debt, the markedly recessive adjustment policies that have been applied and the costs and tensions which they have engendered. The third section refers to the immediate prospects, which do not seem over-promising, while the fourth discusses the medium-term outlook and its main external and internal determinants.

The fifth and last section sketches certain policy options that could be pursued, with all due regard to the considerable inter-country differences existent. On the one hand, it underlines the priority objectives towards which these policies should be oriented: economic efficiency and growth, equity in the distribution of the benefits of such growth, and autonomy in development. On the other, it analyses some of the means and conditions which are particularly important for the promotion of the development in question. Thus, allusion is made to the need for combining the impulses given by internal and external demand —the latter backed up by export promotion policies, the strengthening of the regional market and the utilization of international markets— and to the modernization of the State, which has a decisive role to enact in the difficult years ahead. The last paragraphs recall the importance of political elements, such as the social mobilization by which efforts in pursuit of development and the construction of democratic and participative societies must be supported, and the necessity of reaching a social consensus whereby the cost of conflicts may be reduced.

Introduction

In this paper I should like to set forth some considerations on the recent evolution and future prospects of the Latin American economy at this critical stage. These basically represent my own personal reflections, backed up by the ECLAC Secretariat's systematic monitoring of Latin American economic trends.

The changes which have taken place in the world and the region in recent years, in both the political and the economic and social areas, have been astoundingly far-reaching and rapid. The transformations in the international system which had prevailed since the war, the structural modifications in the centres and the changing structure of centre-periphery relations have combined with the changes which have taken place in the economic and social structures of the majority of the countries of the region to make up a corresponding array of forces which interact among themselves and develop at a rate which, on occasions, outstrips our ability to understand and process them within a coherent framework of ideas.

Looking back on these changes from our present position, we can see that the search for formulas which would make it possible to update the development strategies applied by the countries of the region in the post-war era was followed by the failure of some populist experiments and also by the rise and fall of some attempts to restore past models of a neoliberal type. This experience tells us that we should approach the new realities in a spirit of greater humility, seeking to understand and handle them better than in the past, with an attitude that is at once imaginative yet pragmatic and free of prejudice.

Thus, a kind of feeling of helplessness has been created, in view of the lack of coherent schemes, and this situation may be observed not only in the developing countries, but also in the industrial centres themselves, which have traditionally produced the great intellectual syntheses that have inspired the guidelines for national development policies and the international economic scenario. The neo-Keynesian view, which predominated in one way or another until the 1970s, has entered into crisis, without however having been replaced by any other approach carrying equal influence. At the same time, the spirit of multilateralism which characterized the organization of international relations during the era following the war has also entered into crisis, and a dangerous dichotomy has been created between the trends towards an increasingly interdependent international economy and the absence of authentically global instruments to manage the changes and overcome the crisis.

This confused and disquieting picture represents a major challenge to economic thinking and policies, both in the centres and in the periphery. Our response to this challenge is the task to which we shall have to devote ourselves in the coming years, by first making a calm appraisal of the experiences we have lived through and then drawing up a balance-sheet of the limitations and opportunities faced by our countries on account of the new realities which have arisen in both the domestic and the international spheres.

This task involves formidable difficulties. The first lies in the unprecedented nature of the problems to which we must find a response. To this is added the uncertainty prevailing as regards the direction the world economy will take and the meaning of the structural changes which are occurring in the great industrial centres. In addition, there is the fact that the great diversity of situations existing in Latin America dooms to failure any attempt to find general formulas applicable to the entire region. The circumstances do not appear to be favourable for the creation of large economic models with claims to general validity, but rather for the elaboration of coherent and well-balanced syntheses, based on careful consideration of the lessons of the past and the challenges raised by the new realities.

I

The special features of the crisis in Latin America

At the beginning of the 1980s Latin America had to confront the severest economic crisis it has experienced since the fateful years of the Great Depression. This process was undeniably influenced by domestic causes, but also by a complex set of factors arising out of the performance of the economies of the industrialized countries. One of the most outstanding features of the crisis is the fact that it has extended, to different degrees and in different forms, to practically all the countries of the region. Another striking feature is its depth and duration. The three-year period 1981-1983 was characterized by a sharp drop in the product —in both global and per capita terms—, a marked reduction in rates of investment, the spectacular intensification of inflationary pressures, a rise in unemployment, and a drop in real wages. These negative changes on the domestic front were accompanied by others no less negative in the external sector, the most tangible manifestations of which have been the payments crises, the rise in exchange rates, the loss of international reserves, and, above all, the insupportable increase in the external debt service commitments. In short, we are faced with the most serious economic contraction in the last fifty years, with heavy destruction or under-utilization of the capital accumulated in recent decades and a six-year setback in the region's social progress, so that its standards of living were the same in 1983 as they had been in 1977.

Although the history of the crisis goes back to the first half of the 1970s —when the region coped with the first oil crisis relatively well, due to a set of factors in which external borrowing played a highly significant role— its worsening at the beginning of the 1980s brought about particularly serious consequences, since it put an end to the growth cycle which the Latin American economies had experienced over the past three decades.

The crisis also marked the downfall of those economic policies which made too much use of external borrowing, as a result of the failure (although there were differences between the individual countries) to appreciate the proper role of international financing and the advantages and risks of indebtedness. These policies were facilitated by the unprecedented permissiveness then prevailing in the great international financial centres, inspired by a confidence in past experience —which on this occasion proved to be displaced—, according to which international inflation would tend to lessen the weight of indebtedness with the passage of the years.

Owing to the generous flows of private capital made available at that time, the Latin American countries managed to maintain high volumes of imports which, in part, contributed to achieving satisfactory rates of economic growth. These rates exceeded those recorded in the industrialized countries, and enabled the countries of the region to cope relatively easily with the international recession of 1974-1975, which was due, *inter alia*, to the adjustment which the economies had to make to the new energy prices. This, however, was only a temporary situation.

The situation remained manageable until the end of the 1970s. At the beginning of the present decade, however, the risks involved in applying economic policies based on the excessive use of external borrowing in a recessive context became obvious, when the recession in the industrialized countries grew more acute, international interest rates suddenly rose, and the terms of trade of the developing countries deteriorated. The increasing burden of servicing the debt and the decline in export income made the maintenance of an acceptable growth rate increasingly dependent upon the possibility of attracting new flows of external resources, at extremely high costs. Furthermore, this possibility was drastically reduced in 1982 and 1983, when there was a reversal of the extreme permissiveness shown by the international financial system during the preceding decade and a massive contraction in the inflow of new capital to the region, which greatly aggravated the recession caused by the economic cycle of the great industrial centres through the increase in interest rates and the decrease in the export income of the Latin American countries. Such, very briefly, was the evolution of the crisis currently being confronted by the region.

In these circumstances, three types of questions may be raised with respect to this process: a) How was this situation reached, and what features does it present in the case of Latin America? b) What short-term prospects are opened up to us by the adjustment processes and reactivation policies being applied in the centres? and c) What are the implications of this perverse combination of old structural problems with those which will remain as the aftermath of the crisis, as far as the development models which the Latin American countries could try out in the medium and long terms are concerned? In order to respond to the first type of question, we must go more deeply into recent events.

1. *Origins of the crisis: structural elements, national policies and the external cycle*

If we place our analysis in a correct historical perspective, we must acknowledge that the magnitude and features of the crisis were substantially influenced by the long-standing structural problems so often analysed in ECLAC studies. However, this consideration should not serve to detract from the importance of domestic policies and the behaviour of the external cycle during the 1970s. Both of these elements encouraged excessive use of external borrowing; most of the loans, for reasons which will be dealt with below, were contracted with private sources, and indebtedness now amounts, at the regional level, to more than US$ 330 billion. This extremely high degree of indebtedness, which is the most important immediate cause of the crisis being experienced by the Latin American countries today, is in its turn the expression of a complex combination of both domestic and external factors.

We have already mentioned the fact that this indebtedness was made possible by the extraordinary climate of international financial permissiveness which prevailed at the beginning of the last decade: a situation due to factors which had existed from the end of the 1960s but which subsequently became stronger as a result of the great international liquidity generated on account of the surpluses accumulated by the petroleum-exporting countries. This prompted a vigorous resurgence of the international capital markets, especially through the new Eurocurrency market, and they eventually had an unprecedented volume of liquid resources at their disposal, the mobilization of which was carried out without any reference to the national monetary authorities and international financial bodies. In effect, the international private banking system was given *carte blanche* for recycling these resources, which it did with apparent efficiency during that period. However, because of the competition in lending their financial surpluses, the banks ignored many of the criteria which had guided these operations in the past, thus increasing their risk to an extent which has become evident with the crisis.

The economic policies followed by the Latin American countries during the period in question stimulated that process, at different rates and in different ways. I have already noted that recourse to external credit was used to a considerable extent in order to surmount the first depression of the mid-1970s and maintain the countries' growth rate. This credit facilitated the expansion of domestic spending, which was applied to different purposes, not all of which contributed to the same extent to the achievement of that objective. In some cases —perhaps the fewest— domestic spending was directed towards programmes of investment in production projects which, unfortunately, in many cases involved very long lead times, were over-ambitious, or were based on excessively optimistic assumptions as to market behaviour, thus giving rise to a situation in which a considerable proportion of the investments remained partially idle. In other cases, the increased indebtedness was used to support indiscriminate policies of greater external openness which implied a sharp expansion in imports, including a high proportion of all kinds of consumer goods. In some cases, the external loans served to encourage policies of exchange over-valuation instead of authentic anti-inflationary strategies. On other occasions, the implementation of macroeconomic policies lacking in coherency led to loss of confidence and flight of capital, with the resulting depletion of reserves. Lastly, there were even cases where the said indebtedness stimulated a vigorous process of arms purchases.

Consequently, to attribute the bulk of the responsibility for the current crisis in Latin America to external factors would be incorrect and would endanger the credibility of the Latin American position. The same would be true if the analysis were to stress unilaterally the financial and monetary aspects of the crisis —which are indeed its most serious and obvious symptoms— while neglecting the real aspects which are, in the final analysis, responsible for it. Among these aspects mention should be made of the recession and the economic policies of the developed countries, which affect the demand for products exported by Latin America; the protectionism prevailing in the developed countries, which thus limit the Latin American countries' access to their markets; the impact of the crisis on the production apparatus of the Latin American countries, resulting from the growing control of financial interests over the production sectors, the over-indebtedness of the private sector and the failure of businesses; the under-utilization of existing production capacity, and unemployment; the negative effects of the excessive strengthening of national financial systems in comparison with production sectors; the contraction in investment; the impact of the crisis on the income of large sectors of the population, which have had to bear an inordinately high proportion of the burden of the adjustment, and —in general— the application of domestic policies which over-stimulated consumption or investment, fostered currency over-valuation, gave rise to fiscal deficits, or set off processes of opening-up to the exterior that were excessive or too rapid.

In short, when the causes of the process are analysed, the conclusion reached is that they include both domestic and external factors and that behind their financial and monetary aspects lie real aspects which have had great influence on the development of the crisis. All of these factors have come to bear differently in each country, depending on its stage of development, the features of its economy or the economic policies applied by it.

2. *The debt spiral and financial slowdown*

In order better to understand the behaviour and interconnection of these different factors, the recent indicators should be examined more closely. The debt situation of the Latin American countries first began to cause concern at the end of the 1970s, by which time the regional debt had already reached US$ 200 billion. This concern was partly allayed, however, by the evolution of the international cycle and the region's performance in the export field. In the case of Mexico, for example, the growth rate of the domestic product between 1970 and 1979 averaged 6.4% per year, while exports grew at an annual rate of 11.9%. During the same period, the comparable figures for Brazil were 6.7% and 9.1%, respectively, while in the case of Argentina a very modest increase in the growth of the product (2.6%) was accompanied by a rate of export expansion of 10.7%. The performance of exports during the second half of this decade was especially noteworthy; they not only recovered the rate of expansion which they had displayed before the crisis of 1974-1975, but even surpassed it, since between 1976 and 1981 the region's exports increased at an annual rate of approximately 9%. Briefly, what happened was that the behaviour of the international financial and commercial markets, and the performance of the region in terms of economic growth and —particularly— exports, calmed any doubts that might have been raised by the high level of its external indebtedness.

The situation underwent a radical change at the beginning of the 1980s, however. Thus, the international economic situation changed course spectacularly, due to the increase in interest rates and the persistent and pronounced drop in the terms of trade, with particularly acute consequences for the Latin American countries with the heaviest debts. Interest rates, after having been negative or only slightly positive during the entire past decade, rose sharply in real terms (see table 1). This phenomenon was aggravated by the fact that, a good deal before this, the terms of trade had deteriorated drastically.

Table 1

LATIN AMERICA: REAL INTEREST RATES AND NET CAPITAL INFLOW

(*Percentages and billions of dollars*)

	Interest rates	Capital inflow
1973	2.94	8.1
1974	0.11	11.6
1975	−2.21	14.5
1976	−0.22	18.3
1977	−0.50	17.3
1978	1.23	26.4
1979	0.66	29.0
1980	0.86	30.2
1981	6.11	37.9
1982	6.91	16.7
1983	6.71	3.2

Source: ECLAC

The negative combination of the two factors aggravated the difficulties created by the very heavy external debt contracted by the region: as debt service commitments rose, the income obtained by the Latin American countries from their exports diminished. Thus, the countries were forced to contract new debts simply to meet the interest payments on the accumulated debt. For the region as a whole, these payments came to represent about 36% of their earnings from exports of goods and services in the period 1982-1983. These figures highlight the increase in the part played by the external cycle in the worsening of the region's situation.

In the period 1982-1983 a factor which had a singularly powerful influence in accelerating the crisis made its presence felt: namely, the serious financial contraction brought about by the private banking system as a reaction to the crisis. The private banks, which supplied most of Latin America's external financing throughout the 1970s, and whose loans were growing at a rate of over 20% per year at the end of that decade, reduced their credits drastically during these two years, causing a sudden drop in the inflow of capital into Latin America (see table 1). This drop would have been even greater had it not been for the intervention of the international financial bodies and especially, the International Monetary Fund.

ECLAC has placed great emphasis on the impact of this financial contraction, which came on top of the economic recession caused by the international cycle through the rise in interest rates and the slump in the terms of trade.[1] In order to appreciate the magnitude of the problems which the contraction has created for the Latin American countries, one need merely consider that if the terms of trade in 1983 had reached only their 1980 level and the real interest rates had been 4% less (which would still have situated them far above traditional averages), the region would have had an extra US$ 25 billion available in its external accounts, which would have made it much easier to meet the interest payments on the

[1]For a more detailed analysis of these issues see ECLAC, *Adjustment policies and renegotiation of the external debt* (E/CEPAL/G.1299), Santiago, Chile, February 1984.

debt (amounting to some US$ 35 billion) without having to resort to the sharp contraction of imports which had to be put into effect in the last two years. The absence of these conditions, however, together with the contraction suffered in external financing from private sources, made Latin America into a net exporter of capital, thus reversing a historial trend, in flagrant contradiction with the capital-importer status appropriate to developing countries.

The outline I have just given highlights the profound changes undergone by the centre-periphery relationship, which has always been an important element in ECLAC's analyses of Latin American development. Thus, from the 1950s onwards, the sluggishness of world trade and the restrictions of the international markets created a favourable climate for the Latin American countries' decision to depend primarily on their internal markets and follow import substitution policies on a national and regional scale. As from the mid-1960s, however, world trade registered unprecedented growth which encouraged the application of export expansion and diversification policies by the Latin American countries, thus giving a new profile to the region's external trade. From the first half of the 1970s onwards, the situation of international financial permissiveness mentioned earlier stimulated external indebtedness policies which made possible an expansion in spending, with different objectives and results, especially in terms of its economic and social productivity. At the beginning of the 1980s, the intensification of the recessive cycle in the centres, together with the rise in interest rates and the drop in the terms of trade, sharply reduced the Latin American countries' capacity for reactivation, and this situation was further aggravated by the contraction of the inflow of capital into the region.

II

The inevitability and tensions of the adjustment policies

Faced with a crisis which had such far-reaching repercussions on the external income of the region, the countries were inevitably forced to make adjustments, with high economic and social costs. In view of such a difficult situation, it would certainly be utopian to try to imagine a "painless" adjustment. But the question that must be asked here is whether the adjustment, besides being inevitable and painful, has been fair in terms of the distribution of its costs among the different sectors involved in the crisis, both at the domestic and at the international level.

The adjustment has in fact assumed strongly recessive features, basically reflected in the reduction of imports in order to obtain a trade surplus with which to meet the external debt service commitments; the curtailment of spending, both for consumption and investment; the erosion of international reserves; and sharp devaluation. As a natural corollary of the foregoing, the traditional pressures on prices were joined by those arising from the growing fiscal deficits which, on the one hand, stimulated inflation and, on the other, led to serious cuts in public investment, particularly investment intended for the social sphere. It is not surprising, therefore, that along with a process of destruction or underutilization of installed capital, a strong concentration of the negative effects of the crisis in the poorest sectors of the population has occurred.

In applying its adjustment policies, the region used the orthodox mechanisms recommended by the International Monetary Fund, which had to fit within the narrow limits imposed by a difficult payments situation and by an international financial community that was reluctant to grant new credits. In this context, the adjustment policies could not be other than markedly recessive, especially in so far as hopes for a rapid recovery of the world economy, with favourable effects on interest rates and the terms of trade, did not come to fruition.

No one could imagine a way out of the present crisis that could bypass adjustments as painful as they are inevitable. However, the impact of international circumstances which are beyond the control of national governments, the delayed reaction of the external cycle and the far-reaching economic and social costs involved in the adjustment have been causing growing dissatisfaction with the mechanism applied to carry this out.

The highest-level political expression of this disquietude was provided at the recent Latin American Economic Conference convened in Quito at the beginning of 1984, by the President of Ecuador, Dr. Osvaldo Hurtado. The Declaration and Plan of Action adopted at that Conference, brought the consideration of these problems into the political sphere, for the first time since the beginning of the most acute phase of the present crisis, and established the principle that the external debt service commitments and, hence, the intensity of the adjustment, should to a larger extent be the subject of proposals formulated by the Latin American countries themselves. These proposals should basically take into account the need to maintain a certain economic growth rate and acceptable living conditions for their societies.

The basis for this critical position is primarily a political one. Indeed, if the relations between the Latin American countries, on the one hand, and their creditors and the industrialized nations, on the other, are not placed on a different political level, no matter what the relative weight of the domestic and international factors in shaping the crisis, it will become almost impossible to handle. These considerations of a political nature should, *inter alia*: a) call into question the long-term viability of a general adjustment process in which all the countries are led simultaneously to reduce their imports and expand their exports, at a time when a growing and ever more subtle system of protectionism is being carried forward by the industrialized countries; it is acknowledged that, although the deficit trade behaviour of the United States is an important and positive exception to this state of affairs, the criticism continues to be valid as regards the other countries with which the region trades; b) point up the fact that, while the various actors involved in the creation of the crisis —the debtor countries, the international banks, the industrialized countries, international financial agencies and the very system of world economic relations itself— clearly have a share of the responsibility in this respect, the cost of the adjustment falls almost exclusively on the debtor countries; it is a situation in which the international banks not only have failed to assume a fair share of the costs of refinancing the debt, but also have increased their profit margin excessively via the costs of financial intermediation; at the same time, they have succeeded in having the International Monetary Fund maintain a supervisory presence with respect to the management of the debtor countries' domestic economic policy in order to ensure their ability to pay, while they have also managed to have State guarantees extended in many of these countries to almost all of their credits, including those to which government guarantees did not originally apply; c) draw attention to the abrupt restriction of external capital flows imposed by the international financial system and the fact that Latin America has become a net capital exporter; this situation is felt to militate not only against a minimum degree of recovery by the Latin American economy but also against the reactivation of the world economy itself.

The method of adjustment used by a number of Latin American countries has, furthermore, warranted theoretical criticism, which has been examined in the past by ECLAC and which has been repeated in some of its recent studies.

> "The magnitude, nature and persistence of recent external imbalances and their relationship to domestic imbalances suggest that the current theoretical models for analysing the balance of payments are based on various sets of unrealistic and decidedly restrictive assumptions, and have produced piecemeal and, at times, erroneous policy interpretations and recommendations with respect to the developments which have occurred in this sphere. In particular, there has been little analysis of the determinants of private international financial flows or of the external debt's impact on the national economy. In addition, given a *ceteris paribus* assumption in relation to world economic activity, international interest rates, etc., the policy prescriptions put the burden of restoring a bal-

ance on the 'problem country', with little or no recognition of the interdependence of the external imbalances among the countries with respect both to their causes and to the responsibility involved".[2]

Despite the fact that the region has reacted very responsibly to this situation, taking measures to correct it which have had painful economic, social and even political consequences, doubts persist as to the ability of the Latin American societies to continue to endure the sacrifices they are currently making. Because of this, in various financial and political centres attention has been called to the possible consequences of the Latin American countries' domestic situation and particularly to the repercussions which extreme solutions would have on the stability of world financial markets. Some of the boldest and most innovative proposals for seeking global formulas which go beyond the policies currently pursued have come from intellectual circles in the industrialized countries and, increasingly, from political leaders and economic authorities in the Latin American countries themselves. These proposals, however, have yet to influence the attitudes of the political authorities in the developed countries.

One central topic for the immediate future is the establishment of global mechanisms to facilitate the servicing of the debt so as to provide leeway for a greater flow of imports and, by that means, to permit a process of reactivation in the Latin American economy. To these ends a set of measures have been proposed in general terms which are aimed at bringing about a considerable reduction in the costs of financial intermediation, the rescheduling of interest payments on the debt in a way which would not absorb too great a proportion of export earnings, and an extension of loan maturities. On this occasion, I will not enter into an analysis of these subjects, which have been discussed in other ECLAC documents.[3] Suffice it to say that, under present circumstances, the financing of their external debt is the stumbling-block for most of the Latin American countries as far as any economic reactivation policy is concerned.

Nonetheless, these considerations indicate that one of the basic features of the new development pattern which the region must follow in the future will be a lower degree of dependency on external financing. This, in turn, will greatly depend upon the evolution of the countries' foreign trade and, particularly, on how successful they are in expanding their exports. It must be acknowledged here that the modest prospects for the international economy, and the slow growth in world trade which is likely to occur during coming years, will continue to severely limit Latin American exports. It is probable that this situation will continue to be compounded by the defects of the developed countries' growing neo-protectionism. Indeed, in recent years the process of opening up trade, which characterized the centres' economic evolution during the post-war period, has lost momentum and has been replaced by an increasingly variegated set of protectionist measures, discriminatory and lacking in transparency, which have caused a growing share of international trade to be carried on outside the sphere of the GATT regulations. This has jeopardized progress towards a new international division of labour at the world level, which was precisely one of the opportunities open to the developing countries for responding to the crisis. The neo-protectionism of the industrialized countries seriously threatens the chances which the countries of the region could have of reducing the external debt burden in the medium term by expanding their trade.

A number of measures could be suggested for rectifying this situation. First of all, the Latin American countries should take concerted action to combat the various types of tariff spreads and non-tariff barriers recently put into effect by the industrialized countries. Secondly, a measure which is of great importance for Latin America is the approval of new rules regarding safeguard clauses which would allow them to be used only under exceptional circumstances, rather than in order to place unilateral restrictions on the region's exports when the latter begin to represent competititon for producers in the industrialized countries. Thirdly, the production and export

[2]See Carlos Massad and Roberto Zahler, "The adjustment process in the 1980s: the need for a global approach", in this issue of CEPAL *Review*.

[3]See *Adjustment policies and renegotiation of the external debt, op. cit.*, pp. 80-91.

subsidies granted by the industrialized countries in such basic sectors as agriculture, livestock production and industries important to Latin America should also be opposed, just as the developed countries themselves closely monitor the use of subsidies by the developing countries. The benefits of the Generalized System of Preferences (GSP) should also be expanded.

III
The immediate outlook

Certainly, it is no easy matter to provide a clear picture of the outlook for the international economy in the immediate future, nor, therefore, of the hypotheses which could serve as a basis for adjustment machinery sponsored by the international financial community and IMF. In a recent article, Albert Bressand set forth the possible future prospects of the world economy as follows:

> "In the next few years, one can think in terms of two broad scenarios, depending on what relationship will prevail between the "real" economic sphere and the financial one. In the first, the optimistic one, the real economy will be able to grow faster than the size of the financial "deadweight" with which it is now burdened. If that were to happen, specific country or corporate situations could still be sources of difficulty but, on the whole, the debt overhang would gradually dissolve itself. Nothing more drastic than heavy rescheduling might be needed. The second broad scenario, however, looks more likely, at least in the absence of concerted recovery policies of the type described below, that policies of financial "adjustment" would converge toward deflation on a global scale and would increase rather than reduce the fundamental economic, social and political vulnerabilities. At some point, the weight of accumulated debt would be such that repudiation could not be avoided, and might even be the only way out of an implosion trap".[4]

[4]Albert Bressand, "Mastering the 'World Economy'", *Foreign Affairs*, Spring 1983.

These are the prospects from the standpoint of the developed countries, and it is a perspective which undeniably calls to mind the financial problems of the 1930s.

These outlooks have their counterparts in the views of the immediate future held in the countries of the region. In the opinion of some observers among the monetary authorities of various Latin American countries, who share the viewpoint of their colleagues in the North, the rectivation of the United States economy will, in turn, have a reactivating effect on the rest of the industrial economies, which will give a new impetus to international trade and, therefore, to the external environment on which the developing countries' economies rely. This is what has been called the "locomotive theory". With a reduction in real interest rates and an improvement in the prices of the developing countries' export products, the debt problem could be managed on better terms and would leave room for initiating economic reactivation policies. On the other hand, there are viewpoints which call into question the significance and durability of the recovery in the large industrial centres, or at least the possibility of transmitting the recovery taking place in the United States in recent months to the other centres, much less to the periphery. From the first angle, the main features are the persistence of high real interest rates, a slow rate of investment, unemployment and idle capacity in the industrialized countries, and an overvalued United States dollar. From the second, a reminder is given that in order for the recovery in the centres to be transmitted to the periphery, significant effects will have to be produced on interest rates and the terms of trade, and external financial flows towards the region will have to be resumed. Certainly, if we consider the impact of the economic recovery in the United States on these three factors during 1983, the conclusions are not overly encouraging. The expected drop in real interest rates has not come about, there has been no pronounced reversal in the tendency of the terms of trade to deteriorate, nor has a positive reaction on the part of sources of private capital been observed, except to the extent strictly necessary in order to contribute to the financing of a portion of the interest payments owed by the Latin American countries.

Even so, one indispensable prerequisite for an economic recovery in the countries of the region is the recovery of the industrial economies. From this standpoint, what is occurring in the United States and probably, to a lesser degree, in other OECD countries is a positive development. This view of the situation, however, must be modified by the fact that the monetary and fiscal policies and high interest rates prevailing in the United States are an important contributing factor to the contraction of global economic activity and are reducing the opportunities for the developing world. At the same time, it is clear that the countries of the region should look for alternatives to the severe adjustment policies which they have implemented in recent years, seeking instead development strategies which stress economic growth. As noted above, the foregoing involves the adoption of mechanisms by the international community which will make possible a more tolerable form of administering and refinancing these countries' external debt. Such mechanisms would free a greater volume of resources for increasing their essential imports (particularly those linked to their development processes), and should be applied concurrently with a greater degree of import substitution —although we know full well that these strategies have their limitations. On the external front, trade and financial policies should be combined with one another and with domestic reactivation policies so that they can be brought to bear on the objectives of increasing investment, expanding basic imports and initiating a sustained recovery process in the Latin American countries.

It is clear, nevertheless, that the rate of expansion of production and the room for manoeuvre in economic policy will continue to be restricted in many of our countries for a fairly long period of time because of external constraints. Accordingly, the growth rate will not only be lower than over the past two decades, but will depend far more closely on an increase in domestic saving, the fullest and most effective use of available human resources and installed capacity, and an increase in production devoted to covering internal demand.

IV
The medium-term outlook and its main determinants

The foregoing considerations suggest that neither short-term economic policies nor the major objectives of the development strategy can remain unchanged by the effects and lesson of the crisis of the 1980s, just as the corresponding instruments will also have to be revised. Towards the end of the 1970s, it was thought that concerted action with respect to the different structural constraints which marked the past development of the region could result in more dynamic economic growth rates and that, given such rates, the appropriate conditions could be created for laying the foundations for sustained economic development and the progressive solution of the mass of social problems which had mounted up. Today, the emergence of new and unforeseen problems and the atmosphere of uncertainty surrounding the evolution of the world and Latin American economies, rather than allowing us to think in terms of an incrementalist and progressive process, draw our attention to the presence of severe breaks or discontinuities. Nevertheless, this should not lead us to adopt defeatist or despairing positions, but instead to search more intensively for innovative answers to these new situations.

The lessons of history teach us that great crises present both risks and opportunities. It would probably be unrealistic to postulate radical changes in the development policies of the Latin American countries in the middle of one of the worst recessions the region has undergone in this century and in view of the unpromising international setting, which would make such changes politically and socially unfeasible. However, we must also remember that a crisis situation has often preceded the adoption of sweeping changes: in the United States, the New Deal was a response to the crisis of the 1930s; the economic recovery and integration of Europe, in turn, arose in response to the destruction caused by the war, while the development strategies based on the industrialization and "inward-directed growth" of the Latin American countries themselves also grew out of the Great Depression and the war. Thus, just as in that era, the current crisis could provide the basic elements for an in-depth revision of the development styles and economic policies of the Latin American countries. In order for this to happen, extreme experiments whose economic and social costs could exceed the political tolerance of these societies would have to be avoided, and some measures of balance and rationality would have to be incorporated into the strategies in question in order to ensure their economic efficiency, by learning from the experience which has been gained.

The analysis of the options available for such policies requires a dispassionate interpretation of the various experiences of the region in the recent past and, in the light of these, the amount of leeway there can be for economic policy to operate in. Experience indicates that strategies which were initially inspired by the most progressive objectives and which were based on a broad consensus ultimately lost that support because they did not attain a reasonable level of efficiency. There is also a general awareness that in recent years the external vulnerability of the Latin American economies has increased considerably and that the goverments' room to manoeuvre has decreased accordingly. The amount of leeway, however, is certainly not the same for all the countries of the region, because their socio-political situations, economic structures and forms of insertion in the international setting are not the same either. What is important is to determine, within the proper analytical framework, the room for manoeuvre —the balance of limitations and opportunities— available to each Latin American country.

1. *External determinants*

As in the past economic history of the region, the leeway enjoyed by the governments as regards policy options will continue to be linked to the type of relations which are established with the great centres. Predicting the future nature of these relations entails, first of all, setting out a hypothesis regarding the behaviour of the world economy and of international financial and trade flows over the medium and long term.

The emergency situations in which we find ourselves as a result of the crisis make such an undertaking no ordinary matter in Latin America. Nevertheless, it is important that it be carried out. Measures for overcoming the crisis may appear to be reasonable if it is assumed that, when it is over, the world and Latin American economies will resume their course of growth within structures similar to those which prevailed during the past three decades, but they do not appear so reasonable if it is supposed that these economies will undergo sweeping changes both at the world and at the Latin American level. Studies concerning the present crisis are not devoting enough attention to the theory of long-term or "secular" recessionary cycles. According to some observers, the world economy may be entering upon another downward phase of the cycles described by Kondratieff in the 1920s, characterized by the emergence of imbalances between the requirements of economic expansion, on the one hand, and the supplies of food, raw materials, inputs and technology available to sustain this process, on the other. It is interesting to note that, if these historical cycles are indeed a fact, then their recessionary phase could not be overcome through a mere projection of past trends, but would call for a creative response. Schumpeter has already posited that the emergence of new combinations of products, technologies and entrepreneurial behaviour is a necessary prerequisite for coming out of a cycle's recessionary phase. The possibility that we are experiencing such a phase is supported by the circumstance that factors related to productivity, investment, technological innovation, human resource training and the emergence of new productive activities as dynamic elements in the development process have come to be of increasing importance in the evolution of the world economy. Since this hypothesis may well be correct, it behoves us to look beyond the adjustment policies in order to prepare ourselves for future conditions, while brighter, or at least more dynamic, prospects are opened up for the developing countries, to the extent that they have the capacity to respond actively to the new situation.

Whatever the likelihood of such an outcome, it would be unduly optimistic to suppose that during the course of the 1980s the region will be able to gain access to a volume of external capital flows similar to that which existed during the past decade. It is more appropriate to think in terms of a much more restrictive external context and of a mood of greater restraint in the design of resource allocation policies. The present decade will clearly be marked by a pronounced selectivity on the part of the resources of international credit, both in terms of the countries involved and the final destination of resources, and this selectivity will surely characterize international economic policies as well.

I have already said that the evolution of international trade will have a decisive influence on the external context. The application of effective and lasting solutions can only come as the result of an increase in the capacity for generating foreign exchange, brought about by an expansion in the volume and an increase in the prices of exports. This is why it is essential to ask ourselves about the behaviour of international markets. Will they tend to become more open or will current protectionist trends become more pronounced? In this regard, the document submitted by ECLAC and SELA at the request of the President of Ecuador states that:

> "Latin American exports of basic commodities and manufactures —the expansion of which is essential for the region's development— face in the markets of the industrialized countries a set of tariff barriers (graded according to the degree of processing of the exports) as well as non-tariff barriers. Both types of protection have a limiting and discriminatory character and are gradually bringing about a situation where the central countries have acquired the capacity to manage as they wish their trade with the developing countries and especially Latin America. This management may take place in a selective and non-continuous manner or, if necessary, may be broader, more intensive and more frequent".[5]

A no more optimistic view holds away in the North. In the opinion of Bressand, "the age of free trade as an organizing principle may well be over". He goes on to say that, in his judgement, "this does not imply... that free trade, from a normative point of view, is not desirable. It is not a matter of prescription, but of diagnosis."[6]

Given this situation, deep concern must be expressed with respect to the possible consequences of an exacerbation of protectionism and of an even greater loss of transparency in international trade, in view of the imperative need for the Latin American countries to increase their exports. All of the above suggests that it would be unwise to predict trade conditions very different from the present ones. On the contrary, just the maintenance of those conditions, without any further deterioration, would seem to be a significant achievement. Against the same backdrop, it even appears inappropriate to anticipate world trade growth rates resembling those of the 1960s and 1970s, when annual rates of 8% were reached. Nonetheless, bearing in mind the dramatic decrease in international trade which took place in the early years of this decade, it seems possible that there might be a modest recovery, which would have favourable effects on the external trade of Latin America and the evolution of the terms of trade.

In referring to external determinants, I began by saying that the first problem which must be cleared up relates to the nature of the cycle being experienced by the world economy and to the possibility that we are witnessing the end of

[5]See, Enrique V. Iglesias and Carlos Alzamora Traverso, "Bases for a Latin American response to the international economic crisis", in CEPAL *Review* No. 20, August 1983, p. 42.

[6]A. Bressand, *op. cit.*

one prolonged cycle and the commencement of another. I also stated that this hypothesis would open up new prospects for Latin America. Hence the importance of reflecting upon the effects that the structural changes now occurring in the production and consumption patterns of the large industrial centres will have on international economic relations, the international division of labour and the structure of comparative advantages on the basis of which the developing countries have operated in recent decades. The pattern of industrial expansion which prevailed in the advanced countries during the postwar period is becoming worn out, as demonstrated by the decrease in the sector's profitability, the decline of the industries which led the process —such as the iron and steel and the metal manufactures industries— and the resulting transformation of production structures. In contrast with the past, when technological innovations were often stimulated by market forces, current transformations appear to be prompted by technological change. The great strides forward in knowledge recently made and the rising educational level of the labour force have combined with the intensification of competition among the great industrial centres, the need to develop technology which is appropriate to the energy shortage and the necessity of maintaining the ecological balance. It should therefore come as no surprise that there is a demonstrable preeminence of "technical progress" and "efficiency" in the political and economic "discourse" at the national and international levels.[7] This preeminence of technical progress causes the leadership of industrial development to be assumed by new sectors such as electronics, biological engineering and computer science, to name only a few. This, in turn, influences social relation in the centres and their linkages with the periphery.

It should be remembered that one of the major causes of the changes being undergone by the centres is the growing competition of manufactures from the developing countries. At the same time, we know very little about the impact which these changes will have on the international insertion of the countries of the region. It could jeopardize their potential advantages in food production or in the provision of inexpensive manpower, but could also broaden their opportunities for gaining access to the latest technology and for participating on a more diversified basis in a new international division of labour. The world is in the midst of a third industrial revolution, which is certain to give rise to new types of relations between the centres and the periphery, and which will surely entail some dangers but also some opportunities; it is important that these should be understood and anticipated so that they may be incorporated into the design of the development strategies of the Latin American countries.

The major trends in the contemporary international system are another factor of external origin that has influenced and will continue to influence the periphery's relations with the centres. The increase in interdependence represented by the many types of links existing among the different groups of countries by virtue of an increasingly broad variety of interests has turned the traditional pattern of centre-periphery relations into something more diversified and more complex, and, although on the one hand it has heightened the external vulnerability of the developing countries, on the other hand it has expanded their range of possibilities. The emergence of global problems such as those related to energy, the environment, arms, etc., has also helped to involve the developing countries to a greater extent in the solution of those problems. The recrudescense of East-West tensions and the attempts to extrapolate them to the various developing regions of the world have also had an influence —generally negative— on North-South relations.

2. *Domestic determinants*

Although the traditional influence of external factors on Latin American development has become more pronounced in recent years, the markedly restrictive trends being projected on to the international scene indicate that the options open to these countries will depend —perhaps to a greater degree than in the past— on a number of domestic determinants. The first such factors relate to the long-standing structural shortcom-

[7] See Fernando Fajnzylber, "La industrialización trunca de América Latina", Mexico City, 1983, p. 271.

ings which are summed up in the region's economic and social underdevelopment. Thus, the still inadequate rates of capital formation, the weakness of the countries' structures of production, unbalanced and incomplete industrial development, the backwardness of agriculture and the limitations of technological development continue to be features of the Latin American economic picture. The trend towards concentration in income distribution also persists, and there are still no solutions to the major problems posed by the inequality among different social groups, the marginality of broad sectors of our societies and the insufficient capacity of the economies to generate employment; what is more, these problems have even tended to become more acute, at least in relative terms. These are the elements included by Raúl Prebisch in his description of the syndrome of peripheral and imitative capitalism which has prevailed in the countries of the region during recent decades.

In addition to these difficulties, the problem of the acceleration of inflation, which has increased notably in recent years, is particularly severe in the majority of the countries, in close connection with the problems described above. These inflationary pressures, which are very difficult to handle even when it is a matter of "old-established inflation", can become much harder to control in countries which have only recently fallen victim to this syndrome with its inevitable social and even political traumas. Recognition of these facts makes it even more essential to have effective international co-operation institutions, which, by eventually attenuating the repercussion of these problems, may provide the countries with greater leeway for reducing whatever depressive effects of anti-inflationary policies are likely to be superimposed on the recessive impacts of adjustment policies.

The restrictions imposed by the latter may, as a result of the need to service the external debt, continue to be one of the most rigid determinants of the options facing the Latin American countries in the longer term. Even if interest rates or the terms of trade improve, the servicing of the debt will continue to be very burdensome and to absorb a substantial share of whatever resources the region may generate. It must be borne in mind that, as things now stand, the majority of the debtor countries must allocate some 30% of their export earnings to interest payments, an obligation which certainly constitutes a tremendous curtailment of their investment capacity and a kind of mortgage limiting their future development.

However, the presence of these problems, both old and new, should not lead us to overlook the notable development experienced by Latin America over the past three decades and its significance from the point of view of the region's capacity to respond to the crisis and tackle new options. In the statements I made in Guatemala City, La Paz and Montevideo, I analysed the growth and change experienced by the Latin American economies during that period and pointed out how they helped to explain what on other occasions I described as the region's increased capacity to defend itself against the contingencies of the external cycle. I believe the violent impact of the crisis on the region in the past two years due to the external and internal factors to which I have already referred has not cancelled out the advances made in the past thirty years, nor has it vitiated that increased defensive capacity I mentioned, so that my earlier analyses are still valid. At the Montevideo meeting in 1981, I said:

> "To judge the magnitude and unity of this growth and transformation process it is enough to repeat that in the course of the past three decades the total product of Latin America increased five-fold in real terms while that of manufacturing rose more than six-fold. At the same time —and in particular during the previous decade— agriculture advanced considerably and showed substantial diversification, financial activities were expanded and modernized, and the investment coefficient rose gradually but persistently. Of even greater importance, however, is that over those thirty years —and again with greater force in recent years— both the education level and the skills structure of the labour force improved markedly in virtually all the countries of the region. As a result of these advances and changes, Latin America now has a broader, more highly diversified

and flexible production base than in the past".[8]

I do not think it necessary here to analyse this process in greater depth, since I have referred to it more extensively in statements made in the past. I should, however, like to note that the growth and transformation of the Latin American economies and societies represents, together with the negative factors I have already mentioned, one of the basic issues which the new development strategies of the Latin American countries should take as their starting-point.

V

Development policies: Some options

It would be pretentious to present a new economic paradigm for Latin America at this time. I have already stated my grounds for believing this cannot be done. There are many compelling reasons for being modest and prudent in these circumstances. The most important, of course, is the well-known diversity of situations in the different countries of the region; the difference which exists between countries as big as continents (such as Brazil) and the micro-States of the Caribbean is enough to discourage any generalized scheme. In addition to this reason there is the no less convincing one of the unknown quantities represented by the process of change and the economic policies of the big industrial centres, and hence of the shape which relations between them and the Latin American countries might assume in the future. Recognition of these limitations does not detract, however, from the importance of the task of using alternative medium and long-term working hypotheses and scenarios and moving forward on the basis of a set of non-controversial points around which a future development pattern might emerge. These points are related both to the major development objectives and to the overhauling of the instruments of economic policy. Without attempting to deal with them exhaustively, I should like to refer to certain aspects which appear most relevant.

1. *Concerning the objectives of a development policy*

It seems important to draw attention to three objectives which development policies should seek in the future: greater efficiency of the economy, accompanied by a considerable increase in the rate of development; greater equity in the distribution of the fruits of growth; and greater autonomy of the development process.

These three objectives are of course very closely related, but are not always easily brought into harmony with one another, as the evidence of history shows. It is therefore worth reflecting on the experience of the Latin American countries with regard to these options. Those which tended to favour economic efficiency at any cost sacrificed social progress, giving rise to an accumulation of problems which finally jeopardized the initial progress made and created explosive situations from the political point of view. In other cases, where the development strategy concentrated solely on social objectives, it resulted in uncontrollable forms of economic populism which shortly fell victim to the general inefficiency of the production system. Thus, experience shows that the most feasible options are those which, instead of giving unilateral priority to some of these objectives over the others, seek to reach all the goals harmoniously, taking a global view which can be achieved only within the framework of an integral economic and social development project in which the thrust is balanced, serene and realistic.

[8]See Enrique V. Iglesias, "Development and equity. The challenge of the 1980s", in CEPAL *Review* No. 15, December 1981, p. 15.

a) *Growth*

As regards the growth objective, it is worth mentioning some ECLAC publications in which possible scenarios for the longer term are proposed. One of these analyses the impact that would be produced on the region by a growth rate of the product of the order of 3.5% in the OECD countries up to the end of this decade, with annual growth of the region's exports by about 3% and a real interest rate of close to 6%. On this hypothesis (which assumes more favourable conditions than those prevailing at present), the region could achieve average growth of approximately 4% a year during the rest of the 1980s. With that growth rate, Latin America would not return to its 1980 levels of per capita income until 1990, so that it would have lost a whole decade from the point of view of its economic and social progress, with the consequent worsening of the living conditions of the population. These considerations warn of the ineluctable need to embark upon policies and programmes qualitatively and quantitatively different from those which are nurturing this tendency, so that the problems created by extreme poverty, failure to meet basic needs, and unemployment can be dealt with more effectively.

It is important to stress, as I already noted, that on any medium-term hypothesis, external opportunities will be much more restricted than in the past. This means that the development of the countries of the region should be based to a greater extent on a process of internal accumulation, the mobilization of their own resources and the use of their own markets, instead of relying basically on the inflow of foreign capital and on external markets. In other words, as noted in the documents prepared by the Secretariat of the Commission, the region will have to learn to "do more with less".[9] This calls, on the one hand, for a substantial increase in domestic savings and, on the other, for greater efficiency in the use of available resources, especially labour and installed production capacity.

[9]See ECLAC, *The international economic crisis and Latin America's capacity to respond to it* (E/CEPAL/G.1249), presented at the Meeting of Latin American Personalities on the world crisis and Latin America (Bogotá, Colombia, May 1983), Santiago, Chile (March 1984), p. 60.

The concept of efficiency has had various connotations in economic literature and in the attempts made to incorporate it into economic policies. In recent years this efficiency was sought basically through the market forces and external openness. While it is true that some of those attempts have been successful in terms of the achievement of greater competitiveness of activities exposed to competition from the external market, it is also clear that, when applied unilaterally and in circumstances such as those which now prevail in the international economy, this policy may produce the opposite results to those expected. Thus, if not accompanied by coherent domestic policies and support systems appropriate for the stage of development which each country has reached, it could lead to a severe weakening of their production capacity.

In mixed economies like those of the majority of the Latin American countries, it is necessary to bring the quest for efficiency through the use of market forces into harmony with the presence of the State, which will act on the basis of global policies supporting the systems of production and very consistent in the handling of the main macroeconomic variables.

b) *Equity*

In the development of Latin America, the tendency towards inequality in the distribution of income is a chronic problem. Suffice it to recall, in this regard, the enormous size of the social sectors suffering from critical poverty, unemployment, or underemployment. These and other difficulties have been aggravated as a result of the recession of the 1980s. One of the imperatives of development strategies, therefore, both immediately and in the long term, is to give more importance to objectives linked to equity of growth —which, moreover, it is essential to pursue if the necessary expansion of domestic markets is to be achieved.

As regards immediate goals, decisive importance is attached to the design of programmes for supplying the most urgent deficiencies, such as the lack of employment or of goods to satisfy basic needs, by ensuring that available human resources are mobilized more effectively and that better use is made of idle production capacity. In the medium and long term, it is essential to seek to enhance the quality of investment so that, in addition to making economic growth more dynamic, it will also help to make good the big social shortcomings which now mar development. In all these areas, the region has already outgrown the simplistic approaches which relied merely on the nominal redistribution of income. In recent years, the Latin American countries have carried out a number of experiments which show that there are specific mechanisms differentiated, according to the particular cases, for pragmatically reconciling equity with efficiency.[10]

c) *Autonomy*

In addition to the objectives related to dynamic and equitable growth, there is the need to seek a reasonable margin of autonomy in the development process, without which the countries are at the mercy of external forces and do not manage to acquire the necessary ability to take advantage of the potential benefits of their international economic relations. If the countries of the region are to be able to develop ways of fitting more actively and independently into the external economy, that economy must begin to show signs of becoming less restrictive than in recent years, by for example, putting into practice some of the structural reforms which the developing countries have long been proposing. However, there is also a need for a more dynamic, pragmatic and selective development strategy on the part of the latter countries. In addition to the increase in the importance of external factors and the consequently greater international vulnerability of our economies, note should be taken of numerous successful examples of the management of our external economic relations in certain specific sectors.[11]

The autonomy of the Latin American countries' development would also be considerably strengthened if the processes of integration and regional co-operation were made more dynamic, since they are called upon to play a role of renewed importance in the development strategies which the countries formulate to confront an international scenario that is restrictive and uncertain. Similar factors should be taken into account in redoubling efforts to increase Latin America's participation in the process of South-South co-operation.

2. *Regarding some key instruments*

Along with the reformulation of the objectives of development policies, some of their key instruments will also have to be reviewed. At this time, I will confine myself to a few comments about some of them which seem to be the most important for confronting the challenges posed by a new type of economic and social development and which are related to the driving forces behind economic growth, to the role of the State and of planning in the process, and to external economic relations.

a) *The driving forces of growth*

What should be the driving forces behind economic growth in this new stage of regional development? When this topic is considered, the discussion tends to become divided into two usually opposing sides in the intellectual and political debate: that which stresses policies based on the domestic market, and that which opts for the opening up of the economies and the expansion of exports. The first position reflects to some extent Latin America's diverse experiences with

[10]On the subject of the most effective policies for eradicating extreme poverty, see ECLA/UNDP *¿Se puede superar la pobreza? Realidad y perspectiva en América Latina*, Santiago, Chile, 1980, and ECLA/UNICEF, *Pobreza crítica en la niñez: América Latina y el Caribe*, Santiago, Chile, 1981.

[11]See, in this respect, the studies published by the ECLA/UNDP Capital Goods Project, such as *La situación y las perspectivas de la producción y el abastecimiento de bienes de capital en América Latina* (E/CEPAL/R.343), Santiago, September 1983; the publications of the ECLA Export Promotion and Development Project, particularly the final report of the round table meeting on the financing of exports of manufactures in Latin America (E/CEPAL/R.282, in Spanish only), Santiago, Chile, 1981; the final report of the Latin American meeting of export credit guarantee agencies, Santiago, Chile, 1983, and *El financiamiento de las exportaciones en América Latina*, Estudios e Informes de la CEPAL, 18 (E/CEPAL/G.1236), Santiago, 1983 and *América Latina y el Nuevo Orden Económico Internacional*, Buenos Aires, Belgrano Press, 1982 (outcome of another joint UNDP/ECLA project, the Programme of Joint Studies on the International Relations of Latin America (RIAL)).

development during the period since the war. The advocates of the second viewpoint, whose popularity has been more recent, commonly point to conspicuous examples of successes, such as those achieved by the countries of Southeast Asia, without duly explaining all the central elements that have played a role in the development policy of those countries and which accompanied the birth and consolidation of its export-based growth model. They generally omit all those elements relating to government support policies for the systems of production, the selective protection applied in respect of the domestic market, the income redistribution and land ownership policies, and the specific geographical and political features of their economies. In the case of Latin America, when discussing these options, another gap in the debate usually occurs, in that insufficient consideration is given to the substantial differences existing among the countries of the region with respect to the size of their economies, their resource endowment, their level of development and their forms of international linkage —all of which are essential elements in defining the context for the discussion of these policies.

Over time, Latin America has adopted diverse options in connection with its development process, and these have taken on inidivual features according to the countries and the different historical stages in which they have been chosen. Thus in the 1950s, faced with strong population pressures and growing urbanization, moved by the desire to incorporate technical progress into their production processes, and confronted with some international markets which were either closed or lacking in transparency, most of the countries in the region opted for industrialization based on the utilization of domestic markets as the basic driving force for growth. This option had to face severe constraints after a time, due to the predominance of limited and disconnected markets. At that point, ECLAC drew attention to the dangers of these constraints and, as early as the mid-1950s, proposed the first experiments in expanding these markets by means of the establishment of regional or subregional integration schemes. Later on Raúl Prebisch, who played a leading role in the formulation of these proposals, advocated from his position as Secretary-General of UNCTAD the opening-up of world markets to exports of manufactures from the peripheral countries. In this way, originally as the result of contingent past experiences, the first stages of Latin American industrialization took place. Any description of this phase must not, of course, overlook the excessive protectionism indulged in by some countries and the anti-export and anti-agricultural bias which was present in some of these policies.

In more recent periods. with a more dynamic and open international market, the countries of the region were able to apply systematic and consistent policies which led them to expand their exports actively, largely as a consequence of their prior stages of industrialization, which gave rise to a significant body of experience on the part of the public authorities and greater entrepreneurial capacity in this field. This provided momentum, with considerable success in some cases, for the expansion and diversification of exports of manufactures, so that the international markets came to play an even more important role among the factors which stimulated demand and promoted development. Just as the industrialization policies based on import substitution encountered certain constraints and ultimately shut themselves up within highly protectionist frameworks, however, these policies of opening-up to the exterior also erred in some cases by committing definite excesses as regards the elimination of protectionism and the reduction of the State's promotional role. As Streeten noted very perceptively some time ago, the inefficient use of resources may be due to causes which have no direct or even indirect connection with industrialization based on a high degree of protectionism. It is just as possible to have inefficient export expansion policies as it is to have inefficient import substitution policies.[12]

When one analyses the slump and the setback in the evolution of the Latin American economies in recent years, with their aftermath of social and economic effects, as well as the extremely serious problems created by foreign indebtedness and the currently existing international uncertainty, it must be concluded that se-

[12]See Paul Streeten, "Outward-looking industrialization and trade strategies", North-South Round Table, 1982.

rious mistakes were frequently committed in leaving the dynamics of growth entirely up to external stimuli. Under such circumstances, and always allowing for the major differences existing among the various countries, priorities should be given among the generators of growth, in the future, to those connected with the enlargement of the domestic market on all fronts. This attitude should not fail to take account, however, of the positive experiences of the immediate past, nor should it accept a repetition of already known sources of inefficiency that would end up by eroding this process. For that reason it is important to recognize that better utilization of the domestic potential of our economies must necessarily be linked to a growing degree of external openness, albeit of a more dynamic and selective type than in the past. The latter involves the intelligent use of government action, the employment of the countries' import capacity, and, at the same time, a vigorous effort on behalf of the expansion and diversification of exports of both traditional and manufactured goods. With the two objectives —better utilization of domestic markets and selective opening-up to the exterior— thus conceived, an endeavour must be made to find ways in which the two may be combined in accordance with the individual situations of the different countries, so that they become complementary, rather than antagonistic, sources of growth.

The strengthening of the domestic markets also involves giving an impetus to the region's agricultural development, which is far from having reached its physical and technological bounds, and which could give Latin America a privileged position within the Third World in this area. It also involves, of course, an exploration of the new possibilities for industrial development, both in the production of consumer goods to meet the people's basic needs and in the development of more complex activities in which the region is lagging behind —such as the production of capital goods— or which would afford a possibility of more rapid access to the new technologies. Economic complementarity among the countries of the region should constitute a basic element of this policy, especially as regards these more complex sectors. In reconciling the aims of strengthening domestic markets and achieving a selective opening-up of the economies, a determining factor will be the development of appropriate, more dynamic technological policies that are accorded more priority than in the past.

Viewed in a historical perspective, the debate regarding the different options that should be favoured as the generator of growth appears to be too simplistic and removed from the historical situations experienced by those countries which are today put forward as examples of alternative options. Nor must it be forgotten that each country's take-off point strongly affects the changes which it is capable of making in its development strategies, not only on the economic but also on the political and social level. Some projects aimed at bringing about deep-rooted structural changes based on the domestic market, for the benefit of the majority of the population, ended up by jeopardizing the efficiency of the production system, creating strong inflationary pressures and generating serious external bottlenecks.

One of the major tasks facing the region is to seek, within each country, a dynamic balance between the strengthening of the domestic market and an external openness capable of generating increasing amounts of foreign exchange earnings. This balance calls for the execution of structural changes in the orientation of investment and in macroeconomic policies. Under these circumstances it is more necessary than ever to have international mechanisms for co-operation capable of giving substantial and imaginative support to the efforts of the region's countries in the difficult task of reallocating resources, strengthening their capacity of accumulation and imbuing their production systems with a greater measure of flexibility in order to enable them to face up to the changing conditions of the external cycle.

b) *Modernization of the State*

A basic element in the new development policies of our countries will necessarily be the modernization of the State. In the future, the latter should more deliberately support the central objectives of development policies, control to a greater extent the process of external opening up, and mediate among the complex and conflicting demands of the different social groups. At the same time, it should intensify the efficiency and selectivity of its activities.

The topic of the State is not new in intellectual and political discussion, either at the world or at the Latin American level. In recent years the need to modernize the State has become one of the major challenges both to capitalist economies and to countries with centrally planned economies. In one case, it was a matter of the crisis of the "Welfare State", while in the other, it was a question of the crisis of the bureaucratic State. The analysis of the Latin American situation could be enriched by those experiences, although they contain some elements which are peculiar to the countries in question. In this part of the world the State was not the result of a national project, but of the superimposition of several subprojects which were designed to respond pragmatically to the circumstances of the moment; they did so by accumulating in the State a growing number of heterogeneous functions without any overall view of the essential objectives of its action or the most efficient way of achieving them. In this way there was a gradual enlargement of the functions traditionally exercised by the liberal State, and its action began to extend to the vast and complex field of macroeconomic policies and the management of a significant portion of the country's resources and its production activities. The results, in many cases, were inefficiency and incoherence. At the same time, and as a natural outcome of the region's process of development over the past 30 years, civil society enlarged and became quite diversified in those countries, acquiring a growing capacity for handling an increasingly broad range of interests and competing with the State for their management.

The growing participation which the State necessarily assumed in the distribution struggle among the various social groups frequently had a great deal to do with its expansion and crisis. As I stated a moment ago, the limitations on the State's action in Latin America today are not quite the same as those which shaped the crisis of the "Welfare State" in the industrialized countries. In the latter case, the crisis of the State was due mainly to excessive social expenditure, after this had played a significant role in invigorating the economic development of those countries during the post-war period. In the case of Latin America, the social policies of the State were aimed at meeting the demands of different social groups, but in the long run this tended to go beyond its capacity for action, because a multiplicity of particularistic policies intended to channel resources toward given groups were accumulated and superimposed on one another. Hence the reform of the State in Latin America, as regards its social function, constitutes another of the requisites for attaining a more egalitarian growth with full participation by all.

The criticisms expressed in connection with the State, from the ideological standpoint, tend either to consider that everything the State does is bad by definition or to demand that it should assume the majority of the functions necessary for furthering economic and social development. In the former case it is held that the State should be relieved of all those functions (save for the traditional ones), and that they should be left to the automatic operation of the market. In the latter, the State would once again be strongly present in each of the sectors involved in the development process, in a way not significantly different from that followed in its early stages. The experience of recent years, however, clearly shows that neither everything the State does is bad, nor should it carry out all development projects. At the same time, it has also become clear that market forces, while capable of introducing a greater degree of efficiency into the economic system, cannot of themselves provide answers to the complex problems of modern society —especially in the area of social needs—, nor can they foresee or anticipate the course of events; as a result, they lack the "social horizon" and "time horizon" which are essential for directing the process of development in the medium and long run.

Under the existing critical conditions, in which a high degree of efficiency is required from the entire economic system in order to make a new development project feasible, a thorough revision must be undertaken of both the objectives and the instruments on which the State's action is based. This revision should extend both to the formulation of macroeconomic policies and to the management of the resources and production activities entrusted to it. The management of any mixed economy must necessarily rest on the full and active utilization of all the instruments of macroeconomic policy available to governments, with the greatest degree of coherency possible. At the same time, no development project will be feasible unless it is inscribed within an overall view of the national economy and its external context, and within certain medium and long-term forecasts on which a modern system of national planning can be based.

With the same criterion, an effort should be made to ensure that the management of State enterprises, which with the passing of the years have become one of the main sources of the fiscal instability of the region's governments, attains a maximum degree of efficiency. Inasmuch as in many cases these enterprises account for a considerable proportion of the country's productive capital, it would not be possible to enhance the efficiency of the economic system in general without first achieving a growing degree of efficiency in that part of the system.

The modernization of the Latin American State is certainly not an easy matter, and involves decisions of a political nature which are bound to come into frequent conflict with vested interests, with the views of certain leaders, or with the expectations of particular social groups. The need to overcome the temptations to move towards either a populist State or a *laissez-faire* State and to progress instead towards a State vigorously committed to economic and social objectives without any decline in its efficiency and contribution to the general vitality of the system, is seen at present to be one of the major political tasks of Latin America. This new State will be better equipped to reconcile economic efficiency with social equity in its policies, while at the same time creating a system of incentives and disincentives which persuades the other major agent of the development process —the private sector— to modernize itself and contribute to economic growth within the objectives of general interest.

c) *External economic relations*

In the foregoing considerations the crucial importance of the external sector in the coming stages of the region's development has been clearly brought out. Certainly it is nothing new to underscore the significance of the relationship between internal development and the external sector. In the first place, it is obvious that the surmounting of the existing payment problems will depend in the final instance on an increase in the capacity for generating foreign exchange earnings by means of trade. Secondly, in earlier paragraphs it was maintained that the very enlargement of the domestic markets will depend on the capacity to generate foreign exchange at the rate required for the efficient progress of that enlargement.

This makes it essential to act on three simultaneous and complementary fronts: that of the efficacy of export promotion policies; that of the strengthening of the regional market; and that of full exploitation of the international markets.

The events of recent years made it possible to advance and acquire experience in the coherent management of export promotion policies; they also made it possible to appreciate the dependence of the latter on clear and sustained stimuli deriving from adequate price systems and support for both internal promotion and penetration of the international markets. The results of experience with exports in the 1970s, which are certainly instructive despite the costs of the overpromotion observed in some cases, leave no doubt as to the existence of a considerable potential and, in some cases, an idle capacity that should be mobilized.

A clear definition of the role of the regional market is undoubtedly necessary, for in the present circumstances regional co-operation is especially important. It would be utopian to expect it to furnish a solution to all our problems, but it would likewise be futile to join with negative and simplistic currents of opinion that keep on repeating, without many grounds for doing so, that no progress has been made in this area. On the contrary, it would appear appropriate to recognize the projects and experience built up, while not forgetting the great potential for regional co-operation that is as yet unexplored.

In the first place, it is necessary to appraise this potential for co-operation, as well as the diversion of trade from outside the region to within it, since this would contribute to a more adequate use of production capacity. But it is also necessary to augment the trade flows on the basis of pragmatic proposals and instruments for regional co-operation and linkage in keeping with the present conditions and circumstances. In many cases, the mistakes made may be attributed to the setting of over-ambitious targets whose cost was difficult for the economic and political authorities to evaluate, so that this often hindered their fulfilment and led, sooner or later, to inevitable frustration. Considerable progress has now been made in this terrain, however, and the reforms and attitudes adopted recently by the integration schemes themselves, as well as bilateral policies, recognize the need to proceed with a great deal of pragmatism. It therefore seems necessary to insist on these pragmatic approaches in all possible ways, both bilateral and multilateral, public as well as private. This obviously calls for political definitions and a clear preferential attitude on the part of the governments in order to give the necessary political impetus to the possible modes of regional co-operation and complementarity.

It is likewise essential to continue penetrating the international markets where the appearance of important new competitors and the growing protectionism of the centres render indispensable the forging of a clear alliance between the private sector and the State in our countries. It will be difficult to tackle the thorny stages of the future unless interests are clearly harmonized and complemented, as, moreover, is done in all the countries of the world. The opening of markets necessarily involves a growing diversification of customers. And in this connection, without losing sight of the fact that our traditional markets will continue to hold the greatest potential, a realistic but persistent aim should be to give support to co-operation with developing countries and regions. This is a difficult task, as it is extremely hard to enter the North-South channels which today predominate in the trade and co-operation relations of the developing world; nevertheless, these aims must be incorporated in the foreign policies of our countries as both a political and an economic option.

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It goes without saying that no claim has been made in the foregoing reflections to propose or build a new model for the region, and even less to exhaust the many targets and instruments of the new stages of its economic development. All that is sought is to call attention to several aspects that will require important definitions and to which consideration must be given in the devising of the new development policies.

There is a key factor, that has necessarily had to be kept out of the appraisal, but which it would be naive to overlook, namely the political element. There can be no doubt that the mobilization of social efforts to construct the new stages of the economic development process must be framed within explicit political projects. The permanent and irrevocable ethical aim of building open, pluralistic societies with full participation assumes fundamental importance under the present circumstances. Indeed, it seems inconceivable to try to harmonize the many social demands that have been shelved, nor those that will necessarily arise, without democratic and participative processes making it possible to arrive at the new social compacts that will permit the attainment of major goals. This awareness appears to be spreading throughout the region. It will be the responsibility of the political leaders and of their parties to make the essential contribution to the creation of a society which, in governing its own destiny, will arrive at great consensuses that will permit, if not the elimination of conflicts, at least the reduction of the social, economic and political costs they involve.

CEPAL REVIEW No. 23

Institutional elements of a new diplomacy for development

(Notes for a book of memoirs)

*Diego Cordovez**

The North-South dialogue is currently passing through a prolonged period of stagnation which has given rise to some pessimism regarding the possibility of securing a change in international economic relations through dialogue and mutual understanding between the parties involved.

While not failing to acknowledge the obstacles standing in the way of any action designed to break the prevailing deadlock, the author stresses the positive effects of this dialogue —both those already achieved and those still perhaps to be obtained— and suggests the measures that should be taken to get the dialogue moving again.

To begin with, he analyses the main features of the new diplomacy for development begun with the first UNCTAD session in 1964 and the way in which it has evolved —sometimes with frustrations, sometimes with achievements— up to the present deadlock situation. This situation derives from the existence of a sharp conflict of interests, either real or perceived, between the developed and developing countries, but it has also been aggravated by a number of institutional problems. Outstanding among these are the proliferation of organs and forums which are often in conflict with each other; the negative effects of the efforts to maintain the unity of the two major blocs; the large number of participants in the negotiations, and finally a certain degree of incoherence in the positions of individual governments in different forums.

In conclusion, the author stresses the need to break the current deadlock in the North-South dialogue and suggests some measures to that end.

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I
Introduction

The establishment of the United Nations Conference on Trade and Development (UNCTAD) in 1964 constituted a watershed in the evolution of the United Nations system. It marked the beginnings of a new diplomacy in the conduct of negotiations on matters concerning development. The style and substance of this diplomacy have inevitably undergone many changes in the intervening years; it is still in the formative stage, and suffers from many defects and difficulties. And yet, international economic relations and multilateral diplomacy itself cannot revert to the methods which characterized the pre-UNCTAD era.

What is the nature of the new diplomacy for development?

The new diplomacy is decidedly different from traditional bilateral diplomacy, not only in that it is principally multilateral in character, but also in the sense that the objectives of the various actors are ultimately congruent, whether recognized as such or not. It involves, in essence, the negotiation by developed and developing countries, normally under the auspices of an international body, of what may be termed convergent measures, the underlying premise being that the developing countries themselves are primarily responsible for their own development and that, guided by considerations of enlightened self-interest, the developed countries adopt in that context policy measures designed to achieve specific goals. There are widely different perceptions of the nature of the measures required, of the urgency of the convergence, and of the short and long-term aims to be achieved. It is the function of the new diplomacy to reconcile these differences.

For the purposes of negotiating, the parties must first define their objectives and then formulate specific measures for achieving those objectives. The speed and flexibility with which the several actors are able to move toward accommodation depend upon the reactions they have to expect in their respective constituencies, in the national legislatures, in public opinion, the press, producers' associations and business interests. One striking phenomenon that has been observed on more than one occasion is that a government which wishes to mobilize domestic support for a particular international measure deploys *vis-à-vis* its own constituencies the arguments advanced in support of the same measures by "opponent" governments at the negotiating table.

This new diplomacy has been, from the time of the 1964 Conference, confrontational. In fact, the first UNCTAD witnessed what was perhaps the sharpest confrontation between developed and developing countries within the United Nations system up to that time. It should be noted, however, that what happened at UNCTAD I was more than a clash over agenda and tactics. The atmosphere may have been tense, but underneath it all there was a general recognition of the need for a fresh approach to international trade and development issues. Although the States of the Third World were vocal and insistent in stating their grievances and making their claims, the industrial States of the West became increasingly sensitive to the fact that the gap in living standards between rich and poor nations was widening to undesirable and indeed intolerable dimensions.

It could be said, therefore, that the confrontational spirit was on the whole salubrious and constructive. There was, after all, even on the part of the most reluctant participants, the desire to create at least institutional forms of co-operation. Since then, the pendulum has been swinging, albeit slowly, from confrontation to accommodation. What is undeniable, however, is that the determination of the developing countries to assert themselves has imparted a new dimension to multilateral diplomacy for development. Even the most acid critics of North-South negotiations cannot deny that the experience of the inter-war period, during which international economic relations suffered a traumatic upheaval, has been avoided.

A second element in the new diplomacy is that the developing countries display a degree of unity without precedent in world affairs. The Group of 77 was born during UNCTAD I and it bolstered the demands of the developing countries with a coherence and solidarity that took the industrialized States by surprise. The "group system" of negotiation became one of the outstanding characteristcs of UNCTAD at an early date, and has since spread, with variations, to many other multilateral institutions. The group system has the obvious advantage of enabling a large number of delegations to speak with one voice, thereby bringing order to complex deliberation and negotiations. Nevertheless, as was demonstrated in UNCTAD's formative period, it can lead to the adoption of positions which represent either the hardest and most intransigent line or the lowest common denominator of each group —positions which are not always conducive to effective multilateral negotiations.

A corollary of the group system, and an important third element of the new diplomacy, is the "contact group", the quintessence of UNCTAD institutions and now a widely emulated mechanism. Composed of a small number of key delegations which are, as far as possible, representative of the larger membership, the contact group enables the participants to carry on their business with the utmost flexibility in an environment unhampered by procedural rules, publicity and, in practice, deadlines. It enables all sides to attempt, with the greatest degree of give-and-take, to achieve a substantive accommodation of policy positions. It improves the chances of conciliation, compromise and consensus. Wherever successful, its "open-ended" character —that is, the fact that any member of the parent body which has set it up can participate in its deliberations— ensures that the conclusions reached are not going to be modified, even if the conclusions were reached by a process of reasoning that is not fully understood by those who had chosen not to participate. This device enabled UNCTAD and other United Nations bodies to make progress beyond confrontation and, if further improved and refined, it can become an even more valuable instrument in future negotiations.

The spread of the new diplomacy coincided with the evolution of the United Nations into a sprawling network of organizations and programmes. The establishment of UNCTAD and the installation of an activist secretariat at its Geneva headquarters can be attributed to the continuing refusal of Western and Socialist countries alike to countenance either the enlargement of the Economic and Social Council (ECOSOC) or its transformation into an agency of international economic reform and adaptation.

UNCTAD was, however, only the first of many relatively new United Nations institutions; the continuing quest for new and more effective forums has greatly added to the difficulties of co-ordinating the activities of the different constituents of the United Nations system and has manifestly complicated the conduct of the new diplomacy. For, inevitably, it was not long before the various individual institutions began to disagree as to what their several functions should be, and this disagreement led to rivalry and competition. UNCTAD, and in many ways the system as a whole, suffered from these jurisdictional disputes. The developed countries tended to regard UNCTAD and the United Nations General Assembly as forums in which developing countries could air their grievances and make their demands; there might be an exchange of views as to the scope and implications of these demands, but the developed countries were not prepared to tolerate more than that —neither the United Nations nor UNCTAD was to be a forum for deciding on action.

The developing countries disagreed. In their view, the United Nations should be more than a debating society; they wanted its institutions to be instruments for serious negotiation and for determining action. Essentially, this conflict still persists. ECOSOC, for example, is virtually paralysed. The conflict has spread and today tends to characterize the sharp split in the attitudes of developed and developing countries towards the uses of the United Nations in the management of international economic relations.

II

The evolution of the new diplomacy: 1964 to 1973

The period from the establishment of UNCTAD in 1964 until the early 1970s was essentially one in which the elements of the new diplomacy were refined and extended. However, the events of this period also illustrate the difficulties inherent in adapting the new diplomacy to the conditions prevailing in the international system, and in using it to achieve new objectives of international economic co-operation. There was little negotiation of specific issues. The principal product of these years was a large body of hortatory legislation, of "negotiated demands", of what later became, in effect, the programme of the New International Economic Order (NIEO).

One of the positive accomplishments of this period is what might be termed the "education" of all the actors about the nature and characteristics of underdevelopment. At the time of UNCTAD I, policy makers had only superficial and quite elementary notions of the etiology of the economic backwardness of certain countries or of possible cures. Some few individuals, outstanding among whom was UNCTAD's first Secretary-General, Raúl Prebisch, had the breadth of vision and the depth of knowledge to realize what could and should be done to promote more rapid and sustained development, but in general those demanding change were quite vague about both the causes of the situation and possible remedies. In the industrialized countries there were some old-fashioned notions of economic and social co-operation based essentially on the traditional relationship of donor and recipient of aid.

The new diplomacy has been a historic learning experience, and the United Nations has influenced it decisively. Through its efforts, the developing countries learned much about their own ills and about remedial measures. Indeed, all States have benefited from the United Nations' research and dialogue. The Organization's research budget has been restructured to the point where it gives pride of place to studies of the needs of the developing countries. Moreover, some of the structures which have evolved within the United Nations system clearly had an educational purpose.

As the developing countries came to understand their own needs more fully and to articulate their demands more clearly, the developed countries were obliged to respond in a more concrete fashion. By a process which entailed both confrontation and accommodation, the demands of the Group of 77 were gradually transformed into negotiated objectives. In other words, the agenda of the Group of 77 became, in effect, the agenda of international co-operation for development, even if the industrialized countries were unenthusiastic about some elements of that agenda and had reservations about much of it. The need to reach *some* agreement —to avoid coming away empty-handed from ever more frequent meetings— led to increasingly higher levels of tentative acceptance of a common set of agreed aims, even if there was not much discussion of practical measures to attain them.

During those early years, the Group of 77 grew into a moderately effective institution with conspicuous limitations. The Group's solidarity became increasingly firm on matters of principle and on many enconomic issues, provided they were broadly defined. Solidarity proved harder to achieve on many of the specific issues of trade and development. Although the fundamentally different interests of the diverse States which make up the 77 might reduce the scope for common positions on many specific issues, solidarity nonetheless remained a dominant preoccupation as well as an unquestionable achievement of the Group.

Several institutions were created during this period. Among these was the United Nations Industrial Development Organization (UNIDO). Its establishment in 1966 had particular significance because it provided further evidence of the determination by developing countries to establish congenial institutions as well as an acknowledgement of the need to give industrialization a prominent place on their agenda. UNIDO's creation is also significant because it reflected a shift of some importance in the position of the United States, always a pivotal actor in multilateral diplomacy for development. Previously, the United States had held to the traditional view of a rough division of labour in the world economy, with the South producing raw materials and the North turning them into industrial products. UNIDO did not represent a complete reversal of American policy, as reaction to the Lima Declaration a decade later was to demonstrate, but the United States decision to support the creation of UNIDO, urged upon President Lyndon Johnson by his Ambassador to the United Nations, Arthur Goldberg, a lawyer with considerable experience in industrial matters, may be seen as one of the early results of the new diplomacy.

Unfortunately, the creation of new institutions has also had negative effects, the more so when those institutions are located in different places. It is arguable, for example, that to set up UNCTAD in Geneva, with its own technical, diplomatic and political constituency, was an historic mistake. Conflict and competition developed between the New York and Geneva economic arms of the United Nations, and the difficulties encountered by governments in their efforts to co-ordinate their policies within these multilateral institutions reduced the effectiveness of the United Nations.

Nor is it only in the relationship between New York and Geneva that the several spokesmen for each government have failed to consult and co-ordinate policy; the picture is further clouded by the presence of bodies of the United Nations system with related tasks in other international centres, notably Vienna and Rome. Each of these institutions has its own secretariat, its own diplomatic corps, dominated by their own influential personalities. Each of these United Nations communities has its own ethos, and develops its own distinctive approach to what are frequently parallel or even identical issues. Levels and sources of representation also differ. In the final analysis, the resulting confusion, duplication, and seeming diversity can be traced to failures of policy co-ordination within national capitals.

III

Crisis and dialogue in the 1970s

Pressure for accommodating the demands of the developing countries began to intensify as from 1973. The new diplomacy, for development, by now more refined and well-practiced, was in full swing. The recently established United Nations institutions had acquired both experience and confidence as forums for the conduct of the new diplomacy and as the catalysts for moving hortatory legislation closer to the stage of implementation. The oil and food crises which broke brusquely on the world in 1973 sharpened to a remarkable degree the minds of those engaged in discussions on development issues. Confronted by the challenge of the Organization of Petroleum Exporting Countries (OPEC), the developed countries were compelled to view their relations with the South in a new and different light. Suddenly interdependence acquired a new meaning. The new diplomacy had at last brought the entire international community to an understanding of the complexity and seriousness of development issues —and their integration in world affairs.

Owing to political discord and to differing economic interest, a genuine dialogue and negotiations on specific issues were bound to be exceedingly difficult, as witness the sixth special session of the United Nations General Assembly held in 1974. By the end of the seventh special session, held a year later, however, the earlier despondency had yielded to a new optimism. The confrontation of the sixth special session had given way to co-operation at the seventh, and to a set of negotiated objectives involving a larger degree of agreement than that achieved in the first decade after the establishment of UNCTAD. In the intervening year between the two special sessions some far-reaching attitudinal changes had taken place. The developed countries had come to the conclusion that the demands for a new international economic order should not be dismissed out of hand, that an accommodation of policies could carry with it important benefits for the industrialized world. The developing countries had agreed that confrontation had its limitations; that results could only be achieved on the basis of more moderate —some would say more realistic— proposals. The seventh special session had been carefully prepared, the parties having recognized that its deliberations should concentrate on well-defined priority topics. A broad consensus was reached at the seventh special session. The issue, when the session closed, was no longer so much *what* was to be done, as *how* it was to be done.

After the seventh special session, and at the invitation of Valéry Giscard d'Estaing, then President of the French Republic, diplomacy regarding a new order shifted to Paris and to the Conference on International Economic Co-operation (CIEC). Originally conceived as an energy conference where the Western oil-importing States would negotiate with the OPEC countries, CIEC became instead a vehicle for a much more comprehensive North-South dialogue. This transformation was attributable to the Third World's determination to use OPEC leverage in order to compel action on matters of interest to non-oil-producing developing countries and to forestall Western efforts to split the OPEC States from their less affluent partners in the Group of 77.

The Paris Conference was held outside of the United Nations framework and, in marked contrast to the universality which characterizes the United Nations, had only 27 participants (19 from developing countries —eight from OPEC and 11 others— and eight, including the European Economic Community as one unit, from developed countries). This experiment with high-level dialogue in a limited-membership forum about the future of the international economic order seemed for a time to challenge both the role of the United Nations and the solidarity of the Group of 77. However, in spite of its allegedly advantageous structural features, and in part because of them, CIEC proved to be as cumbersome as any United Nations or UNCTAD conference —quite ill-suited to deal with its formidable task. In the end it collapsed without significant agreement.

At CIEC it became readily apparent that the

Group of 77 would insist on holding the Paris Group of 19 accountable to the larger, United Nations-based caucus of developing countries, and after the Conference development diplomacy returned to the United Nations framework in New York. Nonetheless, CIEC was perhaps the first serious discussion of development issues by high-level policy makers. It was the first time that, in addition to Ministers from developing countries, the United States Secretary of State, the British Foreign Secretary and others took off their jackets and held night-long sessions arguing about commodities, monetary reform, energy and related issues. For at least a brief period, something close to a real dialogue took place. The lessons of CIEC are, if only for that reason, not all negative.

After the collapse of CIEC, much of the attention of the international community was directed to simply keeping the dialogue alive. CIEC had clearly demonstrated that the optimism generated by the seventh special session of the General Assembly had been premature, and that very serious divisions remained between developed and developing countries on most issues.

The Paris Conference had contributed to the elucidation of many key issues. Each of the four CIEC Commissions (energy, raw materials, development and finance) was able to reach some agreement at a very general level. In addition, a limited "Special Action Programme" of resource transfers was agreed to; the idea of constituting a common fund for stabilizing prices of some raw material exports was accepted in principle; and donor States pledged higher levels of official development assistance. However, the extent of consensus was modest and very little progress was made on energy questions, the dominant concern of most industrialized countries. Indeed, the energy issue was not thoroughly discussed and the developing countries refused to agree to continue a dialogue between producers and consumers of oil unless this was accompanied by parallel discussions of other issues.

Institutionally, CIEC demonstrated that the United Nations much maligned negotiating processes may not be as bad as had been claimed. Many people had said that deliberations could not be conducted in a effective fashion in this aeropagus of nations. In practice, the discussions in Paris very much resembled those in New York and Geneva, being modelled, in all essential respects, on well established United Nations practices. The thesis that the North-South dialogue is vitiated by the United Nations setting was certainly not confirmed by the CIEC experience. It merely confirmed the view that the stumbling-block lies elsewhere.

In December of 1976, the 31st regular session of the United Nations General Assembly was suspended rather than adjourned in order to await the outcome of the Paris Conference. When the session was resumed in September of 1977, the status of the North-South dialogue was naturally a central focus of attention. But the deadlock which had been inherited from CIEC was not resolved during the resumed 31st session, nor indeed during the ensuing 32nd session. The major product of the Assembly's efforts was a carefully negotiated compromise between the Group of 77 and the developed countries on the subject of future negotiations. It was agreed that another special session of the General Assembly would be convened in 1980 for the purpose of assessing progress on the NIEO and adopting a new development strategy for the 1980s. The Assembly established a Committee of the Whole to monitor progress with respect to NIEO issues. The Committee began its substantive sessions in May of 1978, but its members were sharply divided over the nature of its mandate, and the Committee made very little headway in resolving the deadlock.

In large measure, the absence of progress reflected the existence of a serious conflict between the real or perceived interests of developed and developing countries. The former were not unexpectedly reluctant to make any substantial economic concessions at a time when they were themselves suffering from spiralling inflation, recession, and persistent unemployment, particularly when high and rising energy costs jeopardized their ability to deal with these adversities. The issues of oil supply and oil prices were thus central to the deadlock; the Group of 77 was unwilling to agree to a dialogue about energy unless it was preceded by progress on the central issues which constituted the agenda for the NIEO. The fact that the OPEC countries had their own priorities certainly did not make the situation any easier.

Efforts to break the North-South deadlock were also hampered by the level of generality at which policy initiatives were proposed and discussed. The ongoing dialogue did not, on the whole, show much promise of moving on to detailed negotiations on specific issues. There were simply too many conflicts of interest —real or imagined— within and among the groups which were parties to the dialogue. Moreover, competing internal interests frequently produced near-paralysis in the negotiating postures of some governments, making it very difficult for their representatives to bargain seriously. The deadlock was further complicated by conflicting views about the appropriate institutional forums for considering specific issues. Those views were shaped by the sensitivity of governments to the realities of national power and influence, and by the desire of governments to channel negotiations into forums where their leverage was greatest.

IV

Institutional elements of the deadlock

Although conflicting national interests presumably constitute the crux of the deadlock, there are other important factors contributing to the stalemate between North and South. These factors might be termed the "institutional elements" of the deadlock, and they deserve some comment.

The message of the seventh special session of the General Assembly had been that the Members of the United Nations were willing to explore together the establishment of a new international economic order, although not necessarily what the developing countries advocated as *the* New International Economic Order. The demands of the developing States had indeed been transformed into a set of broad objectives, and the focus of attention subsequently began to shift from "what to do" to "how to do it". There were, to be sure, reservations in some quarters about important aspects of the NIEO, but there was an agreement in principle that this was a legitimate agenda for further negotiation. Unfortunately, the question "how to do it" became in large measure a question of the appropriate institutional framework for negotiating the details of a new order which had been sketched at the sixth and seventh special sessions of the Assembly.

Disagreement over the appropriate institutional framework is illustrated by the relationship between UNCTAD and CIEC during the mid-1970s. UNCTAD IV in Nairobi was in many respects a failure. That failure can be attributed, in large measure, to the general hostility of the majority of developed countries to UNCTAD as a setting for concrete negotiations. In the view of some developed countries, were the Nairobi session to end in complete disaster, developing countries would virtually be compelled to turn to CIEC. However, the failure at Nairobi was not so decisive as to give rise to a broadly-based consensus that the Paris Conference must succeed.

Several key officials within UNCTAD perceived CIEC as a threat to UNCTAD's institutional interests. It was considerations such as this that accounted for an ambitious effort within UNCTAD —the Integrated Programme for Commodities, with its centrepiece, the Common Fund. It was hoped that this initiative would strengthen the role of UNCTAD in the negotiations about the New International Economic Order and, conversely, demonstrate the irrelevance of CIEC. Various scholars and political leaders have viewed UNCTAD's decision to concentrate on the international trade in commodities as a mistake for the developing world, but it should be noted that UNCTAD officials probably had no plausible alternative to a major initiative, given the institutional constraints inherent in UNCTAD and its position within the United Nations system. UNCTAD's Secretary-General, Gamani Corea, had a strong intellectual interest in the idea, which had its roots in the early work of John Maynard Keynes, but more important was the fact that commodities clearly fell within UNCTAD's jurisdiction. However difficult it might be to establish an effective commodity programme of benefit to the developing world, the reasoning was that the purpose of strengthening UNCTAD as an institution would be well served. The principal defect of this strategy, according to critics, was that the developing countries had been induced to put all their eggs in one basket. The initial lack of progress in negotiations on the Integrated Programme and the Common Fund exasperated many governments of developing countries, and as a consequence the deadlock became more inextricable.

With the Paris Conference also under way, the "new order" negotiating process was severely complicated. Parallel negotiations, conducted in different settings and influenced by different institutional interests, were taking place concurrently. They were, however, proceeding on different tracks, and at different speeds. CIEC was viewed as the "express train", while UNCTAD's work on the Common Fund was the slower "local train". Progress at CIEC was almost certainly impeded by awareness of (and, in some cases, preference for) the alternative forum, and, at a minimum, efforts to make the North-South dialogue more concrete, direct and rational were inhibited. At UNCTAD IV, on the other hand, there was some reluctance to board the slow train when it could be argued that a fast train (CIEC) was coming. In the event, the fast train broke down.

As noted earlier, the failure of CIEC led to an attempt to resume the dialogue within the United Nations framework in New York, specifically in the Committee of the Whole. Subsequent lack of progress in this new forum was also influenced by institutional factors. Indeed, the very creation of the Committee of the Whole, with a mandate to provide impetus to development-oriented negotiations, was a product of the reluctance to use the existing forums, ECOSOC and UNCTAD. The quest for *the* appropriate forum continued —a quest bedevilled by mutual suspicion, efforts at institutional aggrandizement, false starts, and missed opportunities. Nor was the rivalry between the New York and Geneva-based institutions calculated to advance progress in the Committee of the Whole. The Committee was never really given clear terms of reference that might have given it a certain standing by defining its purpose and functions. It was intended to act as a clearing house of ideas, to help in settling difficulties in negotiations and to encourage the continuing work in other forums of the United Nations system. It was never made very clear, however, how it was to perform this function of giving impetus to the negotiations.

Such ambiguity left the Committee open to frequent charges that it sought to go too far, that it was impinging on the jurisdiction of other institutions better equipped for the negotiation of elements of a new order than the Committee. Ironically, the Committee's critics included defenders of both UNCTAD and the IMF, i.e., institutions of which the former is perceived as the preferred vehicle of the developing countries and the latter that of developed countries. Both institutions were challenged by the creation of the Committee of the Whole and by the more ambitious prescriptions for its role. The Committee wanted to define its principal function as that of breaking the deadlock and stimulating movement across the board on the NIEO, leaving the negotiation of details to other bodies, such as UNCTAD in the case of the Common Fund and the IMF on monetary reforms. But UNCTAD saw its own function in much broader terms, and the IMF resented the implication that the United Nations could or should undertake to define international monetary policy.

The Committee of the Whole was perhaps destined to fail in its efforts to break the NIEO deadlock. As long as UNCTAD's behaviour was seen by the industrialized countries as that of a trade union, it was totally unacceptable as the principal forum for the North-South dialogue. On the other hand, many developing countries in search of a post-CIEC vehicle for action on the NIEO felt that the Committee could function as a New York version of UNCTAD, relying on the allegedly greater political leverage in New York. Yet, even though both sides had coinciding interests in creating a Committee of the Whole, they disagreed sharply on its role as a negotiating forum. In effect, the Committee remained an essentially hollow shell until finally, in 1980, it found its role as a preparatory committee for the global round of negotiations.

Unfortunately, the Committee was also unsuccessful in that role. Charged with producing an agenda, procedures, and a time frame for global negotiations, the Committee came up against fundamental disagreements between the Group of 77 and several of the key industrialized countries. Finally, in June of 1980, the Committee broke down, conceding its inability to reconcile conflicting viewpoints.

The story told above illustrates a disturbing feature of the multilateral diplomacy carried on between the developing and developed worlds: the continuing tendency to resort to the creation of new (and, some would argue, unnecessary) institutions in response to the frustrations of deadlocked negotiations. The wisdom of establishing the United Nations Environment Programme, the World Food Council, and the Intergovernmental Committee on Science and Technology for Development, among others, was frequently questioned by one or another group of countries. It is not suggested that these "new" institutions do not perform useful tasks; indeed, they may reinforce sectoral approaches to development. Moreover, institutional competition may at times improve performance. The resulting web of organizations is, however, evidence of an unplanned, *ad hoc* approach to development and to the reordering of multilateral economic relations.

This proliferation of bodies has been noted, but so far not very effectively addressed, by Members of the United Nations. Indeed, while they have indulged a penchant for creating new institutions and fragmenting the global effort to reform the international economic order, tentative steps have also been taken toward the restructuring of the United Nations system to make it "fully capable of dealing with problems of international economic co-operation in a comprehensive manner". This restructuring effort, which produced a controversial report by a group of experts in 1975 and later a report from an intergovernmental committee on restructuring —which was unanimously accepted by the General Assembly— was intended to introduce cohesion, to streamline, and to improve the management of the United Nations system. Unfortunately, the pace of restructuring has slowed and reforms have not yet been undertaken.

The explanation for the failure to proceed vigorously in this context can be found in the resistance of vested interests and inertia, and, to some extent, in the fact that restructuring has been linked to substantive progress towards the new international economic order. Different elements within the United Nations view that relationship differently, and for the time being the urgently needed rationalization of the United Nations system's economic and social sectors is not occurring. The relationship between the New York and Geneva wings of the United Nations has not been addressed, nor have the relationships between the United Nations and the specialized agencies. The deficiencies in the operation of ECOSOC have been acknowledged but not cured. The institutional context for the North-South dialogue is still flawed.

One important aspect of the restructuring process relates to the international secretariat. The blame for the propensity of governments to opt for new institutions has been attributed by some to international officials, who have been viewed as too passive and, except for UNCTAD, insufficiently committed to the agenda of international economic reform. Many of the developing countries in particular have long been dissatisfied with what they regard as an absence of creative thinking and leadership in the United Nations Secretariat. Even more basically, in contrast to the wide acclaim formerly accorded to United Nations' reports and studies, recent support documents produced by the Secretariat have been widely criticized for their lack of relevance and utility. A steady flow of ideas and proposals from the Secretariat could well be of considerable value in developing a strategy for breaking the North-South deadlock. Restructuring was intended to create the conditions for such Secretariat initiatives. The new post of Director-General for Development and International Economic Co-operation was conceived as a focal point for a comprehensive, system-wide effort on behalf of international economic reform.

Admittedly, the Secretariat found itself in the awkward position of being expected to provide support concurrently for two processes —on the one hand for the NIEO dialogue and negotiations and, on the other, for the formulation of a new development strategy for the 1980s. These processes should have been complementary, but in fact they were frequently competitive and conflictual. The formulation of the new development strategy was at first delayed while officials awaited progress on the NIEO. Since, however, the progress on the NIEO did not materialize, by late 1977 the United Nations had to consider how to reconcile the development strategy with the plan for global negotiations. In the circumstances, it proved necessary to proceed with both, with the focus of the strategy on setting targets without waiting for decisions from the global round of negotiations, which was to have been launched in 1980. Some observers suspected that the Western countries wanted to emphasize the strategy in order to create the illusion of progress and to divert attention from the NIEO. Be that as it may, the United Nations found itself engaged in two important exercises whose interrelationship was poorly defined.

Another institutional element contributing to the deadlock has been the emphasis on maintaining unity among the diverse elements which make up the Group of 77 on the one hand, and the Western countries on the other. The desirability of group unity is generally acknowledged, but unfortunately that unity has often been preserved at the expense of specificity in proposals and responses. When the so-called like-minded Western countries adopt a more responsive position on specific NIEO demands, their posture may create the illusion of progress and even discourage the discussion of trade-offs and compromises. When raised expectations are dashed, ill-will ensues. Not only does the situation make intergroup negotiations difficult; it also discourages ministerial participation in the negotiating process, and hence the negotiators lack the leverage necessary for achieving significant breakthroughs.

Where the developed countries are prepared to make concessions and progress is discernible (see the example of the Common Fund negotiations), the symbolic importance of solidarity is less important than the pragmatic quest for economic benefits. Still, the Group of 77 will not lightly abandon its hard-won solidarity, for it fears that the developed countries may pursue a "divide and rule" strategy. In the past, unity has been a political necessity for the Group of 77. Nevertheless, rigid concepts of group unity will necessarily disappear as negotiations become more concrete and the diverse interests of the members of the Group begin to surface. A sense of priorities will then emerge, and, if movement can then be achieved on priority items, the end of the deadlock may be in sight.

Another institutional element which should be noted is the negotiating process itself. The sheer numbers of participants in this process have been a complicating factor at times, straining the capacities of institutions designed for consciousness raising, but not for negotiating. The United Nations has been under pressure to discover techniques which allow for universality of participation, thereby avoiding one of the major problems of CIEC, while at the same time encouraging the dynamics of small group interaction which are necessary for substantive progress. It can be argued that "numbers" are not an insuperable obstacle; there are more than 150 sovereign States in the United Nations, and one has to accept and come to terms with this fact of international life. Experience has shown, however, that "numbers" are not a serious impediment in cases where there is a genuine willingness to modify positions, i.e., to engage in serious bargaining. A sense of movement in negotiations contributes to the willingness of delegates to rely on small contact groups. At the seventh special session, a few negotiators in effect represented 150 delegations in discussions of the six priority items. This kind of situation has sometimes been encouraged by holding negotiations in small, even uncomfortable meeting rooms. So long as participation is not formally restricted to certain representatives, in other words so long as all States may claim to have been involved in the process, the criticims levelled against the CIEC can be avoided.

Nevertheless, it is obvious that fully effective rules and procedures for negotiations in the area of international economic policy have not yet been elaborated. A conscious effort will have to be made to devise such rules and procedures, and the United Nations may have to look beyond its own institutions for useful models and practices which might be adapted to its own needs.

A final institutional element in the deadlock should be noted, although it cannot be explored in any detail here. Unlike the others, which are international in character, this one is national: the difficulties faced by governments in formulating coherent policies and in co-ordinating the attitudes and positions of their various ministries. Indeed, as note earlier, many of the institutional handicaps which affect multilateral diplomacy are simply the reflection of institutional tangles at the national level. It is no secret that in many cases different ministries hold different conceptions of the national interest in connection with international negotiations in different forums. Foreign ministries and finance ministries can often be counted on to view the same issues differently. Other ministries, such as those concerned with development and agriculture, also express independent views. The task for governments, therefore, is to establish internal mechanisms and procedures for formulating national positions and proposals which take account of divergent interests and serve different constituencies without being hopelessly general.

The consequence of the multiplicity and diversity of national interests is that not infrequently delegations representing the same government in different negotiating contexts do not speak with one voice. On altogether too many occasions a minister of development will take a position within the context of UNCTAD negotiations which is at variance with the position taken by the government within GATT, FAO or the IMF, where different delegates, representing difrent interests, present the government's brief. This inconsistency has at time added to the conflict between New York and Geneva, as well as to tensions between the United Nations and the specialized agencies. It is obvious that efforts to conduct orderly and productive negotiations are hindered by such situations, particularly when so many of the 150-odd delegations are plagued by the same internal conflicts.

Despite the difficulties posed by these institutional elements of the North-South deadlock, there is reason to be guardedly optimistic about the future of the NIEO. It is to this potential for a break in the deadlock that we shall now turn our attention.

V

The future of the new diplomacy: breaking the deadlock

The predominant mood among those who have been actively engaged in the North-South dialogue is sombre, if not gloomy. CIEC ended in failure, and subsequent efforts of a like nature within the United Nations have not been more successful. The Committee of the Whole expired quietly in 1980, leaving almost no mark, and the eleventh special session of the General Assembly, which was to have launched the global negotiations that would culminate in the restructuring of the international economic order, could not agree on the agenda, procedures and time frame for those negotiations. Meanwhile, recent UNCTAD and UNIDO conferences in Manila and New Delhi respectively were widely acknowledged to have failed in their efforts to impart a decisive momentum to the North-South dialogue. Indeed, those two institutions, long identified with the aspirations of developing countries, are struggling to sustain their roles within the larger system. Economic troubles in the Western world have led to the adoption of more conservative approaches and policies, and a renewal of East-West tensions seems to be pushing the North-South dialogue aside.

Those rushing to write the obituary for the NIEO will, however, be proved wrong. In spite of the disappointments and frustrations of recent years, there is good reason for guarded optimism. A closer look at recent trends, both substantive and institutional, suggests that some progress has been made and that the conditions for further progress exist. Although the general realization that the deadlock must be broken does not guarantee that it *will* be broken, it is fitting that this essay should close with some comments on possible reforms that might facilitate a breakthrough.

First, however, it should be noted that the interests of virtually all State —both within the developing world and between the developing and developed nations— are sufficiently interrelated to make a breakthrough in North-South negotiations logical. Some would argue that such a breakthrough is in fact inevitable, and that what we are witnessing in the present deadlock is the lag which often occurs between the launching of apparently radical new ideas and their subsequent acceptance after they have become more familiar and less threatening. This is a familiar theme in multilateral diplomacy. Raúl Prebisch favoured the tactic of pushing ideas before their time; he knew that it would take a while before they could be translated into action, but he also understood that the delay would be even longer without early efforts to launch such ideas.

Viewed in this light, the present deadlock is but a stage in a protracted process, frustrating to be sure, but not cause for despair or for the termination of the dialogue. However slow the process, it will lead to a greater acknowledgment of interdependence and hence to real bargaining. The United States, which is relatively more self-sufficient than most OECD States, imports such vast quantities of goods that global negotiations will ultimately serve its interests almost as much as they are expected to benefit most Third World nations. The Europeans are already more interested in global negotiations than is the United State because their needs are more acute. This difference was apparent during the eleventh special session, when the United States was preoccupied with an election leading to a change in administration, allowing the European Community to display more flexibility on the most controversial issue —the challenge posed by the United Nations to the authority of the International Monetary Fund. Although there is, of course, no groundswell of support within the EEC for the United Nations becoming a vehicle for international monetary reform, the Europeans have seemed somewhat more willing than the United States to find at least the language of accommodation.

In the meanwhile, the system and its members have displayed a capacity for adaptation which must be regarded as encouraging. One could even argue that the United States, which has most vigorously resisted some of the reforms sought by the developing countries, was in fact one of the first champions of a new order. Washington signalled its commitment to change as early as 1971 when it acted to set aside some of the Bretton Woods rules: an event which suggests that IMF reforms, now so widely demanded, really began in 1971. In fact, for all of the criticisms levelled at the IMF by developing countries and the very substantial agenda of unfinished business, the Fund has not been unresponsive to pressures for change. It has established a number of special facilities designed primarily for the benefit of developing countries, and has reformed the operation of one of these, the Compensatory Financing Facility, in a variety of ways which enhance its value to those countries. The Executive Board has been enlarged to accommodate the special role of Saudi Arabia as one of the two largest creditor members and the participation of the People's Republic of China. Moreover, the Fund has finally acknowledged the structural character of developing countries' balance-of-payments deficits.

These change do not, however, overhaul the outdated quota system, nor do they satisfactorily deal with the troublesome issue of conditionality. Yet, within those constraints which cause the Group of 77 to view it as an "old order" institutions, the IMF is trying with some measure of success to demonstrate that it is flexible and responsive to the demands of a changing international order.

The GATT, too, has shown a certain capacity for adjustment. Although the Tokyo Round of Multilateral Trade Negotiations was deeply disappointing to developing countries on several counts, it demonstrated that the Contracting Parties have now officially embraced the principle of non-reciprocity in trade relations between developed and developing countries, which is central to the NIEO, and one of the principal aims advocated by UNCTAD. The pace of change within the GATT framework is not dramatic, but the incremental and inadequate character of reform may be less important in the longer run than the evidence that even the so-called "rich man's club" can bend its rules to accommodate some elements of a new order.

Instances of institutional adaptation are to be found on every hand. For example, the International Fund for Agricultural Development

(IFAD), a new United Nations specialized agency created in 1977, takes a significant step away from "old order" habits and toward "new order" realities by explicitly recognizing the role of oil-exporting countries in its governing body. It also exemplifies a creative impulse in a controversial area of the NIEO, multilateral decision-making, by adopting a tripartite system of membership and leaving to each of the three groups of States —developing countries, OECD States, and OPEC States— the decision as to how to allocate votes within the group. A willingness to be flexible with respect to participation and decision-making is also visible in the agreement reached in UNCTAD in June of 1980 on a Common Fund; that agreement reflectes accommodation by both developed and developing countries, resulting in a formula which uses neither the United Nations nor IMF/World Bank as its model.

The long and difficult negotiations in the United Nations Conference on the Law of the Sea broke important new ground in several areas. One of the most significant of these new departures was the acceptance for the first time in international law of the concept of consensus and its definition in the text of the Convention ("the absence of formal objection"). Consensus has been advocated by the developed countries for many years, and has been informally employed in lieu or formal voting in many multilateral forums. Developing countries, conscious of the advantages which their numerical majority gives them, had hitherto been loath to encourage the institutionalization of decision by consensus, but it would appear that they modified that position in UNCLOS. Moreover, the Authority which is to be established to make the important decisions regarding the exploitation of the seabed is to be governed by principles and rules of participation and voting which are generally consistent with the ethos of the new order; the complex decision-making system is a monument to the perseverance of negotiators and their willingness to experiment with new formulae for this precedent-setting international instrument.

Indeed, UNCLOS has already added substantially to the lore of international negotiations, giving us a *vade mecum* of negotiating tactics to use and to avoid in the interest of reaching agreement on NIEO-type issues.

These are but a few of the adaptations the United Nations, which dominated the occurring within the United Nations system which suggest that its institutions are not immutably fixed in their rules or practices and that member States are not irretrievably rigid or inflexible. The institutional agenda for the near future is a demanding one, but as these instances of adaptability suggest, it is not impossible. What is now required?

The most important requirement is that all States should be persuaded that the objectives of the new order are in their national interest. In the short term, it is obvious that virtually every element of the NIEO confronts at least some States with some hard choices. In the longer run, however, all States —developing and developed alike— will benefit from the changes contemplated by the NIEO and from the more balanced and equitable system of international relations which would result from its realization. Enlightened self-interest, therefore, acknowledges interdependence and dictates policies which seek orderly development, economically secure nations in all regions, strong trading partners, and the confident exercise of sovereignty by States over their own resources and economic planning.

Another requirement is that the somewhat artificial conflict between the United Nations and the specialized agencies should be resolved. The Group of 77 has tended to insist upon the primacy of the United Nations in the negotiation of the NIEO; some of the developed countries, led most vigorously by the United States, have resisted efforts to give the United Nations a right of review (and reversal) of issues traditionally within the purview of the specialized agencies. It is clear that a middle ground is needed between these positions, that the United Nations cannot assume the role the Group of 77 has claimed for it, but that neither can the agenda of new order issues be left to a business-as-usual approach in a host of unreconstructed specialized forums. The United Nations' logical function is to provide a sense of direction as well as political impetus in the realm of global economic reform, and to ensure as much coherence as possible in the decentralized United Nations system. It cannot and should not pre-empt the functions of the specialized agencies; ultimately they must do the job in their own areas of competence.

Thus the debate over the paramount role of eleventh special session and effectively halted efforts to launch global negotiations, is increasingly sterile. No government today denies that the United Nations is vital to the process of international economic reform, and that it has an important legitimising function. But insistence on institutionalizing that role tends to obscure the need to introduce reforms and modify the rules and procedures of many bodies in the United Nations system.

Foremost among these is the IMF. As we have noted, the Fund has been undergoing change, albeit slowly, in a direction which will benefit the developing countries. That process of reform must continue, especially in the controversial areas of conditionality and quotas, and pressure from the United Nations may be able to help create a climate of opinion in which reform is perceived to be both necessary and urgent.

Ironically, one of the reforms most often cited in discussions of the Bretton Woods institutions —greater participation by developing countries in the decision-making process— may not be so critical. The growing practice of resorting to decision by consensus may have made this something of an artificial issue. At the same time it is true that there are numerous other areas within the United Nations system where further adaptation of rules and procedures is urgently needed and where obstacles of structure and habit and expectation will not be easy to overcome. UNCTAD, which has sought a central role in the NIEO negotiating process and is now experiencing something of an identity crisis, must reevaluate its function. The establishment by the Group of 77 of its own substantive support mechanisms —as decided upon at the recent "South-South" Conference in Caracas— will facilitate that process. The prominence of technology issues is of importance to UNESCO, which must prepare itself for an expanding agenda. UNIDO must digest the lessons of its nearly disastrous conference in New Delhi and its subsequent retreat from the confrontation over the proposal for establishing a huge industrial development fund.

One of the most vital of these institutional reforms falls under the rubric of restructuring. As the United Nations system has grown and as its components have gone their separate ways, the system has become fragmented. Whereas some division of labour is obviously desirable, the present disarray is surely excessive and even counterproductive. Developing countries have a stake in restructuring because it would contribute to a more integrated approach to development and because, with a more rational and streamlined United Nations system, their limited resources would go further. Developed countries, as the major financial supporters of the United Nations system, would also benefit from the increased efficiency which restructuring would presumably bring. The restructuring process, begun with much fanfare, must be invested with new life and efforts will have to be made to expand its scope to the relationships between New York and Geneva and between the United Nations itself and other institutions of its system.

The issue of participation also needs to be addressed. Some countries are conspicuously under-involved in the search for a new order, especially the Soviet Union and other socialist countries as well as the more affluent of the OPEC States. The international community will have to find ways of enlisting these States more fully and effectively in global negotiations and in action to cure some of the fundamental economic ills from which the developing world is suffering.

Equally important to the success of the North-South dialogue is bureaucratic leadership. Global negotiations require a much more forceful and a more imaginative and creative input from international secretariats. It was on the basis of ideas first mooted in international bureaucracies that some of the most important steps in multilateral economic co-operation were taken in the early post-war years and again in the watershed period of the late 1950s and early 1960s. There is no reason why this tradition should not be continued or revived where it has fallen into desuetude. Bureaucratic leadership will not come easily, however. Organizational trends have not favoured the assertion of such leadership, and the political climate adds an element of risk for international officials with a creative bent of mind. The requisite skills are there, however, and restructuring, properly conceived and carried out, can help to bring them into play. Governments must be persuaded that *their* interests are served by raising standards and expectations where the international civil service is concerned.

In spite of several false starts, the international community is edging inexorably toward global negotiations, i.e., negotiations leading to a broadly approved statement of intent reflecting agreement among States as to the major elements of a global compact, mutually beneficial to developing and developed States alike. Such an agreement will be but the beginning, not the end, of a long process. Subsequent negotiations in specialized forums will be necessary to work out the details. It is not inconceivable, given trends which indicate some convergence of previously polarized positions, that global negotiations could produce decisions on specific issues.

VI
Conclusion

Much lip service is paid to the concept of interdependence, and the term itself has become controversial. Nevertheless, the term accurately characterizes the world situation. No nation-State can escape the logic of interdependence, the United States or Belgium no more than Tanzania or Bangladesh. The new diplomacy for development is, in effect, the diplomacy of interdependence.

This new diplomacy is by now well established and thoroughly familiar to its practitioners. It has helped to create an increased awareness of the nature and scope of all that development implies and of the positions and tactics of the leading protagonists. It has also produced some tangible results which look insignificant only when compared with the size of the remaining task. As noted at the beginning of this essay, there can be no turning back the clock to the diplomacy which characterized international economic relations before UNCTAD appeared on the scene in 1964. The new diplomacy is not, however, immutable. Indeed, it is only if its flaws are acknowledged and adjustments made that the United Nations system will be able to play the role in which it has been cast.

Some of these adjustments are identified in the preceding pages. Three of them are so vital to the prospects of the NIEO that they should be underscored in conclusion:

— the need for all countries to perceive the objectives of the new international economic order from the standpoint of enlightened self-interest;
— the need to define the political role of the United Nations and the technical role of the specialized agencies in a way which would lead to more coherent action; and
— the need for a more vigorous and creative leadership effort on development issues on the part of the United Nations system secretariats.

Once these needs are recognized and action is taken to respond to them, the new diplomacy will gain a new lease on life and the prospects of a better world order will be greatly enhanced.

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Orthodox adjustment programmes in Latin America: A critical look at the policies of the International Monetary Fund*

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Since its inception, the International Monetary Fund has been harshly criticized for the policy measures it has recommended. In most cases, this criticism has taken the form of an outright rejection of IMF policies, mainly because of the high economic, social and political costs they entail.

This article also takes a critical look at the IMF position; however, this criticism is based on a detailed study of the main elements of that position. On the one hand, the author analyses the orthodox adjustment paradigm, as well as recent suggestions for including in it consideration of certain structural factors, and, on the other, he discusses the recessionary bias that is inherent in that paradigm. This bias is evident both in the meagre and belated financial support given the Latin American countries by the IMF during the current crisis, and in the domestic policies provided for in the adjustment programmes it recommends.

The author's review of these domestic policies, which makes up the nucleus of the article is based on a study of the 17 IMF agreements that were in force in Latin America and the Caribbean at the end of 1983. The author lists and analyses the performance criteria, preconditions and policy understandings employed by the IMF; identifies and compares the policy mix contained in the agreements; discusses operational, intermediate and ultimate targets provided for in the agreements; and, finally, evaluates the Fund's use of fixed specific targets for its performance criteria. On the basis of this analysis, the author notes the main sources of recessive bias in IMF policies and suggests how they might be reformed.

*This article was originally written in Spanish.

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I

Introduction*

A. Purpose and justification of this study

In the absence of a new development style based on profound domestic reforms including, above all, domestic financing of capital formation,[1] there may be no clear alternative to the orthodox adjustment model. This does not mean, however, that the orthodox model is faultless, for it does in fact have a series of shortcomings that in practice cause unnecessary harm to the economy and to the welfare of the population.

One of the main purposes of this study is, in fact, to show why the adjustment model applied by the International Monetary Fund should be reformed and how this might be accomplished. The other is to provide a more detailed and systematic description of the nature and characteristics of the adjustment programmes being sponsored by the Fund.

There are two important justifications for this study. In the first place, towards the end of 1983, seventeen Latin American and Caribbean countries had entered into adjustment agreements with the International Monetary Fund. In the second place, there has always been and still

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[1]We expect to discuss this subject on another occasion. Several proposals have been made for dealing with and overcoming the current crisis. See, for example, Enrique V. Iglesias and Carlos Alzamora Traverso, "Bases for a Latin American response to the international economic crisis", *CEPAL Review*, No. 20 (August 1983); "América Latina ante la recesión", *Pensamiento Iberoamericano*, No. 4 (July-December 1983); and CEPAL, "Adjustment policies and renegotiation of the external debt" (E/CEPAL/SES.20/G.17), Santiago, Chile, February 1984. See also Raúl Prebisch, *Capitalismo periférico: crisis y transformación* (Mexico, Fondo de Cultura Económica, 1981), Part Six.

remains a surprising degree of misunderstanding about the specific content of the Fund's adjustment programmes. In this regard, a comparative study of the characteristics of those programmes may be of particular interest.

We believe that this study, which makes extensive use of several new theoretical and empirical analyses of recent monetarist experiments in the centre, shows that the Fund's approach has formal and practical deficiences which are extremely important, not only from the academic point of view, but also in light of the fact that the fate of several hundred million people, including 80% of the population of Latin America and the Caribbean, is linked to a greater or lesser degree, to the results of IMF adjustment programmes. Nevertheless, an analysis of the content of those programmes shows that some of the criticisms traditionally directed against the Fund do not seem to be justified.

The most important result of this study, however, may be the finding that the reforms of IMF policies that are proposed would almost all be quite easy to implement and would in no way make it necessary to abandon the basic principles governing the Fund's operation or the paradigm it advocates. On the other hand, I am certain that these reforms could bring about a notable improvement in the performance of those economies that are obliged by circumstances to resort to the Fund.

This article is divided into three parts. In the remainder of the first part, the nature and macroeconomic meaning of the adjustment process are discussed and a brief description of the orthodox adjustment paradigm is given. In the second part, and nucleus of the article, the recessive bias of the Fund's approach is brought out. In the first place, the performance of the Fund as a source and catalyst of external financing is evaluated. A review is then made of the domestic economic policies provided for in the Fund's adjustment programmes. This includes a study of both the approach on which they are based and their actual implementation in the 17 adjustment agreements that were in force in Latin America and the Caribbean at the end of 1983. Finally, the Fund's conditionality and its other domestic adjustment policies are critiqued and some policy reforms are proposed. The third part of the article consists of the summary and conclusions.

B. The nature and macroeconomic meaning of the adjustment process

It should be noted from the outset that once the need to adjust arises, it is implacable, for it is rooted in a budgetary restriction, i.e., the impossibility of absorbing (spending) more resources than are available, counting both the country's own resources and those it may borrow. A process of adjustment is inevitable whenever the gap between expenditure and income rises above a sustainable magnitude. It involves the reduction of the difference between gross domestic investment and gross national savings —or, what amounts to the same thing, the reduction of the deficit on the balance-of-payments current account— to an amount that is compatible with the expected —an eventually, the actual— flow of external financing. In this context, the central issue is how to minimize the cost of adjustment. Although the rationale of the adjustment process does not, therefore, have anything to do with the causes of disequilibria or with such policies as may be adopted —or not adopted— to deal with them, a question concerning the relevance of the duration of the source or sources of maladjustment of external accounts to the design of adjustment policies does arise.

In any case if a disequilibrium cannot be financed, there must be, and in fact will be, an adjustment. Likewise, regardless of what the origin —domestic, external or both— of the maladjustment may be, a disequilibrium between expenditure and income cannot persist without external financing. On the other hand, the questions of the duration and origins of unsustainable disequilibria are pertinent to the design of international adjustment policies; in other words, they are relevant to the determination of the optimum combination of external financing and internal adjustment. Everyone agrees in principle on this crucial matter, i.e., that for the sake of efficiency, a disequilibrium which can be attributed to temporary external factors should be financed. However, whether the international financial community is prepared to provide the resources necessary to avoid the imposition of an inefficient adjustment is another matter. In practice, the criterion that has been used to determine how strict an adjustment is to be imposed on deficit countries has not been the ideal one.

C. An overview of the orthodox adjustment paradigm[2]

Although it has undergone some changes over time, the orthodox approach to the causes and the process of adjustment still assigns a central role to money; in other words, it is still essentially monetarist. According to this approach, whenever there is inflation or an unsustainable balance-of-payments deficit, there will invariably have been an excessive supply of money in relation to the demand for real monetary balances. This is not to say that other causal factors are ignored. On the contrary, in some cases the source of the excessive growth of money —usually the public sector deficit— is believed to play a fundamental role. In principle, however, it is held that no non-monetary factor can in and of itself generate inflation or external disequilibria independently of the behaviour of monetary variables; a possibility that the real exchange rate may fall below the level of equilibrium —thus giving rise to a deficit on current accounts although not necessarily on the global balance-of-payments position— is admitted but this is also believed to be the result of an excessive creation of money.

In this paradigm, three types of policies are envisaged for orienting the adjustment process; these policies are aimed at restricting the growth of the means of payment, limiting deficit spending by the public sector, and modifying relative prices, especially the real exchange rate. Restricting monetary growth and cutting the public-sector deficit help decelerate inflation and restore a sustainable relationship between domestic expenditure and income, thanks to their depressive effects on domestic demand. The idea is to achieve this not only by reducing imports, but also by increasing exports, since the restriction of domestic demand would free, goods and services for the external market and reduce the profitability of domestic sales. At the same time, monetary restriction increases the amount of the external deficit that can be financed to the extent that an increase in domestic interest rates strengthens the balance-of-payments capital account. Reducing the public-sector deficit, for its part, also serves another purpose, i.e., to prevent the public sector from monopolizing bank credit to the detriment of private investment during times of monetary restriction. The modification of relative prices which results from raising the real exchange rate —which in principle, can be achieved by reducing domestic inflation with respect to external inflation (or reducing the level of domestic prices as compared with external prices) or modifying the nominal exchange rate— helps curtail both external and internal disequilibria by diverting domestic expenditure from imports and exportable goods and services and encouraging the reallocation of factors of production to the sectors producing tradeable goods and services. At the same time, modification of the exchange rate can complement the depressive effect of restrictive monetary and fiscal policies on the level of domestic expenditure and of the potential expansionary effect of monetary restriction on the net inflow of capital, provided it creates an excess demand in the market for financial assets.

In addition, exchange adjustments are usually accompanied by policies that affect other relative prices, such as real salaries and wages and the real interest rate, reinforcing the impact of an increase in the nominal exchange rate on the real one.

The orthodox school is opposed to the introduction of measures, such as tariffs and controls, which affect capital flows and prices and restrict the scope of the market, in the adjustment policy, both because it is felt that such measures do not get to the root of the problem —thus only temporarily suppressing its manifestations— and because it is felt that they might be detrimental to domestic welfare. It is also argued that measures which restrict free trade undermine the basis of international prosperity.

So much for our description of the traditional model and policies. More recently, with the serious deterioration of the international economy, the accumulation of very large disequilibria and the emergence of many that were adjustment processes much more drastic than had been the case between the early 1950s and the 1970s, when the adjustment and paradigm policies were devised, concern has focused much more explicitly on the real side of the economy

[2]The IMF short-term adjustment paradigm is discussed in greater detail in section II.

during the adjustment process and on the effect of that process on the growth of productive capacity.[3]

Although this concern has not been systematically reflected in the formal structure of the orthodox paradigm, it has been evident in certain policy initiatives aimed at dealing with those cases in which the disequilibria of the external sector are very great or appear to have a structural origin, or both. In brief, in the contemporary or long-term orthodox approach, it is proposed that traditional short-term strategies for managing domestic demand be complemented with policies that have a more direct and extensive influence on the supply side, in order to eliminate structural maladjustments without excessively (unjustifiably) depressing the level of activity and the development of production capacity.

As regards the content of the Fund's programmes, the aforementioned concern led to the creation of a new facility in which the duration of adjustment programmes was extended to three years, the amount of available financing was increased and loan maturities were extended up to 10 years. At the same time, greater importance was attached to measures affecting variables such as the structure of production and of employment and the composition of expenditure and balance-of-payments accounts, whereas in the past, when priority had almost always been attached to shor-term measures, these variables had been considered exogenous or unimportant. Greater importance was also attached to the microeconomic aspects of disequilibria and hence to the use of measures which directly —or more directly— affect efficiency in the allocation and utilization of resources.

The World Bank, for its part, has responded by creating its so-called "structural adjustment loan". This facility allows longer terms —from five to seven years— for achieving the targets established; greater attention is given to policies relating to supply, and conditionality is linked solely to the adoption of specific measures. The total volume of financing available is similar to that provided under the Fund's new facility.

In their approach to structural problems and strengthening of the supply side, both the Fund and the World Bank follow the well-known neoclassical interpretation of underdevelopment, i.e., that when inadequate or mistaken domestic economic policies become chronic, they deform the structures of the economy, undermine its capacity and, in extreme cases, render it incapable of responding effectively to the changing situation —either favourable or unfavourable— of the international economy.

Within this frame of reference, the response to the major disequilibria existing at present —even if they have been caused mainly by external factors— must be the implementation of reforms —hopefully far-reaching ones— in domestic policies and institutions which restrict the scope and hinder the functioning of the market and private initiative. In brief, these reforms include, as the case may be, the liberalization of capital market transactions, including the opening-up of the balance-of-payments capital account; the liberation of the domestic price system from controls, including the opening-up —hopefully on a broad and uniform basis— of the balance-of-payments current account; and the restructuring and reduction of the size of the public sector, including the implementation of criteria of financial efficiency. Reforms in the labour market and social security, or special promotional policies, particularly for the development of the energy sector, may also be included. The interest —previously almost non-existent— in disaggregated values is also worth mentioning. For example, an effort is made not only to restore financial equilibrium, but also to decide which items of income and expenditure are to be increased or decreased, in order to reconcile financial equilibrium with structural

[3]See, for example, Andrew D. Crockett, "Stabilization policies in developing countries: some policy considerations", *IMF Staff Papers*, Vol. 28 (March 1981); Bela Belassa, "Structural adjustment policies in developing economies", *World Development*, Vol. 10, No. 1 (October 1982), and Ernest Stern, "World Bank financing of structural adjustment", John Williamson, ed., in *IMF conditionality* (Washington, D.C., Institute for International Economics, 1983). See also Tony Killick and Mary Sutton, "Disequilibria, financing and adjustment in developing countries", in Tony Killick, ed., *Adjustment and financing in the developing world. The role of the International Monetary Fund* (Washington, D.C., International Monetary Fund, in association with the Overseas Development Institute of London, 1982); and Moshin Khan and Roberto Zahler, "Efectos macroeconómicos de cambios en las barreras del comercio al movimiento de capitales", *Cuadernos de la CEPAL*, No. 20 (December 1982).

adjustment. Finally, one discerns a greater concern for manipulating the exchange rate in order to keep it at a realistic level.

These then would be the policies proposed under the orthodox approach for dealing with structural disequilibria. Although some of them, such as those pertaining to the increased disaggregation of financial variables, appear to have been included in all short- and long-term adjustment programmes sponsored by the Fund, in practice the new long-term orthodox adjustment programmes have done very little to solve the current crisis, inasmuch as they have not been very widely applied. Barely a dozen countries have participated in the World Bank's structural adjustment programmes since this option was created in 1979, while, for some reason, between mid-1981 and late 1982, the Fund severely restricted the number of agreements signed under its long-term facility. As a result, the great majority of deficit countries currently adjust their economies by applying the traditional Fund programmes, in which the main tools used are short-term demand management and, in particular, management of financial variables. In any event, an analysis of the few long-term programmes entered into with the Fund shows that management of financial variables still constitutes the essence of the adjustment strategy; the rest of this article will therefore concentrate mainly on this question.[4]

II

The recessive bias of the International Monetary Fund's adjustment programmes

A. The shortage of external financing

Towards the end of 1983, seventeen Latin American and Caribbean countries had entered into adjustment agreements with the International Monetary Fund. Ten of these had signed Stand-by agreements and seven had signed agreements under the Extended Fund Facility. At the same time, 12 of the countries in question had obtained loans under the Fund's Compensatory Financing Facility (CFF), ten of them on the same date that they had arranged for their adjustment programmes and two of them on a later date. One of these countries had also drawn a loan from the Fund's Buffer Stock Financing Facility (BSFF) (see table 1).[5]

[4]For critiques of the neoclassical or neoliberal interpretation of underdevelopment and of the policies proposed under this approach for overcoming structural disequilibria see Aníbal Pinto, "False dilemmas and real options in current Latin American debate", *CEPAL Review*, No. 6 (second half of 1978); Raúl Prebisch, "The neoclassical theories of economic liberalism", *CEPAL Review*, No. 7 (April 1979); Aníbal Pinto, "The opening up of Latin America to the exterior", *CEPAL Review*, No. 11 (August 1980); Celso Furtado, "Transnacionalização e monetarismo", *Pensamiento Iberoamericano*, No. 1 (January-June 1982) and Joseph Ramos, "Estabilización y liberalización económica en el Cono Sur", *Estudios e Informes de la CEPAL, No. 38.*

[5]Three other countries in the region obtained Fund financing in 1983. In two cases (Belize and Bolivia), however, the loans were obtained under the Compensatory Financing Facility (CFF) and hence did not require the borrower to carry out an adjustment programme. In the other case, El Salvador, the country's Stand-by agreement (SBA) expired in mid-1983.

Stand-by agreements (SBAs and Extended Facility (EFF) agreements differ from agreements covered by the Compensatory Financing Facility (CFF) and the Buffer Stock Financing Facility (BSFF) both as regards level of financing and degree of conditionality. The maximum amount of resources that may be obtained under Stand-by agreements and Extended Fund Facility agreements is considerably higher than the amount available under Compensatory Financing Facility and Buffer Stock Financing Facility agreements. However, disbursements of financing provided under Stand-by agreements and Extended Fund Facility agreements are subject to certain conditions, whereas funds made available under Compensatory Financing Facility and Buffer Stock Financing Facility agreements are not conditioned; in other words, the borrower is not required to carry out an adjust-

It should be noted, in the first place, that the great majority of these adjustment programmes (SBA and EFF) did not enter into force until 1983; in other words, around one year and a half after the beginning of the worst economic recession experienced by the region since the great crisis of the 1930s. Indeed, between mid-1981 and late 1982, only seven countries (Barbados, October 1982; El Salvador, July 1982; Guatemala, November 1981; Haiti, August 1982; Honduras, November 1982; Panama, April 1982, and Peru, June 1982) entered into adjustment agreements with the Fund, while the per capita product and gross international reserves were falling more or less sharply in almost all the 30 countries included in the region at that time.[6] Of these seven countries, only three (Barbados, Honduras and Peru) obtained, under the aforementioned agreements, financing beyond the regular credit tranche —i.e., an amount of more than 100% of their quotas in the Fund— and only one (Peru) borrowed under the extended Fund facility —a long-term adjustment programme.[7]

In the second place, it should be noted that whereas the financing provided by the Fund in 1981 and 1982 was equivalent to 19% of the current-account deficit of the Latin American countries which obtained Fund financing, it only covered 1% of Latin America's overall current account deficit in 1981 and 2% of the deficit recorded in 1982, when the adjustment had of necessity already begun in most of the countries of the region (see table 2).

During 1983, twelve countries of the region entered into adjustment agreements with the Fund and the first long-term adjustment agreements (EFF) to have been signed since mid-1981 (except for the one signed by Peru in July 1982) were signed (see table 1).[8] Despite the fact that in most cases the financing obtained was close or equal to the maximum (150% of annual quota) allowed under the regulations in force for Stand-by and EFF agreements and that disbursements were also made under the CFF and the BSFF, in general the intensity of the adjustment process radically increased.

Because of the very magnitude of the adjustment experienced by the region in 1983 —the current-account deficit was reduced by approximately 80%, the financing granted by the Fund appears to be much more generous than it actually was, when one compares it with the *ex post* deficit (see table 2). While it is true that in some countries (Costa Rica and Haiti, for example) the adjustment was less stringent in 1983, it is no less true that these cases cannot be properly assessed without referring to the magnitude of the adjustment they had undergone in previous years. In other cases, such as that of Uruguay, where *ex*

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ment programme. Stand-by agreements are also different from Extended Fund Facility agreements; maturities of Stand-by agreements range between one and two years, while Extended Fund Facility agreements have a maturity of three years. The total amount of resources that can be obtained under Extended Fund Facility agreements is also higher than that which can be obtained under Stand-by agreements. In general, Stand-by agreements call for "short-term" adjustment programmes and Extended Fund Facility agreements for "long-term" programmes. For information on all the Fund's facilities, see International Monetary Fund, *International Financial Statistics*, Volume XXXVII, No. 3 (March 1984).

[6]A total of 13 countries obtained Fund financing during this period. In addition to those mentioned above, the Dominican Republic (5/1982/42%), Guyana (11/1982/16%) and Uruguay (8/1982/44%) borrowed under the Buffer Stock Financing Facility. (The last figure in parentheses refers to the amount of financing obtained with respect to the country's quota in the Fund.) It should be remembered, however, that access to the Compensatory Financing Facility and the Buffer Stock Financing Facility does not entail an obligation to apply an adjustment programme designed by the Fund. Also, Dominica and Jamaica signed Extended Fund Facility agreements in February and April 1981, i.e., prior to the period under consideration. Finally, Costa Rica signed a Stand-by agreement in December 1982 but did not receive the first funds until January 1983. This country had also entered into an extended Fund Facility agreement in June 1981, but it was suspended in August 1981.

[7]The amounts of financing received in relation to quotas were as follows: Barbados, 125%; El Salvador, 67%; Guatemala, 25%; Haiti, 100%; Honduras, 150%; Panama, 44% and Peru, 265%. It should be noted, however, that six of the seven countries in question also obtained CFF loans during that period. The dates and amounts (in relation to quotas) of these were as follows: Barbados, 10/1982, 51%; El Salvador, 7/1981, 50% and 7/1982, 50%; Guatemala, 11/1981, 100%; Haiti, 12/1982, 49%; Honduras, 11/1982, 51%; and Peru, 7/1982, 78%.

[8]With the exception mentioned, these were the first EFF agreements to be signed in the entire world since 1981.

Table 1

FINANCIAL DATA PERTAINING TO AGREEMENTS BETWEEN LATIN AMERICAN COUNTRIES AND THE INTERNATIONAL MONETARY FUND

(In force at end of 1983)[a]

	Date of agreement	Duration (months)	Conditioned financing		Non-conditioned financing[b]		Total financing: In relation to deficit on current account[c d]			Amount drawn in relation to financing[c]: On date of agreement		To date
			Millions of SDRs	In relation to IMF quota[c]	Millions of SDRs	In relation to IMF quota[c]	1981	1982	1983	Conditioned	Total	Total
					Stand-by arrangements							
Argentina	24 Jan. 83	15	500	187	520	65	40	72	91	20	41	55
Barbados	1 Oct. 82	20	32	125	13	51	12	31	...	30	64	91
Costa Rica	20 Dec. 82	12	92	150	16	26	31	58	29	—	—	77
Chile	10 Jan. 83	24	500	154	295	91	10	19	39	24	53	65
Ecuador	25 Jul. 83	12	158	157	—	—	18	16	29	50	50	50
Guatemala	31 Aug. 83	16	115	150	—	—	20	28	34		11	11
Haiti	7 Nov. 83	24	60	174	—	—	16	23	19	...	...	...
Honduras	5 Nov. 82	12	77	150	23	45	36	44	48	20	39	46
Panama	24 Jun. 83	18	150	222	59	87	33	29	40	7	33	43
Uruguay	22 Apr. 83	24	378	300	—	—	47	89	224	13	13	25
					Extended Fund Facility agreements							
Brazil	6 Jan. 83[e]	36	239	425	965	97	17	12	24	9	26	26
Dominica	6 Feb. 81	36	9	295	2	67	21	21	...	9	26	87
Grenada	24 Aug. 83	36	14	300	—	—	22	14	...	8	8	8
Jamaica	13 Apr. 81	36	478	450	42	38	55	33	...	14	17	71
Mexico	1 Jan. 83	36	411	425	—	—	8	40	33[f]	6	6	26
Peru	7 Jun. 82	36	650	265	192	78	18	17	22	—	23	88
Dominican Republic	21 Jan. 83	36	371	450	55	66	40	34	39	12	21	35

Source: International Monetary Fund, *Weekly Bulletin*, several issues; and ECLAC, on the basis of official information.

[a]Includes agreements in force as at 1 December 1983.

[b]Includes financing from Compensatory Financing Facility as of dates of agreements (Stand-by and Extended Fund Facility) mentioned. However, also included is SDR 499 million obtained by Brazil from that Facility in December 1982 and SDR 12.6 million obtained by the Dominican Republic from the Buffer Stock Financing Facility (August 1983).

[c]Percentage.

[d]Average annual flow (without adjustments for suspension of drawings) to average value of SDR each year for all countries, except Dominica and Jamaica, for which actual figures are given.

[e]This agreement was replaced by the agreement of 24 February 1983, which in turn was replaced by the agreement of 15 September 1983.

[f]Surplus.

ante the level of financing provided by the Fund appears to be relatively high in relation with the deficit, in the final analysis the adjustment process proceeded quite steadily.

Table 2

NET FINANCING OBTAINED BY LATIN AMERICAN COUNTRIES FROM THE INTERNATIONAL MONETARY FUND AND BALANCES ON THEIR CAPITAL ACCOUNTS, 1981-1983

	Net financing from the Fund						Percentage variation of balance on capital account		
	Millions of SDRs			As a percentage of deficit on current account					
	1981	1982	1983	1981	1982	1983	1981	1982	1983
Argentina	—	—	1 121	—	—	63	−30	19	5
Bahamas	—	—	—	—	—	—	108	−43	...
Barbados	−2	21	14	—	59	...	317	−51	...
Belize	—	—	4	—	—	...	...	...	...
Bolivia	−2	17	11	−1	15	6	1 580	−52	[a]
Brazil	—	—	1 339	—	—	19	32	−10	−44
Colombia	—	—	—	—	—	—	37	−29	[a]
Costa Rica	44	−4	83	12	−2	22	−52	−7	−9
Chile	−55	−36	519	−1	−2	51	48	−79	−57
Dominica	5	3	1	21	21	...	−39	−63	...
Ecuador	—	—	79	—	—	8	−30	13	−34
El Salvador	32	60	16	14	29	7	393	−22	100
Grenada	5	−1	1	24	−3	...	43	45	...
Guatemala	96	—	13	19	—	5	[b]	28	−23
Guyana	11	4	−3	4	3	−2	332	5	−6
Haiti	18	11	24	6	9	14	50	−42	65
Honduras	34	62	46	8	27	22	−2	−18	−2
Jamaica	161	124	81	55	333	...	−42	508	...
Mexico	—	—	903	—	—	26	69	−98	[a]
Nicaragua	−17	−4	−4	−3	−1	−1	71	−60	89
Panama	62	−4	88	15	−1	25	13	24	−29
Paraguay	—	—	—	—	—	—	−3	−22	−54
Peru	−39	256	95	3	15	8	57	54	−22
Dominican Republic	−18	44	174	−5	11	22	−36	−31	9
Saint Lucia	3	−2	—	4	−3	—	17	4	[a]
Suriname	—	—	—	—	—	—	−16	−86	...
Trinidad and Tobago	—	—	—	—	—	—	36	−20	[a]
Uruguay	—	87	83	—	41	99	[a]	[a]	[a]
Venezuela	—	—	—	—	—	—	−31	[a]	[a]
Subtotal[c]	471	689	4 695	19	19	29[d e] 50[e f]	6	−9	−43[a e]
Total[g]	*338*	*638*	*4 688*	*1*	2	*58*[h]	*44*	−*56*	−*73*[a h]

Source: International Monetary Fund, *International Financial Statistics*, Vol. XXXVII, No. 1, January 1984, and ECLAC, on the basis of official information.

[a]Deficit.
[b]Changed from deficit to surplus.
[c]Countries which obtained Fund financing.
[d]Not including Mexico.
[e]Not including Barbados, Dominica, Grenada or Jamaica.
[f]Including Mexico.
[g]All countries.
[h]Not including Bahamas, Barbados, Dominica, Grenada or Jamaica.

It is germane to ask why the Fund's response to the most serious economic crisis since the 1930s was so limited. In effect, could it be that only 1% to 2% of the current-account deficit incurred by Latin America in 1981 and 1982 was the result of temporary external factors? Can almost all this deficit be attributed to a disproportionate growth of domestic expenditure, to permanent deterioration of the terms of trade or to an irreversible rise in international interest rates? Moreover, how can it be said for sure that the deterioration in the terms of trade or the rise in interest rates will be permanent? And even if the deficit were attributable to those factors, what sense would there be in requiring countries to make adjustments immediately, as was in fact the case? There is no question that the magnitude of the Fund's response to the crisis in the region as a whole was closely related to the slow pace at which adjustment agreements were arranged. Nevertheless, also at issue is whether the amount of financing provided by the Fund once an agreement is signed is comparable to the magnitude of the deficit that is attributable to temporary external factors.

As regards the slowness of the Fund's response to the crisis, there is no denying that a country must be willing to resort to the Fund in order for it to be able to grant resources and that there was a more or less pronounced reluctance on the part of many countries to resort to the Fund. Nevertheless, it should also be remembered that the fact that a government wishes to negotiate an agreement with the Fund does not mean that such an agreement will be signed expeditiously or even that it will be signed at all: in practice, negotiations tend to be very prolonged and complicated. It is more to the point, then, to find out whether the reluctance of many countries to resort to the Fund and the delays in signing agreements reflect shortsightedness on the part of governments or deficiencies in the Fund's approach.

As a general rule, governments are reluctant to take decisions that entail political costs over the short-term or during the term of its mandate. Also, they often act as if they thought they might be able to avoid costs that are actually inevitable. However, many observers have argued, in different media and fora, that the main reason why negotiations on adjustment agreements usually take so long is that the Fund's policies are excessively strict.[9] And since it can be shown that the Fund's adjustment programmes do have serious defects, governments' reluctance to follow its formula word for word is well-founded as long as they have other options. One of the main purposes of this article is to show that this is the case; at this point, however, what we wish to stress is that, according to several experts, the Fund decided to toughen its policies just at the time when the current economic crisis broke out.[10]

Thus, at a recent conference on Fund policies, it was stated that around the middle of 1981, this institution had made the conditions for obtaining financing from it much more stringent.

[9]See for example, United Nations, "Balance of payments adjustment process in developing countries", New York, UNDP/UNCTAD Project INT/75/015, January 1979; The South-North Conference on the International Monetary System and the New International Order, held at Dar-es-Salaam, Tanzania, from 30 June to 3 July 1980, the papers of which were published in *Development Dialogue*, 1980:2; Sidney Dell, "El Fondo Monetario Internacional y el principio de condicionalidad", *Revista de la CEPAL*, No. 13 (April 1981); and Dragoslav Avramovic, "The role of the International Monetary Fund: the disputes, the qualifications and the future", paper presented at the North-South Round Table, Tokyo, 1982, and also published in John Williamson, ed., *IMF Conditionality, op. cit.*

[10]See John Williamson (ed.), *IMF Conditionality*, Washington, D.C., Institute for International Economics, 1983, particularly the article by John Williamson himself, "The lending policies of the International Monetary Fund". On this same question, a new book, which reached us just as this article was going to press, has the following to say: "Around the middle of 1981 the experiment with a more relaxed attitude towards conditionality was put sharply into reverse, for a number of reasons. The effects of the second oil shock and of the anti-inflationary policies of the governments of major industrial countries combined to induce an unexpectedly sharp deterioration in the terms of trade of oil-importing developing countries. In consequence their balance-of-payments situation worsened rapidly and a large proportion of the Stand-by and EFF programmes entered into during 1979 and 1980 ran into serious difficulties ... In the meantime the Fund had begun to experience liquidity problems, with its resources inadequate to cope with the emerging scale of the problem. Another critical factor was the election in November 1980 of the Reagan Administration which —after a time lag— took a much harder line in the Fund's councils and which was able to form an effective coalition with other industrial countries, such as Germany and the United Kingdom, against the previous liberalization. Moreover, there had always been unease among some of the Fund's staff about the liberalization ...

Another observer who shares this interpretation has also stressed the striking change between the proportion of financing that is not conditioned and that which is. This is the main reason why, in the view of this author, during the first six months of 1982, the net new financing provided by the Fund was negative "... during the worst recession since the 1930s".[11]

The Fund disagrees with the view that conditionality was toughened at the beginning of the economic crisis. According to the Managing Director of the Fund, "... what has really happened is not a tightening of conditionality *per se*, it is a worsening of the external conditions of the country in question and the need for more adjustments".[12]

All these interpretations show that the Fund failed to provide support, or at least timely support, during the crisis. The question is whether the procyclical policy applied by the Fund during this economic crisis is justified or not.

In the aforementioned interview, Mr. Larosière implies that the worsening of external conditions (i.e., accounts) was entirely due to an irreversible deterioration in the terms of trade and to faulty domestic financial policies. This argument may be valid for 1979-1980, when the second oil shock occurred, but it is not convincing for 1981 onwards, inasmuch as it does not take into account the fact that a significant part of the deterioration in current-account positions from that year onwards was brought about by drops —presumably temporary— in the prices of the great majority of commodities,[13] by the unprecedented increase in international interest rates,[14] and also, in 1982 and 1983, by the considerable reduction of financing from private international banks.[15]

Anyway, there is no questioning that a reversal occurred. To governments negotiating with the Fund in 1982 the message was an unwelcome one: more preconditions, including greater insistence on exchange rate depreciations; a wider range of policy commitments written into the programmes; ... a reduced willingness to grant waivers and modifications; shorter-leash programmes with less front-end loading. In fact, if we return to the various dimensions of conditionality, there was apparently a tightening up on almost all of them. There was also a shift back towards the short-term approach. One-year programmes were restored as the normal order of the day, although an attempt was made to retain some longer-term thinking by planning on the basis of a succession of one-year programmes. The EFF was put firmly on the back burner." See Tony Killick, "The impact of Fund stabilization programmes", in Tony Killick, ed., *The quest for economic stabilization (the IMF and the Third World)* (London, Heinemann Educational Books, in association with the Overseas Development Institute, 1984), pp. 211 and 212.

[11]G.K. Helleiner, "The IMF and Africa in the 1980s", *Essays in International Finance* (International Finance Section, Department of Economics, Princeton University) No. 152 (July 1983), Helleiner (p. 13) notes that "reliance on borrowed resources and a policy of 'enlarged access' rather than on quota expansion and SDR allocations generated the result, no doubt intentionally, that about 80 per cent of its lending in the 1981-1982 period was accompanied by stringent conditions, because countries drawing on the Fund found themselves moving rapidly into the upper credit tranches, where stiff conditions must be met. By contrast, during 1974-1975, the last period of major net lending activity, the IMF imposed a similar degree of conditionality on only one-third of its lending".

Later on (p. 14) he states: "The IMF's shift toward the imposition of more and tougher conditions upon its lending has been accompanied by a hardening of the terms. Interest rates charged on IMF credit have been rising relative to market rates. IMF lending that is financed by borrowing rather than by agreed quota expansion must earn interest rates adequate to service the IMF's resulting debt. The failure to increase IMF quotas rapidly enough to meet demands for IMF credit thus implied the imposition of commercial rates of interest on its loans."

[12]See "A conversation with Mr. dè Larosière", *Finance and Development*, Vol. 19, No. 2 (June 1982), p. 5.

[13]Indeed, between 1980 and 1981, the average (simple) price of the 17 main export products (except petroleum) of Latin America fell by 12.3%; between 1981 and 1982, it fell by 12.2%. In 1983 there was a slight recovery by comparison with 1982. Nonetheless, compared with 1980, the 1983 average price was still somewhat below 80% of the price prevailing in 1980. In 1983, the average unit value of exports of the non-oil-exporting countries of the region was 18% lower than in 1980, having fallen by 7% in 1981, 6.7% in 1982 and 5% in 1983. See ECLA, "Preliminary overview of the Latin American economy during 1983" (E/CEPAL/G.1279) Santiago, Chile, 29 December 1983, tables 9 and 10.

[14]On average, the international interest rate (LIBOR) for six-month dollar deposits was 16.6% in 1981, compared with 14% in 1980, 12.2% in 1979 and 9.2% in 1978. In 1982, it fell to 13.5% and in 1983 to 9.5%. See Morgan Guaranty Trust Company, *World Financial Markets*, January 1984, table 9.

[15]In the absence of specific data on such financing, it should be noted that net inflow on Latin America's capital account fell by almost 54% in 1982 and 73% in 1983, after having risen by 47% in 1981. In 1983 net capital inflow was only 12% of what it had been in 1981 and 17% of what it had been in 1980. See ECLA, "Preliminary overview of the Latin American economy during 1983", *op. cit.*, table 7 and *Economic Survey of Latin America, 1982*, Santiago, Chile, December 1983 (E/CEPAL/L.286), table 30.

Although there was thus an objective basis —the lack of financing— for the drastic adjustment which Latin America had to bear, the magnitude of the adjustment seems to have been disproportionate considering the origin and foreseeable duration of the causes of deterioration of the region's external accounts. The adjustment does not seem to have been efficient either as regards Latin America or as regards the international economy. Moreover, if all these external disturbances should turn out to be irreversible, sooner or later the countries of the region would be forced to stop meeting their external commitments.

Nevertheless, the timeliness and the quantity of financing provided by the Fund cannot be assessed without taking into account the performance of the capital account, since the Fund itself holds that its role as a catalyst of financing from other sources is just as important as or more important than the financing it directly provides.[16]

Viewed in this context, the Fund's action appears even less adequate: although the net inflow of capital to the countries which obtained Fund financing rose by around 6%, between 1980 and 1981, it fell by 9% and 43% between 1981 and 1982 and between 1982 and 1983.

These figures hardly point to success in the Fund's role as a catalyst. Nevertheless, in light of the performance of the capital account of countries that did not resort to the Fund, it could be held that the decline in the net inflow of capital to countries that did draw resources from it would have been even greater, during 1982-1983, had Fund support not been forthcoming. Indeed, in those two years, the net inflow of capital to the region as a whole fell by 56% and 73%. The average variation in the balances of the countries that did not resort to the Fund was of course much more negative. On the other hand, in 1981 the opposite was the case: net inflow of capital to the region rose by 44%, compared with a 6% increase for countries that resorted to the Fund (see table 2).

In short, an appraisal of the Fund's role as a catalyst leads to ambiguous conclusions when both the above criteria are considered, particularly if global figures are disaggregated.[17]

It is not clear, however, whether either one of these criteria is the most suitable one. Indeed, from both the analytical standpoint and that of the Fund's by-laws, it would appear that an efficiency criterion would be the most useful and suitable one to use. With this criterion, the performance of the Fund, both as regards the financing it provides directly and as regards that which it promotes indirectly, should be evaluated in terms of the magnitude of the current-account deficit which is attributable to temporary external factors.

It must be recognized, however, that no matter how inadequate Fund financing might be, without it the adjustment might have been much more stringent, as Fund representatives are prone to remind us.[18] Another possibility often overlooked by those who advocate this type of approach is that had this been the case, many countries would have had to choose between eating or continuing to serve their external debt.

In any event, when viewed in this light, the appropriate criterion is not set by past results or by future goals established in the adjustment agreement itself, nor even by efficiency considerations, but rather by what would have happened in the absence of Fund financing and investment programmes.[19] This type of evaluation

[16]See again "A conversation with Mr. dè Larosière", *op. cit.*, 1982.

[17]As is often the case, the figures for one, two or three countries strongly affect totals or averages. For example, although the net inflow of capital to all countries which drew resources from the Fund fell by 43% in 1983, the figure would be −18% if Mexico and Brazil were left out. Likewise, while the total capital account deficit of countries that did not resort to the Fund in 1983 rose by almost 190%, if Colombia and Trinidad and Tobago were left out, the deficit for this group would only rise by a little over 17%. (For data on the region's balance of payments for the period 1980-1983, see ECLA, "Preliminary overview of the Latin American economy during 1983", *op. cit.*, table 7; and *Economic Survey of Latin America, 1982, op. cit.*, table 30. See also International Monetary Fund, *International Financial Statistics*, Vol. XXXVII, No. 1, January 1984.

[18]See, for example, Manuel Guitián, "Economic Management and International Monetary Fund Conditionality", in Tony Killick, ed., *Adjustment and financing in the developing world: the role of the International Monetary Fund* (London, International Monetary Fund, in association with the Overseas Development Institute, 1982).

[19]*Ibid*, pp. 99-101.

—by counter-factual hypothesizing— is very interesting but begs the issue: whether or not the Fund is supposed to promote international prosperity and stability and, if it is, whether or not it is doing so.[20] Being as it is an eloquent appraisal method, it could also be used as a way of dodging responsibility for the disaster that has occurred.

The paucity of external financing with respect to the exigencies of the current economic crisis seems mostly to reflect the fact that the procedure used to set and readjust the countries' quotas in the Fund is not really based on efficiency criteria,[21] although it may in part be influenced by the Fund's decision of mid-1981 to toughen conditionality. And there is no doubt that if behind it all there is an adequate capacity or inclination to finance an efficient adjustment process, this process will perforce be more stringent than necessary. At the same time, there is a risk that recession, such as the present one, will be unnecessarily severe. But it must be admitted that there is no easy solution to the problem, inasmuch as it calls for unusual initiatives such as greater disbursements of resources from creditor countries or some kind of joint action on the part of debtor countries.[22] Nevertheless, there are other significant deficiencies in the Fund's approach that could be remedied at no cost.

B. The deficiencies of conditionality and other domestic adjustment policies

1. *The rationale and implementation of the Fund's programme*

a) *The policy mix*

i) Definitions

It is useful to differentiate the Fund's adjustment policies into performance criteria, preconditions and policy understandings.[23]

The main elements of the Fund's adjustment agreements are its so-called performance criteria, which not only concern the variables on which economic policy must act, within the framework of the orthodox paradigm, in order to orient the adjustment process but are used as mechanisms for following-up on and monitoring progress towards achievement of the macroeconomic targets established in the agreement, and, as such, determine whether or not the Fund's disbursements are made as originally scheduled. This conditionality function may also have a significant impact on the level of financing from other sources, particularly from private international banks. When they are met, the performance criteria serve as a sort of "seal of approval" of the management of domestic economic policy that can be used to advantage on the international financial market. Failure to meet performance criteria could limit or even close a country's access to that market.

Performance criteria are established for each trimester covered by the adjustment agreement and, traditionally, for a particular date during that period. Fund financing is also made available on a quarterly basis, generally in equal

[20]This matter has been discussed by Sidney Dell, in "Stabilization: the Political Economy of Overkill", in John Williamson, ed., *op. cit.*

[21]See Helleiner, *op. cit.*, 1983.

[22]It is conceivable, however, that more flexible use of the front-end loading procedure by the Fund could have helped, precisely because of its catalytic effect, to attenuate if not to halt the deterioration of external accounts. Although the Fund is empowered to follow this procedure in cases of very serious imbalances, it has been reluctant to do so, as may be seen from the recent experiences of the countries of the region (see table 1 and note 10). On the other hand, it is doubtful whether more extensive use of the Extended Fund Facility, which covers long-term adjustment programmes, would have made adjustment any less stringent, since the level of financing that could be obtained annually by means of the EFF is no greater than could be obtained from an SBA. In addition, countries can obtain successive SBAs or obtain an EFF loan following an SBA, or vice versa. SBAs provide no advantage other than that which might be had from knowing further in advance the amount of resources that are potentially available from the Fund. This could be important, but since adjustment policies and conditions for the disbursement of funds are renegotiated each year of an EFF loan, the probability of obtaining all the financing originally envisaged is not as great as it might seem.

[23]See Joseph Gold, "Conditionality", *Pamphlet Series*, No. 34 (Washington, D.C., International Monetary Fund, 1979); John Williamson, "The Lending Policies of the International Monetary Fund", in Williamson, *op. cit.*; William H.L. Day, "Domestic Credit and Money Ceilings under Alternative Exchange Rate Régimes", *IMF Staff Papers*, Vol. 26, No. 3 (September 1979); Manuel Guitián, *op. cit.*, 1981; and Russel Kincaid, "What Are Credit Ceilings?", *Finance and Development*", Vol. 20, No. 1 (March 1983).

amounts throughout the programme, and is subject to full compliance with all the performance criteria established in the agreement. Failure to meet any of these criteria automatically provides sufficient grounds for suspending financing because, for the Fund, any discrepancy between actual results and performance criteria is asignal that the adjustment is not being carried out properly and as agreed —unless evidence is provided to the contrary. If the discrepancy in question only represents a minor departure from a quantitative performance criterion, the IMF may waive the criterion that has not been satisfied and resume disbursements. Otherwise in order for the country to be able to receive further Fund financing, the original programme will have to be modified or a new agreement negotiated.

Pre-conditions and policy understanding both entail certain obligations as regards the use of what might, in general, be called policy tools, e.g., the exchange rate, government expenditure or interest rates. Nevertheless, pre-conditions are different from policy commitments because, as the name suggests, they refer to measures that must be taken *before* an adjustment agreement officially begins and financing is disbursed. Moreover, for obvious reasons, pre-conditions usually consist mainly of discreet changes in the exchange rate and measures to support it, whereas policy understandings may relate to any measure considered necessary or useful to achieve the targets set out in the adjustment programme.

It should also be noted that, contrary to the case with performance criteria, failure to comply with a policy understanding does not entail automatic interruption of disbursements of Fund financing. Nevertheless, these understandings are included within the concept of conditionality which governs use of Fund resources; noncompliance could eventually affect a country's access to Fund financing.

To understand the rationale —or lack of rationale— underlying the types of policies which the Fund employs in its adjustment programmes, one has to know more about the macroeconomic model it uses. A preliminary analysis will enable us to distinguish between policy measures which work through monetary variables and those which work through prices. In general such a dichotomy also obtains with respect to those variables that are chosen as performance criteria and those that do not automatically condition the disbursement of Fund resources.

ii) Theoretical underpinnings

—*The means of payment (the monetary approach to the balance of payments).*[24] As in the case of a closed economy, the monetarist approach to economic policy in an open economy begins by assuming a stable demand function for real monetary balances.[25] However, contrary to the case of a closed economy, in which the authority is able to control the stock of money —which means that management of economic policy is reduced, essentially, to determining the trend of demand for money and the assets of which it is constituted—, in an open economy with a fixed exchange rate, the monetary authority cannot control either the stock or flow of money. The only thing it can control is the component which originates from domestic sources, i.e., net domestic assets (which consist mainly but not exclusively of net domestic credit).

If the exchange rate were absolutely flexible, the case of an open economy would be similar, in principle, to that of a closed economy as far as the possibility of managing the money stock is con-

[24]For a discussion of the monetarist approach to the balance of payments, see Robert Triffin, "Esbozo general de un análisis de las series estadísticas monetarias de América Latina sobre bases uniformes y comparables", in Banco de México, *Memoria: Primera Reunión de Técnicos sobre Problemas de Banca Central del Continente Americano* (Mexico, 1946); J.J. Polak, "Monetary Analysis of Income Formation and Payments Problems", *IMF Staff Papers*, Vol. 6 (November 1957); Harry G. Johnson, "The Monetary Approach to Balance of Payments Theory", *Journal of Financial and Quantitative Analysis*, Vol. VII (1972); Manuel Guitián, "Credit versus Money as an Instrument of Control", *IMF Staff Papers*, Vol. 29, November 1973. See also Jacob A. Frenkel and Harry G. Johnson, ed., *The Monetary Approach to the Balance of Payments* (London, George Allen Unwin Ltd., 1976); International Monetary Fund, *The Monetary Approach to the Balance of Payments: a compilation of studies prepared by Fund staff members*, Washington, D.C., 1977; Jacob A. Frenkel and Harry G. Johnson, ed., *The Economics of Exchange Rates* (Reading, Mass., Addison Wesley Publishing Co., 1978); and Manuel Guitián, *op. cit.*, 1982.

[25]It also assumes stable functions for the non-banking public's demand for cash (in relation to the demand for money in the form of bank deposits) and for banks' demand for reserves (in relation to their investments); in other words, it also tends to assume a stable function for the monetary multiplier.

cerned. Indeed, an excessive supply of means of payment with respect to demand for real monetary balances is eliminated through a rise in the price level, including the price of foreign exchange, i.e., the exchange rate. However —and this is very important— as long as the authorities allow concern for exchange rate stability to condition their other policies, the money stock becomes endogenous. In other words, if in practice the authority is not prepared to allow the exchange rate to freely fluctuate, it will not be able to determine the stock of means of payment either.

As regards *net domestic assets*, the difference between an open economy with a fixed exchange rate and others is determined by the fact that in an open economy in which the exchange rate is not entirely flexible, the non-financial sector can bring its nominal money holdings in line with its demand for money by means of its transactions with the rest of the world. When faced with a surplus of money, the non-bank public can adjust its holdings to the desired level by "exporting" the surplus to the rest of the world; and in the opposite case, it can "import" what it needs from abroad. In other words, the public can reconcile its nominal holdings of money with its demand for means of payment by producing a deficit (reducing the supply of net external assets and hence of money) or a surplus (increasing the supply of net external assets and of money) in the balance of payments.[26]

Thus, in an economy with a fixed exchange rate, the authorities will find their efforts to control the money supply frustrated to the extent that their target does not coincide with the quantity of money which the public is willing to hold. Moreover, the existence of equilibrium between the supply of and demand for money does not guarantee a parallel equilibrium in the balance of payments (this being understood as the balance which the authority considers sustainable and desirable) since, in principle, equilibrium in the monetary market is compatible with any composition of net external assets and net domestic assets. This being the case, the authorities would only be able to meet their overall external-accounts target by bringing the creation of net domestic assets in line with that target, on the one hand, and with the demand for money, on the other. In other words, in order to satisfy simultaneously the public's demand for real monetary balances and their overall goal for the balance of payments —their demand for net external assets— the authorities must adjust the supply of domestic assets. Moreover, because management of this financial variable is the key to the achievement of simultaneous equilibria in the monetary and the external markets, it is of necessity also crucial to the attainment of equilibrium in the market for goods and services, given the initial assumption of a stable demand function for real monetary balances.[27]

These results point clearly to one performance criterion: the management of net domestic assets (of net domestic credit).

As regards *domestic and external financing of the public sector*, just as equilibrium in the money market can be achieved with any combination of net external and domestic assets, the global balance-of-payments target can be achieved with any number of combinations of current-account and capital-account balances and the residual expansion of net domestic assets can arise from different allocations as between the public and the private sectors. As a general rule, therefore, programming the supply of net domestic assets will not by itself suffice to achieve a sustainable balance-of-payments position or to promote growth and efficiency of investment; to achieve these objectives, the management of net domes-

[26]It should be noted that in order for equivalence to obtain between the loss (or accumulation) of international reserves and the reduction (or increase) of means of payment, the overall payments balance must reflect the position of the entire banking system, or the monetary multiplier must equal one. Nevertheless, a constant monetary multiplier would be sufficient to validate the substantive results of the approach. It is also assumed that the monetary authority cannot permanently compensate for ("sterilize") the monetary impact of external transactions.

[27]When equilibria are achieved in N-1 markets, they are insured on all markets (here N=3). However, general equilibria of flows do not necessarily imply equilibria of stocks (in this case, money and net international reserves) in each period, unless stock equilibria are initially obtained. Moreover, inclusion of a securities market would strengthen the results of the model, inasmuch as it would make it possible to take into account the links between credit, interest rates and the balance of payments (see Manuel Guitián, *op. cit.*, 1973).

tic assets would have to go hand-in-hand with measures designed to affect the composition of the balance-of-payments and the sectoral distribution of credit.

The idea of a sustainable balance-of-payments position has to do with how much of the current-account deficit can be financed over the long-term and, consequently, with the economy's capacity to absorb (spend) available resources (real and financial, domestic and external) productively. Since the counterpart of a current-account deficit is, broadly speaking capital imports, the achievement of a sustainable external accounts position entails limiting external indebtedness so as to bring it in line with said capacity. For reasons which are not obvious from this analytical point of view, however, the Fund only recommends a restriction of the external indebtedness of the public sector.[28] This policy constitutes another performance criterion.

In order to protect the level of activity and the growth of production capacity at a time when restrictions are being placed on the supply of domestic credit and on external indebtedness, it is necessary to implement measures to channel available credit towards the financing of investment, including working capital (instead of towards consumption) and, in particular, towards more productive investment. For reasons that possibly have to do with its praxis, the Fund has pursued these objectives by specifically restricting bank financing of public-sector expenditures.[29] This policy is also used as a performance criterion.

As regards the *public-sector deficit*, ceilings on the public sector's external and domestic indebtedness with banks entail a corresponding restriction on its magnitude, the degree of which varies according to the level of development of the domestic capital market. In the extreme —but not necessarily unusual— event that there should be no organized market for financial assets outside the banking system, this restriction is, in principle, rigorous, since deficit spending and the creation of money are one and the same. Otherwise, these restrictions do not strictly limit the public-sector deficit. Nevertheless, as is the case when there is no capital market, there is a limitation on the creation of credit and the public sector augments its absorption of bank resources, the expansion of deficit spending beyond these restrictions implies that the total amount of monetary resources available for financing private sector expenditure must be reduced *pari passu*. Therefore, when there is a domestic capital market it would be germane to accompany restrictions on credit with a performance criterion relating to the magnitude of the public-sector deficit.

These considerations emphasize the link that may exist between the public-sector deficit and the creation of money, on the one hand, and between the public-sector deficit and private investment, on the other, and hence the role that deficit spending can play in generating external and domestic disequilibria. It has been suggested that this approach might be considered a "fiscal" rather than a "monetary" one. In any event, when there is no capital market or when it is only beginning to develop, restricting the growth of the means of payment to a rate compatible with financial equilibrium will necessarily mean reducing the public-sector deficit.

As regards *net external assets*, the purpose of restricting the expansion of net domestic assets as well as of limiting domestic and external financing of public-sector expenditures is to adjust the balance of payments to a target that is considered viable. Consequently, if these performance criteria are met, it should be possible to achieve the external-accounts target, provided the assumptions and parameters of the model are valid. Nonetheless, this target is also included as a performance criterion in the Fund's adjustment programmes.

In summary, the monetarist nature of the paradigm largely explains how most of the performance criteria are chosen. From its neoclassical background (the belief that international efficiency and prosperity are maximized in markets that are free of such interferences as controls on capital flows, tariffs or quotas) issues another

[28]State-guaranteed private external indebtedness is sometimes included as well.

[29]Although the Central Bank cannot control its net domestic assets unless it is able to limit its public-sector financing, the issue here is the creation and allocation of credit by the entire financial system. This predisposition against the public sector is apparently based on the premise that when credit is scarce, the State always is able to outcompete the private sector for it.

criterion, the only one that is not of a quantitative nature, i.e., that no new obstacles to the international flow of goods, services and capital must be introduced. The remaining criterion, i.e., that arrears in payment must be eliminated, is also related to it.

Performance criteria for almost all adjustment programmes include restrictions on the following: 1) net domestic assets (domestic credit, plus certain minor assets, minus bank deposits of the government and other secondary liabilities); 2) net domestic credit to the non-financial public sector (domestic credit to the State, minus bank deposits of the government); 3) external indebtedness of the public sector; 4) net external assets (gross international reserves minus short-term external indebtedness), and 5) the introduction of new measures restricting external trade, remittances of factor service payments, or capital flows. In some cases, the following may also be included: 6) elimination of arrears in external payments and 7) restriction of the magnitude of the deficit of the non-financial public sector.

Criteria relating to the financial sector could in principle apply to the Central Bank or to the entire banking system, depending on which is more stable, the monetary multiplier or the public's demand for money.[30] The criterion relating to the overall deficit of the non-financial public sector can be eliminated when there is no capital market outside the banking system and the one relating to external indebtedness can be extended to State-guaranteed private indebtedness if it is held that the State's total obligations are excessive. Finally, the criterion relating to payment arrears is obviously only applicable in certain cases.

The criteria relating to monetary aggregates are established as minimum (net external assets) or maximum (net domestic assets and net domestic credit to the public sector) levels for a given day in each quarter during the life of the agreement. The criterion relating to the total deficit of the non-financial public sector is usually set on an annual basis, while the one relating to external indebtedness of the public sector usually involves loans for terms of less than ten years, especially loans for terms of less than five years (except short-term supplier loans).

—*Prices*. The other major policies which the Fund employs in its adjustment programmes have to do with prices; however, these are not applied as performance criteria. Of the measures which are usually required as pre-conditions or policy understanding, the ones that are crucial to the achievement of external and internal balance are those pertaining to public finance, the exchange rate, salaries and wages and interest rates. We shall now discuss the latter three.

As regards *the exchange rate*,[31] if it is fixed, an excessive supply of money will lead to a deficit in the global balance of payments. It is evident,

[30]As is known, the monetary multiplier is derived from the public's preferences regarding the distribution of its money holdings between cash and bank deposits, those of the commercial banks as regards the relationship between their reserves and their liabilities, and the reserve requirements established by the monetary authority; in other words, its value depends on the demand for the monetary base (cash outside banks plus bank reserves). If the demand for the monetary base were unstable, restricting the net domestic assets of the Central Bank could hinder the achievement of any target for net external assets, regardless of whether it applies to the Central Bank or to the banking system, since the financial sector is able, through its transactions with the rest of the world, to bring its nominal money holdings in line with its demand for means of payment. In this case, in order to achieve the balance-of-payments target, the monetary authority must in fact compensate for the fluctuation of the monetary multiplier by varying its stock of net domestic assets. On the other hand, if the demand for money were unstable, the achievement of any balance-of-payments target, would involve the adjustment of the entire banking system's stock of net domestic assets.

[31]See Sidney S. Alexander, "Effects of a devaluation on a trade balance", *IMF Staff Papers*, Vol. 2 (April 1952); S.C. Tsiang, "The role of money in trade-balance stability: synthesis of the elasticity and absorption approach", *American Economic Review*, September 1961; Manuel Guitián, "The effects of changes in the exchange rate on output, prices and the balance of payments", *Journal of International Economics*, Vol. 6, No. 1 (February 1976); Carl P. Blackwell, "Reflections on the monetary approach to the balance of payments", paper presented at the Third Conference of Central Banks of the Pacific Basin on Econometric Models, Wellington, New Zealand, 8-11 November 1977; Harry G. Johnson, "Money, balance of payments theory and the international monetary problem", *Essays in International Finance* (Princeton, Princeton University, Department of Economics, 1977, No. 124, November 1977); Jacob A. Frenkel and Harry G. Johnson, *op. cit.*, 1972; John F.O. Bilson, "Recent developments in monetary models of open economies", *IMF Staff Papers*, Vol. 26, No. 2 (June 1979); Joanne Salop and Eric Spitaller, "Why

however, that this type of disequilibrium can be eliminated through transactions with the rest of the world only as the monetary authority has or is able to obtain a sufficient amount of external assets and does not hinder the international flow of goods, services and capital. If international reserves run out or fall to a level the authority considers to be the minimum allowable —or if the economy's capacity for external indebtedness becomes exhausted or reaches a level considered to be the maximum desirable— an excess supply of money will have to be eliminated by reducing the stock of net domestic assets and/or by a rise in prices, including the exchange rate.

In such circumstances, the question arises whether it is advisable to choose between one policy or the other in order to orient the adjustment process. The Fund's paradigm allows for the possibility of its being necessary to act directly on the exchange rate instead of depending solely on reducing the stock of domestically supplied means of payment, in order to achieve adjustment without causing undue production and employment losses. One justification might be based on rigidities that render domestic price declines uncertain, irregular and slow or capital flows perverse or inelastic. Another might be that domestic markets for goods and assets were adjusting at different speeds. A devaluation might also be justified, from the orthodox point of view for purely pragmatic or strategic reasons, since a modification of the exchange rate is an alternative to the use of discretionary measures, such as tariffs, quotas or controls on capital movement, to offset excess demand. However, if there are rigidities in the economy's real prices a devaluation can achieve no more than a monetary deflation.

In any event, it should be noted that within the framework of the monetarist paradigm, an external imbalance can only persist while, and to the extent that the supply of means of payment outstrips the demand for real monetary balances, regardless of what the initial causes of the maladjustment may have been. Consequently, the option is not between devaluation or deflation, but rather between a modification of the exchange rate and the degree to which monetary and fiscal policies are to be restrictive.

Let us assume that an excessive creation of domestic credit has led to a situation in which it is necessary to reverse, at least partially, the loss of international reserves. Let us assume, moreover, that the demand for real monetary balances has at the same time stopped growing —perhaps because of this same external restriction.

If the exchange rate is not adjusted it will be necessary to create a shortage of means of payment to achieve the balance-of-payments surplus, and this implies that the absolute stock of net domestic assets must be reduced. Doing this to reach an acceptable level of net external assets means, in turn, slashing the stock of net domestic credit outstanding to the private sector and/or achieving a public-sector budget surplus.

On the other hand, devaluation by transforming the value of the stock of net domestic assets into one that is compatible with the demand for real monetary balances, would "validate" the past expansion of the stock of domestically supplied money. In other words, by increasing the domestic price level, devaluation creates an excess demand for money and thereby makes it possible to achieve the desired balance-of-payments surplus without having to diminish the stock of net domestic assets and, thus, without having to reduce the indebtedness of the private sector or achieve a surplus in the public sector's budget,[32] what is needed is monetary and fiscal policies that will check the domestic creation of money. Otherwise the excess demand for real balances will be decreased, both directly and indirectly.

does the current account matter?", IMF *Staff Papers*, Vol. 27 (March 1980); Ronald I. McKinnon, "The exchange rate and macroeconomic policy: changing postwar perceptions", *Journal of Economic Literature*, Vol. XIX, No. 2 (June 1981), and the Report of the Conference on Exchange Rate Régimes and Policy Interdependence (sponsored by the International Monetary Fund and the National Bureau of Economic Research, Washington, D.C., 31 August 1982), in IMF *Staff Papers*, Vol. 30, No. 1 (March 1983); in particular, see William H. Branson, "Economic structure and policy for external balance".

[32]To the extent that a devaluation leads to a rise in the price level, it has the side-effect of reducing the real value of non-readjustable financial assets such as the money stock. If the demand for money is a demand for real monetary balances, when the level of prices goes up there will be an excess demand for money given the existing stock, unless the public

When there are rigidities in the economy that make it impossible to offset a drop in the means of payment with an immediate deflation of the domestic level of prices or surplus in the overall balance of payments, domestic expenditure and hence the level of domestic activity must fall, to restore balance in the monetary market, i.e., to eliminate the shortage of means of payment.[33] Moreover, considering the potential output trend, unrecoverable output losses will be sustained so long as and to the extent that the reduction of the money stock is not entirely offset by adjustments in relative domestic prices and/or the overall balance of transactions with the rest of the world.

If at the same time the rigidities are uneven as between the different markets, so that adjustment processes are more speedy and uniform in the assets market than in the markets for factors and goods and services, the brunt of the balance-of-payments adjustment will fall on the capital account. Thus, an adjustment policy that depends exclusively on monetary deflation will not, under such circumstances, be sufficient in and of itself to ensure a sustainable balance-of-payments position, even if it were capable of achieving the desired improvement without causing upheavals in domestic production. In such circumstances the authority would have to use an instrument that would have a more direct effect on relative prices, i.e., the exchange rate.

Finally, the prevalence in the economy of expectations contrary to those required for an efficient adjustment via monetary deflation would suffice to frustrate it. For example, if a devaluation is expected, interest rates might have to reach levels that, as far as the evolution of economic activity is concerned, would be intolerably high before the shortage of money could be eliminated.

On the other hand, an exchange rate hike, in addition to being implementable instantaneously, produces a pervasive modification of relative domestic prices, unless some real prices, either for goods, factors or assets, are so rigid that they absolutely cannot be brought down. In the absence of such rigidity, devaluation would be preferable to monetary deflation as far as the effect on the stability of the product and employment and the viability of the balance of payments are concerned even if some nominal prices were resistant to decline. When and to the extent that domestic expenditure on imports and exportable goods is diverted to non-tradeable goods and to import substitutes and the factors of production are re-allocated from the sectors producing non-tradeables to those producing tradeable goods, a real devaluation compensates for the excess demand for real balances to which it gives rise. It thus reduces the extent of the depression of output below the actual or the potential level of production needed to restore money market equilibrium.

If a modification of the real exchange rate were not sufficient to improve the current account, it would not matter, for the attainment of external equilibrium, whether the nominal exchange were raised or the domestic price level were lowered. If the economy has rigidities that make a real devaluation impossible, then there would be no advantage to choosing devaluation over monetary deflation. Moreover, under such circumstances, devaluation would be equivalent to monetary deflation, since in either case adjustment would be promoted solely through the creation of a shortage of money. That is why an exchange modification is usually accompanied by measures that exercise a more direct impact on other relative prices.

Finally, expectations can also frustrate a devaluation and make it highly recessive. But these expectations should influence the timing and the magnitude of a rise in the exchange rate rather than the choice between devaluation and monetary deflation.

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expects this increase to persist, that is, to turn into inflation (in which case the demand for money may even drop). An excess demand for money can only be eliminated, in the context of this approach, by means of an increase in the interest rate, a decrease in income, an increase in expected inflation or an increase in the supply of means of payment. The simultaneous existence of a restrictive monetary policy suggests that any increase in the supply of money would have to come from foreign sources —from balance-of-payments surplus— and this is in fact the aim.

[33]There may also be rigidities that make it impossible to immediately implement a monetary deflation. Also, if there is no change in relative domestic prices the reduction of domestic expenditure will have a disproportionate effect on the domestic product, unless the marginal propensity to import is greater than 1/2.

As regards *salaries and wages*,[34] the adjustment of the economy to a lower current-account deficit, implies that real salaries and wages must be affected to the extent that they determine the real exchange rate and domestic expenditure, for otherwise domestic production will be depressed beneath its potential and/or the growth rate of production capacity will be curtailed.

Increasing the real exchange rate, either in the framework of a nominal devaluation or in that of a monetary deflation, means reducing the costs of production with respect to the prices of tradeable goods and services. Although this condition puts a ceiling on the nominal increase wages and salaries may experience after a devaluation (or implies a nominal decrease in wages and salaries in the absence of devaluation), it does not mean that real salaries and wages must necessarily fall in order for the real exchange to rise.[35] In other words, it is conceivable —though not likely— that prevailing circumstances would be such that it would be feasible to reduce the current-account deficit without reducing real wages and salaries or creating unemployment.[36]

In contrast, to be able to reduce domestic expenditure with respect to the product without jeopardizing the pace of accumulation, it is usually essential to cut real salaries and wages, since otherwise it would not be possible to increase domestic savings; in other words, it would not be possible to finance the existing level of investment expenditure.[37]

To the extent that it were necessary to diminish real salaries and wages to avoid depressing the level of activity or sacrificing future growth, such a reduction would, according to the orthodox approach, be nothing but the consequence of excessive real wage growth in the past or of a permanent loss of national income.

As regards the *interest rate*,[38] in an open economy with a fixed exchange rate, the monetary authority is obliged to adjust the stock of net domestic assets in order to satisfy simultaneously the public's demand for real balances and its own goal for the overall balance of payments. In this context, the interest rate becomes endogenous: the authority cannot simultaneously control the supply of monetary aggregates and the interest rate. Moreover, in an economy in which interest-bearing domestic and external assets are perfect substitutes, the domestic interest rate cannot diverge permanently from the one prevailing in the international market unless the international mobility of capital is imperfect. Also, if the economy is a small one, its interest rate will not affect the international rate.

If the exchange rate is fixed, the domestic interest rate can deviate from the external one to the extent that there are expectations of a variation in the exchange rate. Over the long run,

[34]See, for example, Rudiger Dornbusch, *Open economy macroeconomics* (New York, Basic Books, Inc. Publishers, 1980), Part 2; William C. Cline, "Economic stabilization in developing countries", *op. cit.*, and Omotunde Johnson and Joanne Salop, "Distributional aspects of stabilization programmes in developing countries", IMF *Staff Papers*, March 1980, and Rudiger Dornbusch, "Comments", in John Williamson, ed., IMF *Conditionality, op. cit.*

[35]Let us suppose that in a small economy both the value of the product and the value of consumption are made up equally of tradeable goods and services and non-tradeable goods and services; that salaries and wages represent on average 50% of the costs of production in both sectors; that no intermediate goods are imported, and that, in general, producers of non-tradeables are incapable of exerting any lasting influence on prices. In such circumstances, it is easy to show that achieving a real devaluation does not entail decreasing the real remuneration of the labour force. For example, let us assume that the nominal exchange rate rises by 60% and, consequently, that the nominal salaries and wages rise by 40%, on average. According to the above assumptions, this rise will lead to an average increase of 20% in prices of non-tradeables. Real salaries and wages will not have fallen, because their nominal increase has fully offset the variation in the domestic level of prices: $\frac{160 + 120}{2}$. Nonetheless, the real exchange rate will have risen by 33.3% (160/120). (Of course, during the process of adjusting expenditure and the product to the new relative domestic prices, the prices of non-tradeables will again rise.) (This example is similar to the one given by Cline, *op. cit.*, p. 181.)

[36]To show how difficult it is to maintain the level of activity during an adjustment process, it is sufficient to point out that, in order to do this, the entire decrease in domestic expenditure would have to fall on imports, whereas the decrease in investment would have to fall entirely on the growth rate of production capacity (and not on its utilization).

[37]Nevertheless, this restriction would not necessarily operate if the marginal propensity to consume out of income from profits and rents in the sector producing tradeable goods and services were lower than that prevailing in the sector producing non-tradeables, or if the efficiency of investment could be increased.

[38]See, for example, William H. Branson, "Economic structure and policy for external balance", *op. cit.*

however, the real domestic rate would still reflect the real rate on the international market. If the exchange rate is totally flexible, the authority can, in principle, choose between managing the money supply and controlling the interest rate. In this case, however, the need for an adjustment would not arise, since the total flexibility of the exchange rate implies a balance-of-payments position that is always equal to zero. Consequently, the only case which concerns us for purposes of establishing an interest-rate policy relating to adjustment is the one in which the exchange rate is not entirely flexible.[39]

In this context, the policy should be aimed at not hindering the spontaneous behaviour of the interest rate; otherwise the role it should play in achieving adjustment may be undermined. Let us assume that the adjustment programme creates a money shortage, whether through monetary deflation or through devaluation. The counterpart to excess demand on the monetary market is excess supply on the markets for goods and assets and it is precisely through the resolution of these disequilibria that the balance of payments is to be improved. In order to restore equilibrium on the monetary market, it is necessary to raise the interest rate so as to bring about a net inflow of external assets. Under such circumstances, the establishment of an interest rate lower than that required for balance means inverting the process of monetary deflation (or exchange devaluation) and weakening or eliminating the incentive to the net inflow of capital. On the other hand, if a rate higher than the market rate is established, the level of activity and the growth of production capacity will be sacrificed unnecessarily.

iii) Implementation of the Fund's adjustment programmes in Latin America

As regards the policy mix —performance criteria, pre-conditions and policy understandings— employed in the IMF adjustment programmes in force in Latin American and Caribbean countries at the end of 1983, it should be noted that all of them —Stand-by arrangements or Extended Fund Facility loans— are almost the same. As regards performance criteria, there is hardly any difference among the 17 adjustment programmes except for the fact that when the relevant agreements entered into force, some countries had accumulated arrears and others had not (see table 3).[40] It is noteworthy that all of the programmes establish ceilings on the net domestic assets of the Central Bank (and not of the overall banking system),[41] and that none of them has a performance criterion relating to the deficit of the public sector.

The first similarity is rather surprising, since it is difficult to believe that the monetary multiplier is more stable than the demand for money in every one of those countries. *A priori* no definite conclusion can be reached in this respect. Empirically, the results are also contradictory.[42] However, such a situation would appear to be the only theoretical justification for the fact that this same performance criterion is the same in all 17 adjustment programmes.[43]

The second similarity is surprising because it is in no way obvious that all the countries in question lack capital markets outside the banking system.[44] On the contrary, there are considerable

[39] A flexible exchange rate could be stabilized, but in that case the situation would again be one in which the exchange rate was fixed or not entirely flexible.

[40] Table 3 does not include the performance criterion —included in all the agreements— which precludes the application of measures that would restrict the international trade of goods, services and capital.

[41] In two countries (Brazil and Peru), performance criteria pertaining to monetary aggregates include, in addition to the Central Bank's balance, the balances of other State banks which act as monetary authorities.

[42] See William Fellner, "Criteria for useful targeting: money versus the base and other variables", *Current Issues in the Conduct of US Monetary Policy, A conference sponsored by the American Enterprise Institute for Public Policy Research*, 4-5 February 1982, Washington D.C., published in *Journal of Money, Credit and Banking*, Vol. XIV, No. 4, part 2 (November 1982).

[43] Actually, there are other alternatives (bank reserves or the discount rate, for example) to using the supply of net domestic assets as the operational variable for purposes of monetary programming. It has even been shown that there is no ideal way to manage the means of payment, i.e., no particular approach produces the best results in any given disturbance of the monetary market. In the light of these considerations, the aforementioned uniformity appears even more questionable. See Ralf C. Bryant, "Federal reserve control of the monetary stock", *Current Issues in the Conduct of U.S. Monetary Policy, op. cit.*

[44] It may also be surprising because it is generally believed that the public-sector deficit is one of the performance criteria of the Fund's programmes.

differences among them as regards the volume of financial intermediation conducted outside banks. This uniform treatment likewise, therefore, seems neither to issue unequivocally from the theory on which the Fund's adjustment programmes are based nor to be congruent with the objective conditions prevailing in the region. Whatever may be the ultimate significance of these two apparent anomalies, a question arises as to the consistency between the content of the Fund's actual adjustment programmes and its underlying theoretical approach.

As far as policy understandings are concerned, the adjustment programmes also show a high degree of uniformity (see table 3).[45] This in itself is not so significant; what is more important is the magnitudes involved, i.e., how much the exchange rate had to be raised, to what extent it was decided to increase the government's current income, etc. Nonetheless, there are four points that should be mentioned. In the first place, this section of table 3 is enlightening because of what it omits. Indeed, whereas salaries and wages and real expenditures of the public sector are explicitly or implicitly restricted, and other key prices, such as those of public services and the exchange rate, are increased in real terms, there is no policy whatsoever that is aimed at conditioning the level of prices of goods and services in the private sector.

This asymmetry could make it difficult to obtain the conditions needed so that a restriction on the growth of money with respect to prevailing inflation —monetary deflation— may lead to a deceleration of inflation and an improvement of the external position rather than to a fall in the level of activity. If inflationary expectations are guided by past inflation, or, what would be worse but even more likely, by real rises in the exchange rate, in prices of public services and in taxes, over the short term a restriction in the growth of the means of payment would depress the domestic product without checking inflation or strengthening the balance of payments.[46] In short, some measure or measures have to be taken to bring inflationary expectations in line with the restrictions on the remuneration of the labour force and the creation of money.[47]

On the other hand in the adjustment agreements one notes a certain disaggregation of variables, a characteristic which was noteworthy for its absence in the Fund's programmes in the past. Indeed, these agreements do not dwell exclusively on the most highly aggregated variables such as the public-sector deficit; rather, they include measures pertaining to current income, certain taxes, current expenditures and capital outlays. Some of the programmes provide for increasing capital expenditures in real terms and decreasing current expenditures (see table 3).

It would be reasonable to think that this apparent trend towards more detailed policy understandings was the result of a concern for the structural aspect (the supply side) of the adjustment process. However, there is no evidence, from the available information, that the long-term adjustment programmes (EFF) provide for a more detailed set of measures than the short-term adjustment programmes (SBA). This

[45]It should be noted that it was not possible to establish with any degree of certainty the existence of pre-conditions to the agreements considered here.

[46]It would be enough for only one price to be inflexible to create conditions in which the product and employment, and not only the level of prices and external accounts, would fluctuate whenever there was a shock such as monetary deflation. And even if it were possible for all prices to adjust immediately, this would not be enough to prevent shocks from affecting the level of activity. Indeed, such immunity would also require instantaneous adjustments of expenditure, of the factors of production, and of capital movements to the new system of relative prices in the necessary directions and magnitudes. On the first point, see E. Malinvaud, *The Theory of Unemployment Reconsidered* (London, 1977); G. Muellbaur and R. Portes, "Macroeconomic models with quantity rationing", *The Economic Journal*, Vol. 88, No. 352 (December 1978); and William H. Branson, "Economic structure and policy for external balance", *op. cit.* On the second aspect, see, for example, Richard Lynn Ground, "El enfoque ortodoxo de ajuste: una exposición, una crítica y la búsqueda de alternativas," ECLAC Santiago, Chile, Economic Development Division, April 1984 (mimeographed).

[47]The problem of the inconsistencies of economic policies in Latin American adjustment programmes is discussed by Ramos, *op. cit.*, chapter 6, and by ECLAC, *op. cit.*, 1984. See also Jorge Marshall, José Luis Mardones and Isabel Marshall, "IMF conditionality: the experiences of Argentina, Brazil and Chile", in Williamson, *op. cit.*, 1983.

Table 3

ECONOMIC POLICIES AGREED ON BY THE LATIN AMERICAN COUNTRIES AND THE INTERNATIONAL MONETARY FUND[a]

(Agreements in force at end of 1983)

Country	Performance criteria					Policy understandings									
	Quarterly				Yearly										
	Net external assets	Payments arrears	Net domestic assets	Net domestic credit	External indebtedness	Exchange rate	Wages and salaries	Interest rates	Public-sector deficit	Current income	Current expenditures	Current savings	Capital expenditures	Total expenditures	Rates of public-sector enterprises
Stand-by arrangements															
Argentina	Central Bank	t	Central Bank	Public sector	Public sector	+			−	+	−	+		−	+
Barbados	Central Bank		Central Bank	Public sector	na		na		−	+	−	+	−	−	+
Chile	Central Bank		Central Bank	Public sector	Public sector	+	−	r	−	+	−	+		−	+
Costa Rica	Central Bank	t	Central Bank	Public sector	Public sector	+	−	r	−	+	−	+		−	+
Ecuador	Central Bank		Central Bank	Public sector	Public sector	+	−	r	−	+	−	+		−	+
Guatemala	Central Bank	t	Central Bank	Public sector	na		na	r	−	+	−	+		−	+
Haiti	Central Bank	t	Central Bank	Public sector	na		na		−	+	−	+	+	−	+
Honduras	Central Bank		Central Bank	Public sector	na		na	r	−	+	−	+	+	−	+
Panama			Central Bank	Public sector	na		na		−	+	−	+	−	−	+
Uruguay	Central Bank		Central Bank	Public sector	Public sector	+	−		−	+	−	+		−	+
Extended Fund Facility agreements															
Brazil	Central Bank-Banco Brasil	t	Central Bank-Banco Brasil	Public sector	Public sector	+	−		−	+	−	+		−	+
Dominica	Central Bank		Central Bank	Public sector	na		na		−	+	−	+	+	−	+
Grenada	Central Bank		Central Bank	Public sector	na		−		−	+	−	+	−	−	+
Jamaica	Central Bank		Central Bank	Public sector	na		na	na	−	+	na	na	na	−	+
Mexico	Central Bank		Central Bank	Public sector	Public sector	+	−	r	−	+	−	+	−	−	+
Peru	Central Bank-Banco de la Nación		Central Bank-Banco de la Nación	Public sector	Public sector	+	−	r	−	+	−	+	+	−	+
Dominican Republic	Central Bank	t	Central Bank	Public sector	Public sector			r	−	+	−	+	+	−	+

Source: ECLAC on the basis of official information and various national and international sources.

[a]The following abbreviations are used: (t) total elimination; (na) not available; (+) increase in real terms (−) decrease in real terms; (r) positive in real terms.

Table 4

TARGETS ESTABLISHED IN AGREEMENTS BETWEEN LATIN AMERICAN COUNTRIES AND THE INTERNATIONAL MONETARY FUND[a]

(Growth rates)

Country	Date of agreement	Ultimate targets: Net external assets	Ultimate targets: Inflation [b]	Ultimate targets: Inflation [c]	Intermediate targets: Ex-post real exchange rate (1980+100) 1981	1982	1983[d]	Money [e] M_1	Money [e] M_2	Operational targets: Monetary base	Operational targets: Public external indebtedness [f]	Policy instruments: Public-sector deficit (as a percentage of GDP)[g] 1982	1983	1984	Net domestic credit to the public sector: Nominal	Real[h]
Stand-by arrangements																
Argentina	24 Jan. 83	−29	−23	−16	143	189	191	170	44	119	8.3	14.0	8.0	5.0	209	−4
Barbados	1 Oct. 82	...		...	95	88	85	...	...	...	...	6.6	...	1.8	...	...
Chile	10 Jan. 83	−23	[i]	−29	99	125	138	−14	−18	−18	9.4	4.0	2.3	...	10	−10
Costa Rica	20 Dec. 82	−2	−95	−45	168	141	124	5	—	—	3.3	9.5	4.5		15	−40
Ecuador	25 Jul. 83	...	−27	−10	97	107	114	41	43	44	10.0	7.5	4.0		29	−18
Guatemala	31 Aug. 83	...	...	...	98	100	100	...	...	...	...	5.0	...	3.0	...	...
Haiti	7 Nov. 83	...	...	...	103	98	...	...	...	...	...	4.8	...	...	...	...
Honduras	5 Nov. 82	...	...	...	99	92	86	...	...	...	...	...	...	...	...	...
Panama	21 Jun. 83	...	...	...	102	100	99	...	...	...	...	...	...	...	...	...
Uruguay	22 Apr. 83	...	...	...	105	129	176	...	...	...	...	8.0	3.0	1.0	...	...
Extended Fund Facility agreements																
Brazil																
First letter	6 Jan. 83	−67	−43	−22				60	60	63	7.4	16.9	7.9	...	98	−1
Second letter	24 Feb. 83	−67	−44	−23	93	95	118	58	58	61	7.4	16.9	8.8	...	123	9
Third letter	15 Sep. 83	...	...	...				...	...	61	11.0	16.9	15.2	...	118	19
Dominica	6 Feb. 81	...	...	...	96	94	91	...	...	...	...	...	...	...	...	...
Grenada	24 Aug. 83	...	...	...	...	...	...	...	...	...	...	...	17.0	8.5[j]	...	...
Jamaica[k]	13 Apr. 81	17	−33	−5				13	15	13	11.0	...	...	...	31	18
Jamaica[l]		14	92	9	97	92	87	14	16	8	...	...	...		10	13
Mexico	1 Jan. 83	...	...	...	94	137	152	...	...	...	...	16.5	8.5	5.5	...	...
Peru	7 Jun. 82	−12	−22	−9	91	94	132	57	52	51	8.8	4.0		2.0	9	−37
Dominican Republic	21 Jan. 83	...	...	...	101	96	94	...	....	...	...	4.0	...	3.0	...	...

Source: ECLAC, on the basis of official information and various national and international sources.

[a]Provisional data subject to revision.

[b]Implicit target for reduction of inflation, i.e., the implicit target for the growth of M_1 divided by the prevailing rate of inflation (variation in consumer price index during the 12 preceding months) at the time of entry into force of the agreement with the IMF.

[c]Implicit degree of monetary deflation, i.e., the implicit target for the stock of M_1 deflated by the prevailing inflation rate.

[d]The data for 1983 represent the average from January to September.

[e]The targets for the growth of M_1 and M_2 are implicit. Calculations were made by using the monetary multiplier observed in the years preceding the entry into force of the IMF agreement, according to the formula mentioned in the text.

[f]In the case of Brazil, includes State-guaranteed private indebtedness.

[g]The figures for the first year reflect the situation prior to the agreement and the following ones refer to targets, except in the case of Peru, where only targets are shown. In 1981, its deficit was 8.0% of GDP.

[h]Deflated by the prevailing rate of inflation at the time of entry into force of the agreement.

[i]More than 100.

[j]Figures for 1985-1986.

[k]April-December 1981, unless otherwise indicated.

[l]Refers to 1982, unless otherwise indicated.

is also noteworthy, since one might expect to see some difference between short- and long-term adjustment programmes, if only because the Fund itself has made statements to this effect in its documents.[48]

Finally, it should be noted that although reduction of the public-sector deficit is not a performance criterion, it figures, as a major policy understanding in all the agreements (see table 3).

b) *The nature of the targets*

i) Conceptual aspects.

There are two aspects to the selection of targets in the formulation of economic policy: the selection of variables whose values are to be conditioned (i.e., target-variables) and the choice of the type of target proper. From the conceptual standpoint, target-variables may be divided into ultimate, intermediate and operational ones.[49] Ultimate targets are set for those macroeconomic variables, such as the level of activity, employment, prices and the balance of payments, which are or which reflect —in the absence of other short-term indicators— the ultimate objectives of economic policy, such as well-being and self-reliance. Intermediate targets are set for variables, such as the money supply and the real exchange rate, with which the ultimate target-variables are most closely associated but which the authority cannot control, either directly or entirely, within the relevant time span. Operational target-variables are variables which can be used by the authority to influence intermediate target-variables and, through them, hopefully influence the ultimate target-variables in the direction and to the degree desired. These are variables, such as the Central Bank's stock of net domestic assets and the exchange rate, over which the authority is able to exercise more direct and close —though not necessarily total— control.

The types of targets themselves may also be differentiated according to the degree of control they imply on the part of the authority, as follows: specific, average, ranges and fixed or flexible. We will come back to this aspect later on in the article.

ii) Targets established in the Fund's adjustment programmes in Latin America

—Classification and calculation of targets. As a general rule, the Fund sets the targets envisaged in its adjustment programmes for the last day of each quarter of the year following the entry into force of the agreement; in other words, it tends to use specific short-term targets. This is the nature of the most important targets, i.e., those which involve performance criteria.[50] For the sake of simplicity, however, we have calculated the targets on a 12-month basis, beginning (approximately) on the date of signature of each agreement (see table 4).[51] Unless otherwise indicated, targets which are expressed as growth rates refer to variations between the date on which the agreement in question was signed and the end of the following 12-month period. These dates appear in the first column of table 4.

The ultimate targets for which we were able to obtain data or effect indirectly estimates appear in the second and third columns of the table; these refer to the overall balance-of-payments position —the variation in net external assets of the monetary authority— and inflation.[52] The data for those targets were taken from the adjustment agreements; on the other hand, targets for inflation were derived from a comparison between targets for the growth of the supply of money (discussed below) and inflation rates prevailing at the time the agreements in question were signed. Targets for inflation

[48]See Guitián, *op. cit.*, 1980 and *op. cit.*, 1982.

[49]See, for example, Benjamin Friedman, "Targets, instruments, and indicators of monetary policy", *Journal of Monetary Economics*, Vol. 1, No. 2 (October 1975); and Gorden H. Sellon Jr. and Ronald L. Teigan, "The choice of short-run targets for monetary policy", *Federal Reserve Bank of Kansas City Economic Review*, April 1981.

[50]It should be remembered that these targets are expressed as ceilings (in the case, for example, of the stock of net domestic assets) or floors (in the case, for example, of the stock of net external assets).

[51]In practice, we took the last target an compared it with the actual magnitude of the variable concerned 12 months before.

[52]No data were available for current-account targets or —if they existed— for the level of activity.

show how much the existing rate of inflation would have to fall in order to maintain the money supply constant in real terms, from the beginning to the end of the period considered, given the target for that variable. By following the same line of reasoning, one can calculate the degree of monetary deflation that is implicit in the agreements; this indicates the degree to which there would be a real contraction in the programmed supply of money if the prevailing rate of inflation remained constant. The first figure in column 3 is the implicit target for inflation and the second one is the implicit degree of monetary deflation.

The fourth to the sixth columns of table 4 show the intermediate target-variables; the relative price system, represented by the actual trend followed by the real rate of exchange, and money (M_1 and M_2). The targets for M_1 and M_2 are implicit and were derived from the targets for the monetary base and projections of the monetary multipliers.[53] Alternatively, targets could have been derived for the net domestic assets of the banking system.[54]

Operational targets are shown in the seventh and eighth columns.[55] Data for the monetary base were obtained directly from the performance criteria, i.e., directly from the sum of the values of the targets for the stock of net domestic assets and the stock of net external assets of the monetary authority.[56] The targets for public-sector indebtedness were also taken directly from the agreements.

The last two columns show the targets for the deficit of the non-financial public sector and its utilization of bank credit. These have been called policy instruments (as they relate to the management of the net domestic assets of the monetary authority).[57]

—*The data.* With respect to the ultimate targets, there are considerable differences in the ones concerning the variations in the monetary authority's holdings of net external assets. Indeed, some of the agreements provide for an increase; others propose that this stock be maintained constant or almost constant, and still others envisage a decrease, sometimes a very sharp one (see table 4). From this standpoint, the adjustment programmes do not appear to be very restrictive. However, such a judgement cannot be made without reference to the targets for the current account and the value of the gross domestic product.

With regard to the targets for inflation, as might be expected in the orthodox approach to adjustment, some degree of monetary deflation is implicit in all those agreements for which basic information was available, except the second year of the Jamaican EFF. In other words, at prevailing inflation rates, the targets for the variation of M_1 assumed (or assume) real reduction in the stock of means of payment in all the countries in question. The proportion fluctuated between 5% for Jamaica (in the first year of its EFF) and 45% for Costa Rica. It was between 9% and 16% for Ecuador, Peru and Argentina, 22% and 23% for Brazil and over 29% for Chile. Translated into targets for reducing inflation —i.e., inflation rates consistent with the maintenance of the

[53]A very simple formula was used to project the monetary multipliers: an average of the average value observed in the five years prior to the agreement, of the value observed in the year prior to the agreement, and of the value which would have resulted if the trend observed between the penultimate and the last year prior to the entry into force of the adjustment programme had continued. There does not seem to be any reason for believing that this formula is any worse (or better) than any other, including those used by the Fund to calculate monetary multipliers, but we do not claim to have reproduced the calculations made by the Fund. These statistics are presented purely for purposes of illustration.

[54]Indeed, that procedure would more faithfully represent the Fund's monetary programming exercises, since the monetary aggregates that have to be adjusted in order to reconcile the public's demand for money with the target for the balance of payments is the stock of net domestic assets. However, our purpose was rather to show the degree of restriction that the agreements would imply if all the targets for monetary aggregates were met. Hence, the best measure to use is the implicit target for money.

[55]No information was available on targets for the nominal exchange rate.

[56]In setting targets for both sources of the monetary base, the Fund in effect establishes a target for the monetary base. However, in the Fund's scheme, the operational target-variable is the monetary authority's stock of net domestic assets. On this question, see note 54.

[57]It might be more appropriate to treat them as operational target-variables (linked with the achievement of targets for the sectoral allocation of credit and the composition of domestic expenditure). However, this is a secondary question and it is not necessary to go into it here.

money stock in real terms—, the figures varied between −22% for Peru (from 73% to 57%) and over −100% for Chile (from 22% to −14%). For Argentina (from 221% to 170%), Ecuador (from 57% to 41%), and Jamaica (from 19% to 13% in the first year of the agreement), they fluctuated between −23% and −33%. For Brazil, the figure was −43% (from 105% to 60%) in the first agreement and −44% (from 104% to 58%) in the second; and for Costa Rica, the implicit target for reducing inflation was −95% (from 92% to 5%). On the other hand, in the second year of the Jamaican agreement, the implicit target for expanding M_1 was way over the inflation prevailing at the time (see table 4).

Although one observes monetary policies that are generally quite restrictive and, in several cases, targets that imply drastic reductions in inflation, it would appear from the targets for monetary aggregates that the inflation the Fund is willing to "live with" can be very high. Indeed, in one case (Argentina), the implicit target for the growth of M_1 was 170%. One does not have to be a monetarist to recognize that with such a high rate of growth of the means of payment, inflation has to be very high. At the same time, these targets reveal clear differences among adjustment programmes. For example, under the programme for Costa Rica, the target for the growth of M_1 was 5% while the prevailing rate of inflation was 82%; under the programme for Peru, the implicit target for M_1 was 57% when inflation was 72%.

Finally, with respect to this question, it should be noted that if inflation were to rise instead of falling —and this did happen, for example, in Argentina, Brazil and Jamaica— the degree of monetary deflation would have intensified concomitantly, with the consequent negative effect on the level of activity, unless the supply of money were expanded more than anticipated —and this also happened in several of the same countries.

On the other hand, to the extent that monetary deflation translates into the intended deceleration of inflation, the real value of the money stock, and hence the level of activity, is unaffected. In this regard, it is worth mentioning the Costa Rican experience, where inflation decelerated markedly in the months following the implementation of the adjustment programme. Also, the extent of monetary deflation would be lessened in so far as it were possible for monetary growth to exceed the target without accelerating inflation. Such was the Chilean experience, where M_1 rose instead of falling, while inflation remained more or less constant.

With regard to the behaviour of the other intermediate target, which refers to the system of relative prices and is very imperfectly represented here by the real *ex post* exchange rate, the figures also vary greatly, as might be expected in light of the range of objective conditions prevailing in the economies of the countries under considerations. In six of the 15 countries for which we were able to calculate it for the period in question, the real exchange rate rose; in five, it remained more or less constant, and in four, it declined. Among the countries in which it was relatively stable, in one (Argentina), it had already risen sharply in preceding years, and in one (Costa Rica) in which it fell, it had also risen markedly in preceding years.

In more than half the countries considered, the real exchange rate was much higher in 1983 than it had been in the early 1980s; in some of them —especially the larger countries— it was very much higher. Nonetheless, it does not seem correct to argue, as some do, that through its adjustment programmes, the Fund has encouraged the region to "force" its exports, i.e., to increase them beyond the volume that could be absorbed by the international economy without a drop in prices. On the other hand, this argument cannot be discarded out of hand without knowing what the pre-conditions to the agreements were. In any event, there has in fact been a dramatic readjustment of relative prices in the regional economy over the last three years: if we add the economies of Argentina (where the exchange rate rose by 91%), Brazil (18%), Chile (38%), Mexico (52%) and Peru (32%), we get 80% of the regional gross domestic product.

It should also be noted that there is no consistency in the relationship between the magnitude of the variation in the real exchange rate and the degree of monetary deflation. Contrary to what might be expected, there is not an inverse relationship between the stringency of monetary deflation and the variation in the exchange rate. However, this apparent irregularity could easily be explained by the fact that the data on the exchange rate do not refer to the targets but rather to the rates actually obtained.

With respect to the operational targets, we have already mentioned the targets for the monetary base in the context of the discussion on monetary policy. In that regard, we pointed out how widely the targets varied, as well as the considerable growth that was envisaged in some agreements. The targets for the growth of external indebtedness of the public sector, on the other hand, are relatively uniform: between 7.5% and 11% in every case for which information is available except Costa Rica, which had one of 3%.

The targets for the deficit spending of the non-financial public sector are also quite similar. Thus, one might say that there is a rule of thumb according to which this deficit should be reduced by approximately one half in a one-year period. The only countries that depart from this norm are Uruguay, for which much sharper reductions were set, and Brazil, whose third agreement with the Fund, signed in 1983, provides for a new target that would mean just barely reducing the deficit. In the latter case, this was clearly a matter of simply acknowledging a *fait accompli.*

Although in many countries the deficit of the non-financial public sector rose in 1981-1982 (and also in 1983) as a direct result of the fall in the level of economic activity, which suggests that the deterioration of external accounts could hardly be attributed in every case to excess demand, it is no less true that, once an external bottleneck prevails —when it becomes impossible to increase the volume of imports— the expansion of the deficit tends to lead to inflation rather than to an increase in output. And when the volume of imports has to be reduced, it is almost inevitable that an increase in the public-sector deficit will lead to inflation. Here one has the aberrant situation wherein inflation (even hyperinflation) concurs with recession (even depression). In other words, whereas at full employment the present public-sector budget would presumably even show surpluses in several countries, this does not necessarily mean that a greater deficit would in practice amount to a countercyclical policy. When output growth is externally constrained one can justify reducing the deficit even if the economy is in recession —which is not to say that such a policy could be carried out at no cost. Nor does it mean that the observed uniformity of treatment given to the countries as regards the targets for the public-sector deficit is consistent with the objective possibilities and needs of each one of them.

Like the other monetary targets, the ones for net domestic bank financing of the public sector show different degrees of restrictiveness. What is more, there does not seem to be a general rule that credit to the public sector is to be restricted more than credit to the private sector, as might have been expected. On the contrary, given the monetary multipliers for M_2, it is evident from the relationships between the targets for the monetary base and the targets for net domestic credit to the public sector that in most cases for which data are available, the greatest restriction affects the allocation of credit to the private sector (see table 4).

In summary, as recently applied in Latin America the approach observed may be described in broad terms as one which is almost always very restrictive as regards monetary and fiscal policies and is often very aggressive as regards exchange-rate policy. Such policy thrusts are perfectly consistent with the underlying model and with the need to reduce the current-account deficit. And although there is a certain rigidity or uniformity in the policy mix —or, if one wishes, a qualitative uniformity— one cannot argue, on the basis of the figures examined here, that in applying its policies, the Fund completely disregards the variety of objective conditions obtaining in each country.

The question that one would like to answer at this point is whether the Fund's adjustment policies have —considering the magnitudes and directions involved— a recessive bias. If one relies exclusively on the figures examined here, one does not at first sight notice in most of the agreements anything that might cause such a bias, with the possible exception of the credit policy, which —contrary to all expectations— seems to have been more stringent with regard to the private sector than to the public sector. On the other hand, in at least two countries (Costa Rica and Chile) and perhaps in a third one (Brazil, in its first two agreements), the extreme restrictiveness of monetary policy would appear at first sight to show evidence of such a bias. Strictly speaking, however, one cannot give a categorical answer to this question, in either these two or three cases or the remaining ones, without scrutinizing additional information. For example, to what extent does inflation reflect the inertia of the economic system? In a country such as Costa Rica, whic does not have a recent history of inflation, a decidedly anti-inflationary policy can be much less recessive than in a country such as Argentina, in which the very impetus of inflation can cause a monetary policy that is only moderately restrictive to lead to a profound recession.[58]

2. *A critique of conditionality*

The nature of conditionality gives rise to at least four controversial questions;[59] these pertain to the reasoning behind the application of monetary performance criteria, the choice of the monetary aggregates used as performance criteria, the choice of the most adequate régime for monetary programming and the nature of the targets.

To question the rationale behind the use of monetary performance criteria is to question the validity of the very essence of the monetarist interpretation according to which the direction of causality leads from money to the value of production and the balance of payments. We shall not explore in depth the essence of this perennial controversy;[60] rather, we shall consider only a few of the weaknesses of the monetary approach to the balance of payments.[61]

In short, we do not aspire to reach any particular conclusions as to the principle of using monetary performance criteria, but rather to show that the formal apparatus of the Fund does not produce results as automatic and precise as claimed.[62] To this end, we will look at the issues of the choice of the monetary aggregates to be used as performance criteria and the choice of the types of targets to be employed.

a) *Some fallacies of the monetary approach to the balance of payments*

The monetary approach to the balance of payments, which is the foundation of the Fund's adjustment programmes and particularly of its conditionality policy, has a serious flaw, namely, the identification of a balance-of-payments deficit (surplus) with an excess supply (shortage) of money.

The fallacy of this reasoning may be illustrated by analysing situations in which this identity is not valid.[63] Let us assume, for example, that an economy is simultaneously experiencing both a recession and a balance-of-payments deficit. The concurrent disequilibria in the domestic and foreign sectors may have been caused by a sharp drop in external demand for its exports which reduced *pari passu,* its income and its money stock. In such a situation —one characteristic of many countries of the region in recent years—, would it be right to identify the balance-of-payments deficit with an excess supply of money? Should the money supply be reduced even further in order to reverse the external disequilibrium?

Let us assume, on the other hand, that an

[58]It should be remembered, however, that the Fund's adjustment programmes' policy mix does lead to a recessive bias.

[59]We will not touch on the question whether the Fund's financing should or should not be subject to conditions.

[60]See, for example, Don Patinkin, *Money Interest and Prices,* Harper and Row, New York, 1965; Milton Friedman, "A theoretical framework for monetary analysis", *Journal of Political Economy,* Vol. 78, No. 2, March/April 1970; Harry G. Johnson, "The Keynesian revolution and the monetarist counter-revolution", *The American Economic Review,* Vol. LXI, No. 2, May 1971; R.J. Gordon (ed.), *Milton Friedman's Monetary Framework: A Debate with his critics,* Chicago, 1974; Peter Tennin, *Did Monetary Forces Cause the Great Depression?,* W.W. Norton and Company, New York, 1976; Robert J. Barro, "Unanticipated money, output and the price level in the United States", *Journal of Political Economy,* Vol. 86, August 1978; and James Tobin, "The monetarist counter-revolution today: an appraisal", *The Economic Journal,* Vol. 91, March 1981.

[61]See, for example, John Williamson, "The lending policies of the International Monetary Fund", in Williamson, *op. cit.*

[62]Nor will we deal here therefore, with the controversy regarding the selection of the best operating régime for monetary programming. See footnote 43 above.

[63]This presentation follows that of Alan B. Rabin and Leland B. Yaeger, "Monetary approaches to the balances of payments and exchange rates", *Essays in International Finance,* No. 148, Princeton University, Department of Economics, International Finance Section, November 1982.

international inflation leads to a balance-of-payments surplus and domestic price inflation. From the monetarist point of view, inflation is associated with an excess supply of money, but in the monetary approach to the balance of payments an overall balance-of-payments surplus is equated with an excess demand for money, i.e., insufficient stock of money. Monetarist criteria lead to contradictory results not only because they do not take external conditions into account, but also because they tend, in one way or another, to overlook the existence of goods, services, factors and assets that are not internationally traded. Indeed, a surfeit (dearth) of money with respect to demand could be the counterpart to —or imply— a shortage (a surplus) on the markets for goods, services, factors and assets that are only domestically traded. When such markets do exist, a balance-of-payments deficit (surplus) may even coexist with an excess demand for (excess supply of) money.

However, even if all domestic and foreign goods, services, factors and assets were, as is usually assumed, perfect substitutes, a shortage (surplus) of means of payment could lead both to a decrease (increase) in the level of activity and to a balance-of-payments surplus (deficit). The monetary approach breaks the link between the supply of and demand for money and the level of activity by assuming that the economy is always in a full-employment situation; or alternatively, that over the short run, the level of activity is fixed. However, as has been noted more than once, these assumptions "solve" conflicts by eliminating alternatives.

The other main proposition of the monetary approach to the balance of payments is that the monetary authority cannot compensate for ("sterilize") the monetary impact of balance-of-payments outcomes. This idea is derived directly from the notion that the overall balance of foreign transactions is nothing but a reflection of the relationship between domestic money creation and domestic demand for money. Indeed, if domestic monetary demand determines the stock of means of payment that circulates in the economy, in static equilibrium any increase (decrease) in the supply of net domestic assets would be reflected in an equivalent loss (gain) in net external assets; in other words, in a deficit (surplus) in the global balance of payments rather than in an increase (decrease) in the money stock.

This proposition, however, is also erroneous. Let as assume that an increase in international interest rates produces a deficit in the balance of payments. The stock of means of payment will, of course, simultaneously contract. At the prevailing level of demand for money this will produce an imbalance in the monetary market. Given the level of activity, the disequilibrium can only be resolved by reversing the outflow of external assets —i.e., achieving a surplus on the balance of payments— or by increasing the supply of net domestic assets. This latter option, however, is in fact, precisely a "sterilization" operation. Again, the fallacy of the monetary approach lies in the incongruity of its basic underlying assumptions.[64]

Although the aforementioned fallacies do not invalidate the use of monetary performance criteria, their contemplation constitutes a point of departure for questioning the nature of the Fund's conditionality policy. Indeed, if the monetary approach does not in fact lead to mechanical or precise conclusions, first of all a question arises as to whether the Fund's performance criteria are consistent with the common-sense logic of the multi-stage approach to targeting. At issue is whether the variables which the Fund uses as performance criteria do or do not possess the characteristics of operational variables; in other words, the question is whether they are variables that are in fact subject to control by the economic policy-makers. The answer is unequivocal. The policy-makers cannot exer-

[64]For further comments on these points and a discussion on other sources of error in the monetary approach to the balance of payments, see also Marina Whitman, "Global monetarism and the monetary approach to the balance of payments", *Brooking Papers on Economic Activity*, No. 3, 1975; Frank H. Hann, "The monetary approach to the balance of payments", *Journal of International Economics*, Vol. 7, No. 3, August 1977; Blackwell, *op. cit.*, 1977; Mordechai E. Krenin and Laurence H. Officer, "The monetary approach to the balance of payments: a survey", *Princeton Studies on International Finance*, No. 43, Princeton University, Department of Economics, International Finance Section, November 1978; Branson, *op. cit.*, 1983; and Charles Collyns, "On the monetary analysis of an open economy", IMF *Staff Papers*, Vol. 30, No. 2, June 1983.

cise a reasonable degree of control, much less close control, over the stock of net external assets. Consequently, this variable cannot and should not be treated as if it were an operational variable as the Fund does in using it as a performance criterion.

If the manipulation of the stock of net domestic assets does not produce equivalent variations in the overall balance-of-payments position, the incongruency is evident. It becomes even more obvious when one considers that the balance of payments is conditioned by factors which are entirely beyond the sphere of influence of the policy-makers, e.g., the external demand for goods and services, the world supply of and demand for goods and services that the country imports and international interest rates. Indeed, any variation in these external factors would divert the overall balance-of-payments position from its target, independently of whether or not the authority had met the other performance criteria.[65]

It is conceivable, of course, that policy-makers might be able to compensate for unforeseen variations in external conditions, but they would only be able to achieve the targets for the stock of net external assets if they had an unlimited capacity to act and produce immediate and precise compensatory effects. Such a feat is implausible, however, since the manipulation of operational variables does not produce automatic or precise results.[66]

It is inappropriate to hold policy-makers responsible for the behaviour of a variable, such as the overall balance-of-payments position, which is not subject to its control. It makes even less sense for any deviation from the target for the stock of net external assets to automatically trigger the suspension of disbursements of Fund financing. This is, however, the situation. There is no justification for this policy, which introduces a notorious recessionary bias in the Fund's adjustment programmes and should be eliminated.

The other performance criterion which seems defective is the one which restricts the external indebtedness of the public sector. We do not question the idea that the expansion of external indebtedness should be compatible with the target for the composition of the balance of payments as between the current and the capital account balances. Nor are we unaware of the fact that the restriction of public-sector indebtedness could be used as a way of holding back the growth of overall external indebtedness. The problem with this policy lies in the fact that the international financial community is not prepared to lend money to the private sector of economies which confront problems with the service of their external debts and adjustment processes; rather, if they provide any financing at all, they will do so only to the public sector. The contradiction between this reality and the performance criterion in question is evident.

b) *What type of targets?*

i) The dilemma of fixed specific targets

In the monetarist paradigm, it is assumed that the creation of the supply of means of payment is an exogenous process, i.e., that neither the non-banking public nor the financial intermediaries play any part in generating the supply of money. Under this approach to the monetary market, the banking sector does not exist and the public only intervenes with its demand for real balances. In a closed economy (or one with a fully flexible exchange rate), this demand determines the value of the means of payment which the monetary authority has elected to supply. In an open economy with a fixed exchange rate, or an exchange rate that is not entirely flexible, the process of reconciling the public's demand for real balances with the supply of means of payment can affect both the level of prices and the supply of means of payment that actually circulate in the economy. In either case, it is assumed that the monetary authority alone determines the supply of means of payment and hence, that it does so in a precise and continuous fashion. Here we have, it seems, the origin of the use of specific targets —i.e., targets referring to varia-

[65]This point was brought out at a recent conference on Fund policies. See Carlos Días-Alejandro, "Comments", and Richard N. Cooper, "Panel discussion", in Williamson, *op. cit.*, 1983.

[66]The only way such a capacity might conceivably exist would be under a totally flexible exchange rate régime. However, the Fund's approach rests on the assumption that the exchange rate is fixed, or at least not entirely flexible.

tions from one date to another— for monetary aggregates. In any event, this is the type of target which the International Monetary Fund uses for its performance criteria.

A growing outcry against this Fund policy is issuing from a heterogeneous group of experts including Dragoslav Avramovic, Richard N. Cooper, Sidney Dell, Arnold C. Harberger, G.K. Helleiner and John Williamson.[67] Their opposition to this procedure is based on both the theoretical proposition and the observed reality that it is impossible to exercise the close control over monetary aggregates that would be required to meet such targets. Contrary to the monetarist assumption, not all the factors that determine the money supply are subject to control by policymakers. Indeed, the monetary authority is capable of exercising precise and discretionary control over only one of the factors that determine the supply of money, i.e., the required reserve ratio. Of the other four factors, three are beyond any direct Central Bank control. The non-banking public chooses the composition of its financial portfolio as between cash holdings and deposits, and the distribution of its deposits as between monetary and financial ones, while the commercial banks and similar institutions establish the relationship between their excess reserves and their liabilities. Like the money supply, the other determinant —the monetary base— is the product of decisions taken simultaneously by different agents —the monetary authority, the non-banking public, the commercial banks and the non-financial public sector. In short, the supply of money is endogenous, not exogenous.

Of the factors of expansion and contraction of the monetary base, the ones that the Central Bank can always manipulate at its discretion include the allocation of credit to the non-financial private sector and its own external liabilities (as well as several other liabilities and assets, including the capital accounts). It can also decide how much credit to grant to the non-financial public sector if it is institutionally independent; how much to grant to the private financial sector if there is no run on the banks; and, in principle, it can also determine its holdings of external assets if it is willing to allow the exchange rate to fluctuate freely. On the other hand, it cannot programme the governments' deposits or the variation of its assets and liabilities arising from the liquidation of interbank accounts (see table 5).[68]

In the light of these considerations, there is also good reason to question the assumption that the monetary authority can accurately determine the monetary base or even the supply of net domestic assets, since the capacity to do this also depends on a series of factors over which the authority has no discretionary control or no control at all (see table 5).

Now, it is true that the monetary authority could in principle control any monetary aggregate, even if some of the determinants thereof were beyond its control, provided it could predict their future trends. However, the expectation or hope that the authority might be able to achieve this as a routine matter has been frustrated, as is shown by the performance of the various developed countries that have tried to implement monetary rules —i.e., that have tried to programme the growth of a given monetary aggregate at a given rate. Indeed, not one of these countries has consistently achieved its goal. On the contrary, most of the annual results have demonstrated failure, in that they have fallen outside the proposed target range, or outside a range of (for example) four percentage points around a specific target; short-term results have been even less satisfactory. Furthermore, in most cases, the application of a monetarist rule has

[67]See, for example, Dragoslav Avramovic, "Role of the International Monetary Fund. The disputes, qualifications and future"; Richard N. Cooper *et al.*, "Conclusions and policy implications", and Sidney Dell, "Stabilization: the political economy of overkill", in John Williamson, *op. cit.*, 1983; G.K. Helleiner, *op. cit.*, 1983, and "Lender of early resort: the IMF and the poorest", *American Economic Review*, Vol. 73, No. 2, May 1983.

[68]One of the main functions of a central bank is to liquidate accounts among commercial banks and other financial institutions. However, the monetary authority cannot control all the factors, such as transportation, computer systems and the actual volume of transactions, which determine how the terms for payment and collection of checks and other documents vary. In practice, this account tends to be quite volatile.

been followed by a greater variability of monetary growth.[69].

The fundamental difficulty lies in the fact that the determinants of the means of payment

Table 5

CONTROL OVER THE ADJUSTED CENTRAL BANK BALANCE SHEET: SOURCES AND USES OF THE MONETARY BASE

Sources[a]		Uses[a]	
Factors of expansion		Cash outside banks	N
External assets	Nc	Commercial bank reserves	N
Domestic assets	Nc	Legal reserves	Dc
Credit		Excess reserves	N
To the private sector	Nc		
Non-financial	Dc		
Financial	Nc		
To the public sector	Nc		
Receipts in process	N		
Others	Dc		
Factors of contraction			
External liabilities	Nc		
Domestic liabilities	Nc		
Deposits of government	N		
Deposits of the non-financial private sector	Dc		
Payments in process	N		
Others, including capital accounts	Dc		

[a]Dc: The monetary authority is able to exercise discretionary control.
Nc: The monetary authority is able to exercise non-discretionary control.
N: The monetary authority is not able to exercise control.

[69]We obtained 53 annual observations for six industrial countries (United States, 1976-1982; Canada, 1976-1982; United Kingdom, 1976-1982; Federal Republic of Germany, 1975-1982; France, 1976-1982 and Switzerland, 1975-1978 and 1980-1982) which attempted to target the growth of the supply of one measure of money or another. When a tolerance (range) of 4% was allowed for those countries (Federal Republic of Germany, 1975-1978; France, 1976-1980 and Switzerland throughout the entire period) that have employed specific targets, the rate of failure was 57%; when a tolerance of 3% was allowed for, the rate of failure was 62%. To formulate their monetary targets, the United States and the Federal Republic of Germany (since 1979) have used ranges of 3% and Canada and the United Kingdom, of 4%. For data on the United States during the period 1979-1982, see Board of Governors of the Federal Reserve System, "Monetary Report to Congress", published biannually in March and August since 1980, in *Federal Reserve Bulletin*; the data for 1976-1979 were taken from Robert H. Rasche, Allen H. Meltzer, Peter D. Sternlight and Stephen H. Axilrod, "Is the Federal Reserve's monetary control policy misdirected?", a debate sponsored by the *Journal of Money, Credit and Banking*, on 30 April 1981, Ohio State University, Columbus, and published in Vol. XIV, No. 1, February 1982, p. 129. The statistics for the other countries were taken from Karen H. Johnson, "Foreign experience with targets for monetary growth", *Federal Reserve Bulletin*, Vol. 69, N° 10, October 1983, pp. 746-753, except for the references to the actual growth of M_2 in France, which were taken from International Monetary Fund, *International Financial Statistics*. For further comments on the question of the control of money in industrial countries, see M. Tratianni and M. Nabli, "Money stock control in the EEC countries", *Weltwirtschaftliches Archiv*, Bond 115, Heft 3, 1979 and M.T. Summer, "The operation of monetary targets", Karl Brunner and Allen H. Meltzer (eds.), *Monetary institutions and the policy process*, Carnegie, Rochester Conference Series on Public Policy, a series of the supplement to *Journal of Monetary Economics*, Vol. 13, 1980. On the question of short-term monetary control, see Daniel L. Thornton, "The FOMC in 1982: de-emphasizing M_1", *Federal Reserve of St. Louis Review*, Vol. 65, No. 6, June/July 1983; Byron Higgins, "Should the Federal Reserve fine-tune monetary growth?", *Federal Reserve Bank of Kansas City Economic Review*, January 1982; Peter D. Sternlight, "Monetary policy and open market operations in 1981", 1982, and "Monetary policy and open market operations in 1982", *Federal Reserve Bank of New York Quarterly Review*, Vol. 8, No. 1, second quarter 1983. On the variability of the growth of

which the monetary authority does not control may vary greatly and somewhat irregularly. The recent behaviour of the monetary multiplier in the same Latin American and Caribbean countries[70] in which agreements with the Fund were in force towards the end of 1983 speak very eloquently of the magnitude of the problem. Indeed during the period 1978-1982, the average quarterly coefficient of variation in the 16 countries in question was 16.4% for the M_1 multiplier and 17.2% for the M_2 multiplier (see table 6). This instability is, as a matter of fact, much higher than that which is usually observed in the developed countries and would in itself make of monetary programming an enterprise highly difficult to realize with any degree of accuracy over time.

Table 6

MONEY MULTIPLIERS IN SELECTED LATIN AMERICAN COUNTRIES[a], 1978-1982[b]

Country	Monetary multiplier (M_1)				Monetary multiplier (M_2)			
	Average	Minimum	Maximum	Coefficient of variation	Average	Minimum	Maximum	Coefficient of variation
Argentina	1.26	0.74	3.75	62.25	2.47	1.01	3.90	39.44
Barbados	1.50	1.32	1.74	7.69	4.69	4.21	5.64	9.68
Brazil	1.85	1.73	2.00	3.54	2.26	2.10	2.51	4.81
Costa Rica	1.42	1.01	1.85	15.51	3.28	3.01	3.65	6.06
Chile	0.85	0.60	1.32	20.99	3.10	1.76	6.40	48.42
Dominica	1.64	1.02	2.65	31.84	5.28	2.83	8.63	35.95
Ecuador	1.61	1.42	1.92	12.35	2.02	1.64	2.46	11.91
Grenada	1.28	1.11	1.49	8.35	3.13	2.66	3.91	10.91
Guatemala	1.06	0.94	1.15	4.89	2.47	2.06	2.92	12.22
Honduras	1.52	1.45	1.83	9.54	3.19	2.73	4.03	10.30
Haiti	0.97	0.66	1.53	22.31	1.82	1.32	2.48	17.25
Jamaica	1.68	1.30	2.02	11.81	4.33	3.35	6.40	19.93
Mexico	0.64	0.47	0.72	13.88	1.75	1.60	1.90	4.42
Peru	0.92	0.67	1.12	16.90	1.55	1.39	1.75	6.51
Dominican Republic	1.00	0.92	1.14	2.07	2.13	1.88	2.52	6.97
Uruguay	1.02	0.77	1.32	12.64	4.56	2.30	6.76	29.76

Source: International Monetary Fund, *International Financial Statistics*, several issues.

[a]All countries that had agreements with the International Monetary Fund in force at the end of 1983, except Panama, whose monetary accounts are not comparable with those of the other countries.

[b]Quarterly figures.

Nevertheless, it is easier to programme the supply of money than to control the money stock, since the latter depends not only on the former but also on the demand for real monetary balances. Of the factors —interest rates, income and expected inflation— which determine that demand, there is not one that the authority can effectively control except perhaps the interest rate. But if it decides to control the latter variable, it cannot exercise any control whatsoever over the supply of means of payment.

To predict the demand for money with any degree of success would be just as or more difficult than predicting the future trend of the money multiplier. However, rather than exploring that problem, we shall consider the effect that a mistake in forecasting the demand for means of payment would have on the variation of external assets of the monetary authority. For this analy-

money after the application of monetary rules, see R.W. Hafer and Scott E. Hein, "The wayward money supply: a post mortem of 1982", *Federal Reserve Bank of St. Louis Review*, Vol. 65, No. 3.

[70]Except Panama, whose monetary accounts are not directly comparable with those of the other countries.

sis, the same countries were used.[71] The ratio between 1% of M_1 and the variation and the stock of net external assets of the monetary authority during a recent year (1982) was calculated for each country. The same calculations were made using 1% of M_2 and 5% of M_1 and 5% of M_2. The results show how difficult it is to programme the means of payment and the overall performance of the balance of payments. Indeed, if the monetary approach to the balance of payments were applied mechanically, a very minor error of 1% in forecasting the demand for money would have meant, on average, a 7% difference between the target and the actual balance-of-payments result.[72] The same minor (i.e., 1%) error in forecasting the demand for M_2 —the monetary aggregate with which the Fund usually works in its adjustment programmes— would give rise to an average error in the balance-of-payments outcome of almost 18%.

If more realistic magnitudes of prediction error —such as 5%— were used the difference between targets and actual results for net external assets would be very great. A 5% error in forecasting M_1 would have meant on average a difference of 35.6% between the target and the actual balance-of-payments result (see table 7). The problem arises, in part, from the fact that the stock of means of payment is usually appreciably greater than the holding of net external assets (see table 7).

Naturally, if the monetary authority realizes in time that the forecast for the demand for money does not reflect the real trend followed by that variable, it can —and normally should— change its (implicit) targets for net domestic assets of the banking system concomitantly. But this realization is at least as difficult a task as predicting accurately the demand for means of payment. Also, in some cases, a revision of implicit targets might jeopardize achievement of explicit targets.

We thus arrive at the dead-end street in which the countries participating in the International Monetary Fund's adjustment programmes find themselves. If the monetary authority's control over monetary aggregates is very imperfect, the achievement of specific targets such as those used by the Fund implies the implementation of a more restrictive —and perhaps much more restrictive— policy than indicated by the targets themselves. Here is another recessionary bias of the Fund's adjustment programmes. On the other hand, an attempt to avoid an unnecessarily restrictive policy —that is, an attempt to get as close as possible to the targets without overshooting them— implies running a high risk of infringing the performance criteria and thus forfeiting access to Fund financing. But the dilemma is even more sinister. Indeed, when a country fails to meet a performance criterion, not only does it lose the right to draw on the Fund financing originally envisaged, but it also is deprived of its access to the international financial market or finds it radically reduced. Here then is another recessionary bias.

It is not surprising that, finding themselves caught "between a rock and a hard place", the governments and the people are reluctant to sign adjustment agreements with the International Monetary Fund. Nor is it surprising, in light of these considerations, that those countries which do adopt the adjustment programmes so often fail to meet the performance criteria and that their economic performance tends to be so mediocre.

ii) Alternative reform proposals

Notwithstanding the argument developed above, there is a sense in which the authority can exercise relatively strict control over the means of payment. Indeed, by extending the time horizon of control, the difference between the average outcome and an average target in relation to the standard deviation of the outcome from a specific target decreases progressively for the simple reason that the differences between outcomes and targets tend to offset each other. If targets are expressed as averages of specific (daily) outcomes, the authority can, in fact, exercise over the long haul fairly close "control" over monetary

[71]Except Costa Rica, for which no data were available.

[72]It should be remembered, however, that the Fund's targets for the stock of net external assets are expressed as minimum values. Therefore, although underestimation of the demand for money would result in a difference between the result and the target, this would not entail an infringement of the target that would only occur in the case of an overestimation.

Table 7

PERCENTAGES OF M_1 AND M_2 IN RELATION TO NET EXTERNAL ASSETS OF THE MONETARY AUTHORITY IN SELECTED LATIN AMERICAN COUNTRIES, 1982[a]

	1% of:				5% of:			
	M_1 in relation to net external assets		M_2 in relation to net external assets		M_1 in relation to net external assets		M_2 in relation to net external assets	
	Variation between end of 1981 and end of 1982	Stock at end of 1982	Variation between end of 1981 and end of 1982	Stock at end of 1982	Variation between end of 1981 and end of 1982	Stock at end of 1982	Variation between end of 1981 and end of 1982	Stock at end of 1982
Argentina	1.0	0.8	2.8	2.4	5.0	4.2	14.2	11.9
Barbados	25.0	3.7	−66.7	9.8	−125.0	18.3	333.3	48.8
Brazil	10.0	3.6	13.3	4.8	50.0	18.2	66.3	24.2
Chile	1.1	0.4	5.4	2.0	5.6	2.0	27.0	9.8
Dominica	5.0	−5.0	16.7	−16.7	25.0	−25.0	83.3	−83.3
Ecuador	−10.1	11.0	−13.0	14.1	−50.6	55.0	−64.8	70.4
Grenada	−3.1	8.3	−6.3	16.7	−15.6	41.7	−31.3	89.3
Guatemala	−13.9	8.2	−38.6	22.9	−69.3	41.2	−192.9	114.6
Haiti	−7.2	−7.5	−14.4	−15.0	−36.0	−37.4	−71.9	−74.8
Honduras	−4.0	−4.7	−8.5	−10.0	−19.8	−23.3	−42.4	−50.0
Jamaica	−2.7	−0.6	−8.5	−1.8	−13.7	−2.9	−42.6	−8.9
Mexico	−17.0	13.7	−55.9	45.2	−84.8	68.5	−279.7	226.0
Peru	2.5	1.6	6.5	4.3	12.6	8.3	32.4	21.4
Dominican Republic	3.0	−1.5	−3.2	−6.4	−15.0	−7.5	−32.1	−16.0
Uruguay	1.2	−2.7	−9.8	−21.7	−6.2	−13.6	−49.2	−108.4
Averages	*7.1*	*4.9*	*18.0*	*12.9*	35.6	24.5	90.9	63.9

Source: International Monetary Fund, *International Financial Statistics*, several issues.

[a]All countries that had agreements with the International Monetary Fund in force at the end of 1983, except Panama (whose monetary accounts are not comparable with those of the other countries) and Costa Rica (for which 1982 monetary data have not been published in *International Financial Statistics*).

aggregates. In contrast, in the case of specific targets, the standard deviation of the outcomes is independent of the period in which control is attempted. With this type of target, the authority's ability to control the means of payment is not, in principle, greater in one year than in one quarter.

In short, the problem with specific targets is not a question of time periods. On the other hand, the usefulness of targets that are made up exclusively of averages is not clear.[73] It would seem, therefore, that as far as the degree of specificity is concerned, instead of specific targets such as those used by the Fund or simple averages, it would be more appropriate to use quasi-specific (or quasi-average) targets, specific ranges or quasi-specific ranges.

Quasi-specific (or quasi-average) targets are expressed as the variation between two time periods of an average value; for example, the variation between the average value recorded in December and that recorded in June. Specific ranges are expressed as an interval around a specific target; for example, if the target is a 7% variation between 31 March and 31 December, the actual result would have to be in a range of, say, 5% to 9%. Quasi-specific ranges are a combination of the two solutions just mentioned. They are, of course, the least specific of the three and are therefore the most likely to be met consistently. For the same reason, they could be achieved with a less restrictive policy than would be required for either of the other two alternatives. However, there is still another source of recessionary bias, i.e., the rigidity of the targets. Indeed, targets may also be either fixed, as are the Fund's, or contingent.

If the values of the factors detemining the

[73]See, Bryant, *op. cit.*, 1982.

monetary aggregates —monetary multipliers, demand for money and external conditions— turn out to be different than what had been forecast, the original monetary targets could become unattainable or unnecessarily restrictive. For example, suppose that the demand for money were underestimated. Under such circumstances, a loosening of restrictions on domestic credit could make it possible to achieve a higher level of activity without jeopardizing achievement of the balance-of-payments target. However, doing so would make it impossible to meet the target for the stock of net domestic assets of the monetary authority.

The solution we favour, then, is that of contingent quasi-specific ranges, because, if properly designed, it would (virtually) eliminate all the recessive bias associated with conditionality.[74] This solution would not entail, however, a policy less restrictive than the one implied by specific targets if the authority were really able to exercise close control over monetary aggregates. Nor would it entail a policy less restrictive than the one implied by fixed targets if all forecasts concerning the factors which determine monetary aggregates turned out to be accurate.

Thus, the reform proposed would make it feasible to comply with conditionality without applying policies that were more restrictive than indicated by the targets themselves. Moreover, purging the recessionary bias from conditionality would also eliminate one of the main obstacles to more timely adjustment programmes. So, why not do it?

We do not understand why the Fund continues to use fixed specific targets, particularly when its own staff members have recognized that it is impossible to exercise close control over monetary aggregates and have recommended that targets should be made more flexible.[75]

III
Summary and conclusions

Five sources of recessionary bias in the International Monetary Fund's adjustment programmes have been identified: the insufficiency of the amount of financing, the inconsistency of domestic economic policies, the use of the stock of net external assets as a performance criterion, the use of fixed specific targets for the performance criteria, and the nature of the link between external financing and adjustment agreements.

With regard to the first aspect, it was argued that the flow of external financing has not reached a magnitude compatible with efficient adjustment; in other words, it has not been sufficient to finance that part of the current-account deficit that is attributable to temporary external factors. This inadequacy refers not only to financing provided by the Fund but also to financing from other sources. In this regard, it was held that the Fund has not satisfactorily performed the role of catalyst that it has taken upon itself.

It was argued that this first —and fundamental— problem reflects the fact that the procedure used for establishing the countries' quotas in the Fund is not adequately linked with efficiency criteria. During the period under consideration, however, the inadequacy of external financing also reflected the slowness of the

[74]Obviously, this reform would not affect the link between conditionality and financing from the international financial community. However, by making it possible to meet conditionality without having to follow unduly restrictive policies, it would, presumably, prevent that recessionary bias from operating.

[75]See Mohsin S. Khan and Malcolm D. Knight, "Stabilization programs in developing countries: a formal framework", *IMF Staff Papers*, Vol. 28, No. 1, March 1981. In this respect, the aforementioned Fund experts state (pages 42-43): "... even a modest extension of the financial programming framework yields a model in which the relationship

Fund's response to the economic crisis. This incongruency was attributed both to defects in the Fund's adjustment programmes which make governments and the people reluctant to resort to it, and to the toughening of conditionality precisely when the economic crisis was in the making. However, the Fund denies having toughened its conditionality.

The other four sources of recessionary bias spring from the domestic adjustment policies. In the first place, on the basis of the diversity of conditions prevailing in the different countries involved, we questioned the rationale underlying the uniformity, both in performance criteria and in operational monetary targets, observed in the 17 agreements examined.

In the second place, in each agreement we noted a certain asymmetry in the mix of policy understandings. Indeed, while in real terms wages and salaries and public-sector expenditures were restricted and other key variables, such as the exchange rate and the prices of public services, were increased, no provision at all was specifically made regarding the price level of goods and non-factor services in the private sector. It was argued that this asymmetry would seem to work against the basic condition that must prevail in order for monetary deflation to lead to deceleration of inflation and a strengthening of external accounts rather than to a decrease in the level of activity, since it would encourage —or at least it would not discourage— the formation of inflationary expectations and price rises that would exceed the targets established for the means of payment.

On the other hand, we did not note any excessive aggregation or find a systematic recessionary bias in the magnitude and direction of the targets. Contrary to all expectations, however, in most of the agreements examined, restrictions on the availability of bank credit appear to be more stringent for the private sector than for the public sector.

The third source of recessionary bias is found in the practice of using the monetary authority's holdings of net external assets as a performance criterion. The problem arises from the fact that the authority does not exercise any control over several of the main determinants of the balance-of-payments outcome nor can it in practice compensate instantly and fully for unexpected developments. Nonetheless, it is required to do so, under penalty of losing the Fund's financial support.

With regard to the appropriateness of the performance criteria, we also drew attention to the anomaly involved in the Fund's practice of restricting the external indebtedness of the public sector but not that of the private sector. Whether this policy is based on a *laissez-faire* approach or on some other, the fact is that it clearly clashes with the marked reluctance of the international banking community to lend money to the private sector of the Third World in times of economic crisis.

The other sources of recessionary bias have to do with the use of fixed specific targets for the performance criteria. Again, the problem lies in the fact that the authority is held responsible for results which it cannot achieve with precision nor at its discretion. Moreover, it is asked to perform this feat repeatedly —every quarter of the duration of the agreement— even if the values of the determinants of the monetary aggregates turn out to be different from what had been forecast. Consequently, the authority is faced with the dilemma of having to follow a more restrictive policy than is indicated by the targets themselves or running the risk of infringing the targets and losing not only the financial support of the Fund but that of practically the entire international financial community.

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between the targeted reserve increase (net international reserves or net external assets) and domestic credit (net domestic assets) is complicated and depends on the structure of the economy. Conversely, measures to hold domestic credit at some prearranged level will not result in a smooth path of accumulation of international reserves, a conclusion that holds in this model even though it neglects such complications as the effect of changing expectations on international capital flows. The practical implication is that policymakers cannot 'fine tune' domestic credit ceilings from quarter to quarter or even year to year without having much more comprehensive information about the structure of the economy than they can reasonably be expected to possess. One possible way out of this difficulty might be to devise some simple feedback rule in which the domestic credit ceilings are altered in response to current and past deviations between targeted and actual reserves". (Parentheses were added by the author of this article.)

In summary, an agreement with the Fund does not mean that a country will obtain enough financing to implement an efficient adjustment. However, if it fails to meet one of the targets provided for in the agreement —perhaps for reasons that are entirely beyond the authority's control— its access to the international financial market could virtually be closed.

The policy reforms we propose arise directly from our critique of the Fund's approach. The first and most fundamental one is that the Fund's financial capacity should be increased in order to enable it to promote efficient adjustment processes. But this proposal is unrealistic. However, a significant step could be taken without asking for more resources. Indeed, if the recessionary bias of the Fund's domestic adjustment policies were eliminated, one of the major causes of delay in responding to external disequilibria with adjustment programmes would also be eradicated. Moreover, if the Fund were to provide more of its financing at the beginning of the adjustment agreement (i.e., if it were to "front-load" the agreements), it might be able to better perform its role as a catalyst of financing from the international financial community.

With respect to the reform of domestic adjustment policies, in the first place, performance criteria (and operational targets) can and usually should, without prejudice to the principle of equal treatment governing the Fund's operations, be adapted to the circumstances of each country whenever these circumstances might affect the outcome of the programme.

With regard to the mix of policy understandings, the most important initiative would be to add an overall incomes policy, with a view to harmonizing inflationary expectations with the restrictions placed on the remunerations of the labour force and on the growth of money, in order to deflect the shocks produced by monetary deflation towards prices and the balance of payments and away from the level of activity.

With regard to the variables and targets used for performance criteria, we advocate eliminating the use of the stock of net external assets as a performance criterion and replacing fixed specific targets by quasi-specific contingent ranges.

These last two reforms are perhaps the most attractive ones, because there is a growing consensus regarding the concepts and evidence on which they are based, they do not entail any cost and they would (virtually) eliminate the recessionary bias associated with conditionality. Indeed, they would make it feasible to comply with conditionality without applying policies that were more restrictive than necessary and, consequently, would also reduce the possibility of a country's losing access to the international financial market.

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The adjustment process in the 1980s: the need for a global approach

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The Latin American countries are faced with various options for financing or adjusting their external accounts. This article makes a detailed analysis of such options and indicates the main paths followed by those countries and the economic and social costs incurred during the adjustment process in recent years.

It is stressed that this process must not be viewed as an isolated phenomenon, failing to take account of world economic interdependence, since it is a global problem, and not one merely affecting individual countries. When it is viewed as a global problem, new approaches emerge which make it possible to minimize the domestic costs of the adjustment process and to achieve results favourable to the world economy as a whole. These approaches involve drawing a distinction between recessive adjustment and expansive adjustment: the former consists in bringing about a reduction in the level of economic activity and imports, whereas the latter seeks to raise the level of employment and activity by increasing exports. In the final part of the article, a set of measures are proposed for improving the adjustment process and lessening the negative impact on the developing countries of the economic policies adopted in the industrialized countries.

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Introduction

The "adjustment" issue is related to certain basic or fundamental macroeconomic equilibria which need to be under control if undesirable and disruptive effects on the economy are to be avoided. The literature as well as policy makers have traditionally considered two types of situations which tend to be interrelated: external and internal equilibrium.

The achievement of external equilibrium refers to the balance between a country's expenditure abroad and its foreign exchange receipts, and has been perceived as a basic ingredient of a stable world economic system. It is not surprising therefore that high priority has been assigned to the attainment of external equilibrium in the design of economic policy by international institutions and others interested in a global, multilateral perspective. The gold standard, prior to the Great Depression, had a built-in (automatic) mechanism designed to push individual economies quickly toward continuous eqilibrium in their balance-of-payments accounts. If a country tried to spend more than what it sold abroad, its gold holdings would decrease, diminishing the banking system's capacity to lend, thus increasing interest rates, depressing domestic residents' spending, stimulating exports, curtailing imports, and, therefore, restoring foreign payments equilibrium.

The system developed at Bretton Woods was also designed with the international economy in mind, attempting to obtain external equilibrium at the country level through the implicit fiscal and monetary discipline associated with the maintenance of fixed exchange rates. That process was to be complemented and smoothed by the IMF's financing facilities, access to which was linked to and conditioned by the country's implementation of adjustment policies aimed at restoring balance-of-payments equilibrium.

But in the 1940s, together with the need to reactivate the world economy along a stable path, nationalist tendencies, the impact of the Great Depression and the "Keynesian revolution" gave high priority to the goal of internal equilibrium. The objective was to run national economies at their maximum output potential, which meant aiming at full employment of resources, and particularly labour. Fiscal policy would play a major role in the attempt to equalize *ex ante* savings with investment flows, complementing private sector economic decisions so as to generate sufficient "effective demand" to "buy" the output associated with full employment of domestic resources.

In the 1950s and 1960s, although in advanced countries unemployment remained at low levels, slow but steady inflationary pressures and foreign payment imbalances stimulated the development of a "policy-mix" —a combination of monetary, fiscal, and to a lesser extent, exchange rate and commercial policy tools— aimed at the simultaneous restoration of internal and external equilibrium.

Macroeconomic policy in the less-developed countries (LDCs), since the end of the World War II, has tended to follow a similar pattern to the one described above, with one major difference: development objectives and strategies to accelerate economic growth have had such high priority that, in general, external and internal disequilibria have been present all along. Latin America's experience between the 1950s and mid-1970s has been quite revealing: recurrent balance-of-payments crises and foreign exchange bottlenecks as well as chronic inflationary processes have been the norm rather than the exception in a number of countries in the region. Explanatory hypotheses for these situations have ranged from those that stress that they are the consequence of structural disequilibria inherent to LDCs' economies, to those pointing at basic flaws in economic policy design, with "excessive" government intervention, "repressed" inflation, erroneous pricing policies and inefficient protectionism. In any case, the fact is that countries have had to shift back and forth from policies attempting to solve accumulative foreign, fiscal and monetary disequilibria to those addressed at trying to run the economy at its full potential so as to better the standard of living of the region's increasing population. As a consequence of these "stop and go" policies the stability of the growth and development process and its flexibility and efficiency in adapting the region's economy to new and changing world and domestic shocks have been seriously undermined.

In the early 1970s the industrial countries, and particularly the United States, experienced a slowdown in productivity, stagflation and mounting balance-of-payments problems, which together with the increasing importance of crowding out, floating exchange rates, huge increases in energy prices, speculative capital movements, inflationary expectations and indexation, undermined and questioned very seriously the adequacy and relevance of traditional economic policy and analytical tools to face these new situations.[1]

The 1970s also witnessed successive events that contributed to blur the above-mentioned situation. Privatization of financial international relations (a process which was already underway some years before) accelerated with the first oil price shock in 1973. The booming role of private banks, at the expense of official international financial institutions (mainly the IMF and the World Bank) allowed and stimulated Latin America, perhaps the most "natural" client of the banks, to finance huge current account deficits. It can be said, to a certain extent, that the region privileged financing over adjustment of its foreign imbalances during the 1970s.

After the second oil shock, this process came to a halt in the early 1980s, when the effects of the world recession —the most severe since the 1930s— the deterioration of the LDCs' terms of trade and soaring international interest rates created serious debt service problems which were amplified by reduced capital flows to debtor countries as a consequence of the banks' procyclical behaviour. This has helped to generate a bleak scenario, reducing and making very costly, especially for LDCs the options out of the crisis. In this context, given the magnitudes involved, external financing constraints, and the new international and domestic prevailing circumstances, a reassessment of the traditional views regarding the roles of adjustment and financing is required, and this is the main purpose of this papers.

The next section deals with the main analytical issues regarding the adjustment process, stressing options and alternatives available in the abstract. In section II recent Latin American

[1]Naturally, as a result of alternative hypotheses developed to explain these disequilibria and imbalances, different "structural" changes have been proposed: nature and speed of reindustrialization, supply-side economics, redefinition of government intervention in the economic sphere, implications of the size and characteristics of the "welfare State" on overall economic performance, etc.

adjustment experience is discussed. Next section III deals with the actual alternatives and options available, both at the international and the national levels, pinpointing their advantages, limitations and deficiencies and examining some recent "non-traditional" problems which tend to complicate ways out of the crisis, challenging traditional economic policy design. Finally, section IV briefly summarizes the main arguments and presents the conclusions that may be of interest to policy makers concerned with debt and adjustment issues in today's crisis.

I
Analytical considerations

Internal and external disequilibria, although interrelated, have usually been studied separately. Furthermore, the analysis (and policy recommendations) have tended to be carried out in the abstract, ignoring the countries' interdependence. While this may be a convenient approach when considering "small" countries and/or when no *generalized* payments or trade problems take place, it may lead to partial and sometimes erroneous conclusions when the opposite occurs.

The internal disequilibrium has generally been analysed for a closed economy or under the assumption that no problems arise in the foreign sector of the economy. It usually refers to a situation where the output gap —difference between the optimum and actual level of economic activity— is larger than some normal, natural or structural rate. In other words, when resource, and more specifically labour unemployment reaches some critical value, the economy is faced with an internal disequilibrium which is assumed to be caused by an excess supply of goods (or savings exceeding investment) and/or by distortions and imperfections in labour markets. According to which interpretation prevails, action tends to be centered on fiscal instruments and/or on wage and indexation policies. Another sort of internal disequilibrium corresponds to inflation. Even though structural considerations may be very important, it is recognized that this situation is characterized by an excess supply of money. Therefore, policy recommendations gyrate around the control of "excessive" internal credit flows (both to the public and private sector) and/or of the determinants of the liquidity ratio, mainly inflationary expectations and the "management" of certain key prices, such as the exchange rate, wages and interest rates.

The external disequilibrium is related to an imbalance in the foreign sector of the economy. Specifically, when the current account is in deficit (surplus), it means that a country is spending on foreign goods and financial and non-financial services more (less) than what it receives from abroad. Until recently the literature has focused the analysis on the trade account, assuming away as exogenous the developments taking place on the financial area. For LDCs this may have been justified during the 1950s and early 1960s when direct foreign investment and official capital movements represented the bulk of the capital account of the balance of payments. In that context both the elasticity and absorption analysis of the balance of payments stressed the role of devaluation and movements in national income, respectively, on the balance of payments (narrowly defined). The integration of these two analytical approaches attempted to trace out the outcome of the "impact" and "multiplier" effects of changes in the determinants of exports and imports of goods and non-financial services on the "balance of payments" and on the level of economic activity and employment. The analysis allowed, under certain restrictive assumptions, for the simultaneous presence of internal and external disequilibrium, and it was recognized that non-dilemma cases were the combination of unemployment and surplus in the trade balance (expansive monetary and fiscal policies being called for) and inflation and deficit (which required restrictive monetary and/or fiscal policies). The combination of unemployment and deficit on the one hand, or inflation and surplus on the other, were perceived as dilemma cases which required additional policy tools such as changes in the exchange rate.

The recent revival of the monetary approach to the balance of payments shifted the focus from the trade account to the overall balance of payments, concluding, under the theoretical assumption that the main developments in the foreign exchange markets respond to disequilibrium in the domestic money market, that "the current account does not matter". In other words, balance-of-payments flows are interpreted as one of the main mechanisms to restore equilibrium in the monetary sector. Policy instruments emphasize the control of domestic credit (rather than the more "direct" determinants of exports and imports), so as to accommodate it to money demand in such a way as to generate a desired balance-of-payments surplus or deficit; the latter would basically reflect excess supply or demand for local money. The precise way in which domestic residents try to satisfy their money demand, by offering abroad goods or real or financial assets, would be of minor importance. Consequently, adherents to this approach, which prevailed in many countries during the 1970s, argued that little importance should be given to the huge inflows of financing addressed to some LDCs since they represented the "natural" response of domestic agents to an excess demand for local currency.

The magnitude, nature and persistence of recent external imbalances and their relationship to domestic imbalances suggest that the current theoretical models for analysing the balance of payments are based on various sets of unrealistic and decidedly restrictive assumptions, and have produced piecemeal and at times erroneous interpretations and policy recommendations with respect to the developments which have occurred in this sphere. In particular, there has been little analysis of the determinants of private international financial flows or of the external debt's impact on the national economy. In addition, given a *ceteris paribus* assumption in relation to world economic activity, international interest rates, etc., policy prescriptions put the burden of restoring a balance in the "problem country", with little or no recognition of the interdependence of the external imbalances among the countries, with respect both to their causes and to the responsibility involved. Since the attempt to construct another theoretical synthesis clearly exceeds the scope and purpose of this paper, we will concentrate on certain analytical issues which seem especially well suited to helping us to understand present foreign imbalances and to clarify alternative options and elaborate more realistic and efficient policies.

A country's deficit on the current accout of its balance of payments responds to the fact that domestic residents' expenditure exceeds their income. This may correspond to a case where *ex ante* (desired) investment exceeds public and private domestic savings, requiring foreign savings to close the gap; under certain conditions and within bounds, this process can be sustained for long periods of time.

This has been the traditional situation observed in most LDCs, which turn out to be net international debtors. Since "young" developing countries have a lower capital-labour ratio and higher returns on investment than advanced countries, it tends to be in the interest of both to transfer resources from relative capital-intensive countries to LDCs.

The basic factors which determine the stability and regularity of net inflows of capital to LDCs are the availability of international financing and the creditworthiness of the country. The former element is independent of the country's economic policy and the latter is usually related to the way in which the country incorporates foreign savings into its economy. In the case where borrowing is used to maintain or increase consumption or to finance low-return investments, not only will the country's creditworthiness be negatively affected, but forthcoming debt service payments, instead of taxing future growth of income, will force a reduction of consumption levels in the years to come. On the other hand, the higher the complementarity between foreign and domestic savings and the more foreign savings are used to increase productive capacity, especially in the tradeables sector, the "better" will be the evolution of the traditional creditworthiness indicators. However, in spite of "sound economic management", creditors may tend to reduce their loans if outside factors (such as an increase in international interest rates, or deterioration in the terms of trade of debtor countries) negatively affect their evaluation of the country's debt servicing capacity; naturally, this process by itself tends to worsen even more the debtor's balance-of-payments position. It should be clear, therefore, that a regular flow of foreign savings may unexpectedly and quickly turn into a foreign exchange bottleneck and an urgent problem in economic policy management, and what in other circumstances might have been a "normal" deficit turns out to be an external disequilibrium "problem".

The determinants of the current account developments may be classified as "external", in the sense that individual countries are not responsible for and may be unable to offset them, and "internal" or domestic factors, which can be attributed to consequences of the country's policy actions, or omissions, affecting its international competitiveness and overall foreign payments situation. Naturally, this distinction is neither exhaustive nor precise or rigorous. However it sheds light, once empirical evidence is available, on the role these factors have played, or may play in the future, and suggests more efficient and equitable strategies, at the country and international levels, to face the problem.

The main foreign or external factors negatively affecting the current account are a deterioration in the terms of trade, reduced demand for LDCs' exports by advanced countries and increases in international interest rates. Fluctuations and procyclical behaviour of capital flows to LDCs can also help very decisively to worsen an external imbalance by reducing the availability of foreign financing to face a given deficit on current account.

Besides supply shocks, which although domestic in nature are in a sense "exogenous" to policy makers, two main internal factors can be broadly distinguished that may exacerbate foreign payments disequilibrium. On the one hand, aggregate demand management may stimulate excessive spending by the public and/or private sectors. On the other, relative price movements may stimulate, through exchange rate, commercial interest rate and income policies, nontradeable goods supply and tradeable goods demand, contributing to a loss in international competitiveness. An intermediate situation, which has recently been quite important in some countries, relates to the combined implementation of financial reforms and stabilization programmes resting on exchange rate overvaluation. This may lead to domestic policy inconsistencies which end up as a direct stimulus to aggregate demand and current account deficits through the monetization of financial flows stimulated by expectations of speculative capital gains.

The former classification, while allowing a better appreciation of the relevant factors explaining an external disequilibrium to be obtained, should be complemented by the consideration of two additional elements. The expected time dimension of the shock, whether foreign or domestic, plays a crucial role when evaluating alternative solutions: temporary effects should be distinguished from permanent ones. Although it is sometimes difficult to assess correctly the duration of a shock, efforts should be made to incorporate that element into the analysis. Another useful distinction relates to whether the shock is of a "real" or "monetary" nature. Examples of the first may be found in losses in productivity, obsolescence in technology or deterioration in "real" terms of trade (such as the one caused in oil-importing countries by the successive increases in fuel prices). Monetary shocks are typically derived from money market disequilibria. For example, if money supply continuously exceeds money demand, attempts to improve the balance-of-payments position through a once-and-for-all devaluation will be inefficient and should be complemented by policy tools addressed at the control of domestic credit expansion.

The relevance of the above-mentioned categorization may be visualized when analysing alternative ways to deal with foreign payments imbalances.

From a purely accounting point of view, external imbalances (in a country whose currency is not accepted as international money) have to be financed by running down gross foreign exchange reserves or increasing the stock of foreign debt outstanding and the level of payments arrears, or some combination of them. However, an *ex ante* disequilibrium in the external accounts may be substantially larger than the imbalance which is finally financed, the difference being wiped out through adjustment of the imbalance. This latter mechanism consists in domestic policy measures designed to produce an expansion of a high liquidity preference, such as the oil-exporting ones, is clearly one of the most outstanding characteristics of that period from an international financial viewpoint. If oil-exporting countries had decided, and had been in the position, to accumulate real assets rather than liquid funds, the latter would have gone back to the suppliers of real assets, and the expansion of the financial market would have depended on their preferences as regards portfolio composition.

Of course, the working of the international monetary system lies at the root of the expansion of the financial markets. Asset rather than reserve currency settlement would have allowed a more moderate, regulated expansion of reserve currency holdings outside the country of issue.

At all events, rapid growth of financial markets during the 1970s created an international capital market largely outside the regulatory controls of any monetary authority or international institution. Capital movements have become more and more important in international payments and exchange rate determination, and consequently private and specially banking sources of finance have increased their importance while the role of official institutions and governments has weakened in an increasingly market-based monetary and financial system. This has resulted in turn in a sharp reduction of average maturity as well as in substantial increases in the cost of borrowing for LDCs, specially those of Latin American.

By the end of 1981, and particularly in 1982, the growth of the financial markets slowed down dramatically in the wake, on the one hand, of the breakdown of the oil cartel and, on the other, of the increased perception by international lenders of the risk of deterioration of their portfolio. In those years, together with smaller capital inflows to LDCs, banks also increased their spreads, fees and commissions and shortened the maturity of new loans.

The fast growth of credit implied the rapid growth of debt, a process which is sustainable, as analysed in the preceding section, as long as the debt burden does not grow out of proportion to GNP and exports. This seemed to be the case in a number of Latin American countries during the 1970s: Mexico, for example, averaged 6.4% growth in real GNP from 1970 to 1979 while its exports grew in real terms by 10.9% annually. In the same period, comparable figures for Brazil were 6.7% and 9.1%. Argentina had a less enviable annual growth, 2.6%, but still expanded its exports by 10.7% per year.

However, a deterioration in the terms of trade of debtor countries, or an increase in international interest rates, could make debt burden unbearable and that was what happened in the early 1980s. Although it may be said that many countries in Latin America did not adjust to the two oil shocks of the 1970s and incorrectly perceived the growing external financing available during the decade as stable and permanent, it can be stated that for many countries the debt service crisis was due less to mismanagement and/or unwise borrowing and lending than to high interest rates and a world recession that reduced Latin American export earnings.

As a consequence of domestic economic policies in industrial countries, the rate of growth of the world economy came to a halt in 1982, real interest rates in international markets soared and protectionist tendencies in advanced countries increased; at the same time, the terms of trade moved rapidly against debtor countries, including oil-exporting ones. As the recession took hold, both the domestic and international portfolio of banks in industrial countries suffered. In the LDCs this process of bank portfolio deterioration led to financial crisis in several cases, which compounded the portfolio problems and risk perception of internationally lending banks (see table 1).

It is worth noting that domestic policies in some LDCs also provided stimulus to the capital inflow in the form of debt, through inconsistent financial reforms and exchange rate movements (devaluing at rates substantially below domestic inflation). Some governments believed that high inflationary pressures and high interest rates in the domestic credit markets, as well as tight monetary and (sometimes) fiscal policies, could be avoided by borrowing abroad. Furthermore, in many cases speculative capital movements were also stimulated by huge interest rate differentials between domestic and foreign rates. This situation allowed, during some time, for the simultaneous presence of current account deficits and overall balance-of-payments surpluses: a process which could only be sustained by an increasing foreign debt.

It is not obvious whether an imbalance should be financed or adjustment measures should be taken, the answer depending on the nature, magnitude and persistence of the deficit, as well as on the availability of financial resources to the country in question. An imbalance originating in factors which are of a transitory and monetary nature, expected to last for a short period of time, should generally be financed; this conclusion is derived from efficiency criteria. In turn, a deficit emanating from real and/or permanent changes in the economic environment or from facts which, while transitory in character, are expected to last for a prolonged period of time, requires adjustment.

From another perspective, when external factors predominate it seems reasonable on grounds of equity and in some cases of efficiency (i.e., interdependence both in trade and payments between deficit and surplus countries) to argue in favour of financing. Again, this is especially true when the external disturbance is perceived as temporary and is of a "monetary" nature (e.g., the increase in world interest rates), and less so when it appears as more permanent and is based on "real" factors (e.g., the increase in oil prices).

However, it is not always easy to determine, at an early stage, whether permanent and transitory or monetary and real changes are at work. So, more than a "fundamentalist" approach to external imbalance, a cost-benefit approach is usually taken to determine the policy intruments to be used in facing a disequilibrium in foreign payments. Financing a deficit has costs measured in terms of future debt burden, while adjustment implies some current real income foregone and a transitory increase in unemployment and inflation.

The usual "small country assumption" regarding foreign financing implies an infinitely elastic supply of foreign credit; the borrowing country determines the amount borrowed per year, at the going interest rate and other costs. In this approach, the amount of indebtedness per year is essentially demand-determined, while supply conditions determine the cost of borrowing. This assumption is a useful one when international financial markets are growing rapidly, as they did up to 1981, and when "country risk" perceptions of the creditors do not limit the supply of external credit to borrowing countries. As financing reaches its maximum limits, however, a country is not in a position to evaluate the cost and benefits of alternative ways of settling the imbalance: it is forced to adjust, whatever the costs. Under these conditions, it is not surprising to find in many cases of external imbalances that countries act unilaterally in the financing area, through arrears in commercial and in other foreign payments which may be properly dubbed "involuntary lending".

II

Financing and adjustment: Recent tendencies and the current situation

As it is well known, world financial markets expanded at a rapid rate during the 1970s. Total assets of banks reporting to the BIS expanded at an average rate of 25% during the period, and in no year was the rate less than 19%. Between 1973 and 1981, the net flow of banking credit to non-oil LDCs grew more than fivefold, increasing from US$ 10 billion to more than US$ 50 billion in 1981, when it reached its historical peak.

This rapid growth is explained both by institutional and structural factors. Among the institutional factors, perhaps the lack of regulation in the Eurocurrency markets, including the absence of minimum reserve requirements and of mandatory maximum debt-to-capital ratios, are the two most important single ones. As regards structural factors, the accumulation of liquid balances under the control of countries with remain far above their real historical levels for comparable stages of previous business cycles.

With annual interest rates at nominal levels of 12% to 18% (including spreads) between 1981 and 1983, interest payments consume a substantial proportion of the gross export income of debtor countries. The figures are shown in table 3.

Table 2
EFFECT OF 1% CHANGE IN INTEREST RATES ON FOREIGN PAYMENTS OF NON-OIL-EXPORTING LDCs, 1981-1983

Area[a]	Amount of debt subject to floating rates (billions of dollars) (1)	1% interest rate change (billions of dollars) (2)	Total exports of goods and services (3)	(2:3) (percentage) (4)
Western Hemisphere[b]	227.9	2.3	115.2	2.0
Africa	37.7	.4	54.8	.7
Asia	76.4	.8	178.4	.4
Other	73.9	.7	99.5	.7
Total	*415.9*	*4.2*	*447.9*	*.9*

Source: IMF, *World Economic Outlook*, 1983.
[a] The classification of countries corresponds to IMF, *International Financial Statistics* from March 1980 on.
[b] Western Hemisphere excludes only Venezuela as oil exporter.

Table 3
NON-OIL-EXPORTING LDCs' INTEREST PAYMENTS IN 1981-1983, BY AREAS

Area[a]	Interest payments (billions of dollars) (1)	Exports of goods and services (billions of dollars (2)	(1:2) (percentage) (3)
Western Hemisphere[b]	31.4	115.2	27.3
Africa	4.4	54.8	8.1
Asia	9.8	178.4	5.5
Other	10.0	99.5	10.0
Total	*55.6*	*447.9*	*12.4*

Source: IMF, *World Economic Outlook*, 1983.
[a] The classification of countries corresponds to IMF, *International Financial Statistics* from March 1980 on.
[b] Western Hemisphere excludes only Venezuela as oil exporter.

Table 1
EVOLUTION OF INTERNATIONAL ECONOMIC INDICATORS AFFECTING THE BALANCE OF PAYMENTS OF LATIN AMERICAN COUNTRIES, 1965-1983

Period	Terms of trade, Latin America[a]		Real interest rate[b] (percentage)	Growth rate of industrial countries[c] (percentage) change)	Net inflow of capital	
	Total	Non-oil exporting countries			Billions of nominal dollars	Billions of 1983 dollars[d]
	(percentage change)					
Average 1965-1972	.3	.2	2.82	4.6	3.4	8.8
1973	13.4	10.6	2.94	6.2	8.1	18.3
1974	15.8	−7.0	.11	0.1	11.6	23.5
1975	−13.5	−12.0	−2.21	−0.7	14.5	27.3
1976	4.6	7.4	−0.22	5.3	18.3	32.0
1977	6.0	10.7	−0.50	4.3	17.3	28.5
1978	−10.5	−10.2	1.23	4.5	26.4	40.3
1979	3.5	−6.7	0.66	3.5	29.0	39.7
1980	4.2	−7.2	0.86	1.1	29.9	36.1
1981	−7.3	−13.0	6.11	1.5	38.0	41.5
1982	−7.0	−7.6	6.91	−0.4	16.6	17.1
1983[e]	−7.2	−1.6	6.71	1.8	4.5	4.5

Source: ECLAC, *Economic Survey of Latin America*, 1982; *Economic Survey of Latin America, 1983: Advance Summary*. IMF, *World Economic Outlook*, 1983. OECD, *Economic Outlook*, 1972; IMF, *Balance of Payments Yearbook* (various issues).

[a] From 1970 on excludes Venezuela, Bolivia and Ecuador; from 1976 on, Mexico and Peru.

[b] Refers to three-month Eurodollar London interest rate minus United States inflation, as measured by the Consumer Price Index (CPI).

[c] GNP growth rate of Canada, United States, Japan, France, Federal Republic of Germany, Italy and United Kingdom.

[d] Deflated by United States Consumer Price Index.

[e] Preliminary estimates. Data for interest rate and United States inflation cover period up to October 1983.

So, both from the supply and demand side the increase in foreign debt was stimulated at rates which made the debt level incompatible with a sharp or prolonged world recession. In fact, the overwhelming importance of private banking as the main source of the flow of new financing, given its commercial and risk-avoiding nature, has helped to amplify rather than moderate the recessionary tendencias of the early 1980s.

Present levels of foreign debt are such that changes in interest rates in international markets produce a substantial impact on foreign payments. As an increasing proportion of the stock of the LDCs' debt is subject to floating rates, the bulk of the stock, and not only new lending, will be affected by changes in rates. Table 2 shows the effect of a 1% increase in interest rates on foreign payments in non-oil-exporting LDCs. For Latin American and Caribbean countries this figure is some US$ 2.3 billion, which represents 2% of the region's exports of goods and services. It should be noted that this effect, which has predominated in the 1980s as a consequence of the rapid increase and changing structure of foreign debt, as well as extraordinarily high interest rates in world financial markets, is substantially bigger than that of a US$ 1 increase per barrel of oil. Although nominal interest rates in the United States have declined from their extreme levels of 1981 and 1982, they have fallen neither as fast nor as far as the (US) rate of inflation and they exports of goods and services, a reduction of imports, or some combination of both so as to reduce the projected current account deficit and the consequent need for additional foreign finance.

Adjustment measures have typically focused on *expenditure reducing* and expenditure *switching* policies. The former consist in restraining aggregate demand via restrictive monetary, fiscal and/or incomes (including lower wages and higher interest rates) policies, with the objective of directly reducing domestic spending on tradeables. Increases in the exchange rate also work in the direction of reducing domestic spending through their effect on the real money supply, at least in the short run.

Expenditure switching from tradeables to non-tradeables goods works through relative price changes, typically exchange rate movements and changes in tariffs and other import regulations, as well as different forms of export subsidies. These policies tend to depress domestic spending on tradeables and to stimulate resource allocation towards tradeables production.

If adjustment could be promoted rapidly through changes in relative prices, its cost in terms of output foregone and higher unemployment might be quite small. However, real resource transfers between sectors and regions take time. Lags and inertia in factor mobility, price and wage rigidities, and the uncertainty regarding the temporary or permanent nature of the policy changes contribute to a situation where sectors incentivated by price stimulae to contract do so rapidly. while those stimulated to expand generally take an extended period to do so. In the process, global output suffers, unemployment and inflation go up and real wages are negatively affected. Furthermore, traditional policies have placed greater emphasis on reducing aggregate demand than on increasing output and changing its composition; therefore, if spending is reduced as part of the programme, there will be an added tendency towards output losses and unemployment. Experience has shown that when both relative price changes and expenditure reductions are promoted by the authorities of the debtor countries, the process of adjustment in case of a deficit involves unemployment and output losses which take a relatively long period of time to disappear. Adjustment, in the sense of a reduction in the external imbalance, may occur relatively rapidly, but at a substantial, and prolonged, economic and social cost.

From an international perspective, when an adjustment process takes place in a stagnant world economy and when current account deficits are not located at a country, but at a regional level, the costs of adjustment policies increase. This is true for individual countries, through the lack of foreign demand for their exports, so that huge relative price changes (with the already mentioned associated costs) are needed in order to better their trade balance. But it is also true internationally, since due to the importance of LDCs in world trade and payments, when a region as a whole curtails its imports, it will slow down the recovery of advanced surplus countries. When many countries attempt to increase their exports, some expansionary effects follow for the world economy. However, a deterioration in the terms of trade may occur and protectionist policies in developed countries may be strengthened thus worsening the prospects of recovery through adjustment policies in LDCs.

The above discussion suggests that in many cases countries opt, and should opt, for financing a current account deficit, which ultimately consists in delaying adjustment for the future.[2] These two components of the settlement of an external imbalance, adjustment and financing, are frequently interrelated. In most cases of a large *ex ante* external deficit, financing for this can be obtained if, and in some cases only if, adjustment measures are taken that reduce the need for financing to what creditors consider "manageable" or "credible" proportions. In fact, the International Monetary Fund makes its regular resources available, over and above certain limits, only if the country in difficulties puts into effect adjustment policies designed to eventually eliminate the deficits.

[2]It is implicitly assumed that authorities sterilize the monetary effects of the net increase in foreign debt; otherwise the fall in money supply generated by the net inflow of foreign exchange would induce a sort of endogenous adjustment process through its depressive effects on aggregate demand and expenditure.

Furthermore, interest payments by Latin American and Caribbean countries in 1982 and 1983 exceeded increases in their net foreign borrowing, so that a reverse transfer of resources from debtors to creditors was taking place. This would be a natural result as the LDCs' economies mature, but it is a heavy burden when it is a consequence of world recession rather than a by-product of the growth process (see table 4).

In addition to the effect of high international interest rates on debt service, they have an impact on primary commodities, since they tend to be negatively correlated with the terms of trade of primary producing countries. Hence, the burden of high interest rates is amplified by a deterioration in the terms of trade, in what has been called the "scissors effect", which has produced the squeeze that nearly caused some major debtor countries to default (see figure 1).

The mechanisms that explain this negative relation are related to the direct impact of interest rate changes on the trading in, inventories of, and speculative demands for primary commodities (see Padma Gotur, "Interest rates and the developing world", *Finance and Development*, Vol. 20, No. 4, December 1983). Also, high interest rates discourage domestic expenditure, the level of economic activity suffers and demand for primary products falls. As most of these products are sold in highly competitive markets and their supply is inelastic, prices tend to change rather sharply with changes in demand.

Table 4
INTEREST PAYMENTS AND NEW DEBT OF NON-OIL-EXPORTING LDCs IN 1982-1983
(Billions of dollars)

Areas[a]	Interest payments	Net external borrowing	Net transfer
Western Hemisphere[b]	31.4	18.2	−13.2
Africa	4.4	9.0	4.6
Asia	9.8	15.6	5.8
Other	10.0	9.9	−.1
Total	*55.6*	*52.7*	*− 2.9*

Source: IMF, *World Economic Outlook*, 1983.
[a] The classification of countries corresponds to IMF, *International Financial Statistics* from March 1980 on.
[b] Western Hemisphere excludes only Venezuela as oil exporter.

The recent international monetary and financial developments, the macroeconomic policies in the industrial countries, and the world recession have been the main external factors that have negatively affected the LDCs' economies. To this should be added some domestic or internal factors which were quite common in Latin America during the second half of the 1970s. Overvalued exchange rates, expansive aggregates demand policies and stimulus to and inadequate use of foreign indebtedness have also contributed, although to a lesser extent, to generate the balance-of-payments crisis that started in 1981 and continued during 1982 and 1983.

The magnitude involved and the adjustments made are quite clear and impressive. The deficit on current account reached a maximum in 1981. Since then the trade balance changed from deficit into surplus, peaking in 1983 to an extraordinary amount of more than US$ 31 billion, a figure more than triple the improvement attained in 1982. The balance on current account before interest payments and profit remittances improved by US$ 37 billion between 1981 and 1983, a figure equivalent to around 4% of Latin America's average GNP in the period. The current account deficit, as a consequence of the changes affecting mainly trade, and to a much smaller extent, financial services, contracted abruptly from US$ 36.4 billion in 1982 to US$ 8.5 billion in 1983: the smallest deficit since 1974 (see table 5).

Parallel to this, and responsible to a certain extent for the extraordinary reduction in current account deficits, the Latin American countries suffered in 1983 a drastic contraction in the net inflow of capital to the region. Such inflow, which had already been reduced in 1982 to less than half the historical maximum of 1981, when it reached US$ 38 billion, fell again in 1983 to less than US$ 4.5 billion. This is why, in spite of the huge surplus on trade account and the sharp fall in deficit in current account, foreign exchange reserves fell for the third consecutive year. In terms of the region's imports, the reserve coefficient was reduced from an average of nearly 50%in the period 1973-1979 to about one-third in the 1980s, in spite of the fact that imports fell by over 40% from 1981 to 1983.

Table 5
EXTERNAL IMBALANCES IN LATIN AMERICA, 1979-1983
(Billions of dollars)

	1979	1980	1981	1982	1983
1. Exports of goods	69.6	90.5	96.8	88.6	87.5
2. Imports of goods	69.1	91.5	98.4	78.9	56.3
3. Trade balance	0.5	-1.0	-1.6	9.7	31.2
4. Non-financial services (net)	6.5	8.5	11.4	9.6	6.4
5. Current account balance before financial services	-6.0	-9.5	-13.0	0.1	24.8
6. Financial services (net)	14.2	19.0	29.1	36.8	34.0
7. Balance on current account	-19.6	-27.7	-40.4	-36.4	-8.5
8. Net capital movements	29.0	29.9	38.0	16.6	4.5
9. Foreign global debt	166.4	205.2	257.9	289.4	309.8
10. Foreign debt services	37.1	43.2	54.6	69.2	-
Percentages					
11. Interest payments as a percentage of exports of goods and services	17.4	19.9	26.4	38.3	35.0
12. Current account balance as percentage of gross national product	-2.8	-3.3	-4.3	-3.9	-0.9

Source: ECLAC, *Economic Survey of Latin America, 1983: Advance Summary.*

The fall in the net inflow of foreign capital to Latin America, combined with the very high remittances in respect of financial services, contributed for the second consecutive year to a net transfer of resources from the region to the rest of the world, amounting to nearly US$ 50 billion during 1982-1983. Obviously, as a consequence of the smaller net capital inflow, foreign debt increase slowed down: 7% in 1983 as compared to 12% in 1982 and the high average figure of 23% during 1977-1981. Interest payments, however, which in 1977 represented 12.4% of exports of goods and services, have steadily increased, rising to triple that figure in 1982-1983. Furthermore, interest payments have also increased their proportion of total debt service payments from 35% in 1977-1978 to 58% in 1982 and a much higher figure in 1983, due to the postponement of most amortizations in that year.

But despite generalized devaluations and the implementation of other measures designed to stimulate exports, most of the adjustment has occurred in the form of a drop in imports, which fell 29% in 1983 after having fallen by 20% the year before.

This extraordinary fall in imports caused, and was caused by, a sharp contraction in economic activity and other related indicators (see table 6). Latin America's GNP fell 3.3% in 1983, after having fallen 1% in 1982, while the per capita GNP fell by 5.6% in 1983 and was nearly 10% lower than the 1980 figure, reaching only the level attained as far back as 1977. Gross national income fell even more

Table 6
LATIN AMERICA:
INDICATORS OF COST OF ADJUSTMENT

	1976/1979	1980	1981	1982	1983
	1970 dollars				
Real GNP per capita	930	1 007	997	965	911
Real GNP per capita	929	1 009	985	938	883
	Percentages				
Change in consumer prices	50	53	61	86	130
Unemployment median[a]	7	7	7	9	10

Source: ECLAC, *Economic Survey of Latin America, 1983: Advance Summary.*

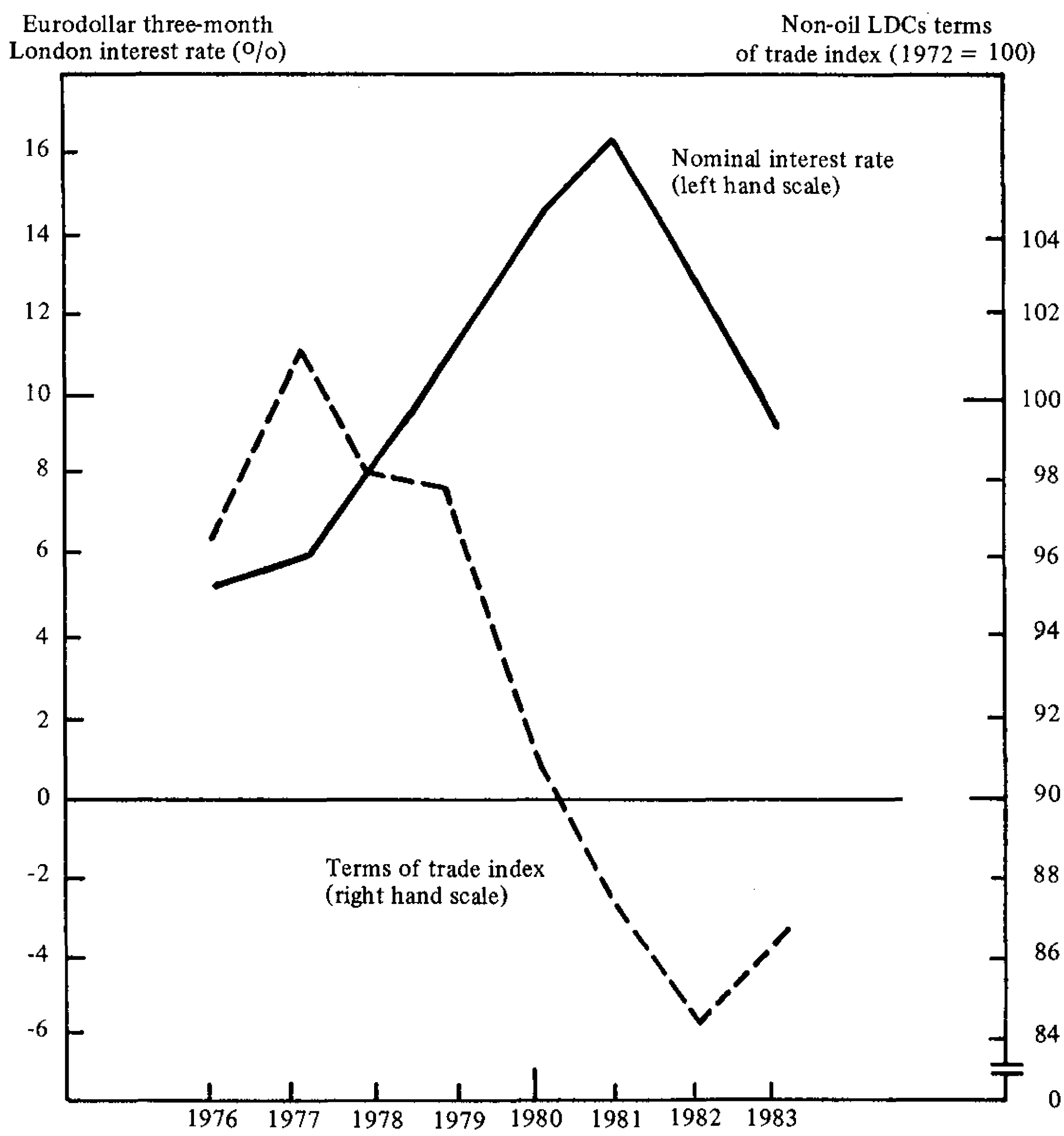
[a] Median of annual average rates of urban unemployment in 10 selected Latin American countries.

than GNP, since for the third consecutive year the region's terms of trade deteriorated: phenomenon which occurred for six consecutive years in the case of the non-oil-exporting Latin American countries. Urban unemployment increased in almost all countries, while inflation soared to unprecedented high rates.

Perhaps the most illustrative way of perceiving the magnitude of what this adjustment process has meant for the region is to recognize that if GNP had continued to grow at one-half its average rate of growth between 1970-1980, Latin America would have obtained US$ 150 billion in real terms at 1983 prices in additional GNP in 1981-1983. That

Figure 1

EVOLUTION OF TERMS OF TRADE OF NON-OIL-EXPORTING LDCs AND NOMINAL INTEREST RATE



Source: IMF, *International Financial Statistics*, January 1984; *World Economic Outlook*, 1983.

amount is equivalent to nearly half the region's stock of foreign debt or to the GNP of Sweden or Switzerland.

Despite the important external sector adjustment policies adopted by Latin American countries in 1982 and 1983, the foreign exchange generated by this process and by voluntary lending was insufficient to cover external debt payments, and a number of countries found it impossible to pay not only the principal but in some cases even the interest. Most countries had to reschedule their external debt service and tried to reach agreements with the IMF and other foreign creditors to meet such debt service charges —not to mention repayment of loans coming due— while they have also had to reduce internal spending and apply austerity programmes that comply with IMF requirements.

Under present conditions it cannot be expected that the debt will continue to grow as in the past. The flow of liquid savings has been substantially reduced, and lenders are taking an extremely careful and selective attitude regarding international operations. In fact, as mentioned, the expansion of international lending in 1983 has been very much lower than the increase in interest payments to the exterior, so that the transfer of real resources from *debtors to creditors* has reached unprecedented levels even after allowing for debt renegotiation and for the fact that there are now considerable arrears in the interest and amortization payments of some debtor countries. While total international assets of banks reporting to the BIS grew by US$ 22.3 billion in the first six months of 1983, as compared to US$ 74 billion in the same period in 1982, bank lending to Latin America increased US$ 3.7 billion (US$ 12 billion in the first half of 1982) and lending to all LDCs went up by US$ 5.8 billion (US$ 15 billion in the first half of 1982).

So, regardless of the transitory and externally caused nature of the present foreign payments deficits of Latin America, due mainly to unusually high foreign interest rates and unsually unfavourable terms of trade, financing is playing a very limited role in closing the external gap. Traditionally, through its conditional lending, the IMF generally included provisions to eliminate involuntary lending, offering financial resources in exchange. However, when the imbalances are very large, as they have been in 1982-1983, IMF resources are not sufficient and the Fund has been actively promoting the provision of additional funding from private lenders to complement its own very limited financing possibilities, in order to try to avoid payments crises.

As already mentioned, banks have reacted, at least until now, very conservatively, trying to reduce their exposure with LDCs. Available financing to those countries is now an extremely binding constraint. But in spite of the new circumstances, the IMF has reassumed an attitude similar to its traditional one of regarding causes of and cures for individual country balance-of-payments crises as if they were isolated phenomena. This time, however, the financial shortages have required an extremely restrictive and costly adjustment process. which has not been determined by the nature or causes of the imbalance but basically by available financing. The latter has overridden cost and benefit considerations, or —what amounts to the same thing— above some limited amount, the cost of financing has become infinite.

III

Adjustment and debt in the 1980s: options and limitations of existing tendencies, institutions and practices

1. *The international scenario*

Until the second half of 1980, developments in the foreign sector of the Latin American economy seemed perfectly under control. It is clear from the preceding sections that since the beginning of this decade shocks originating in policy actions or decisiones in industrial countries and in the world economy have played a major role in the generation of external imbalances in the LDCs. In fact appropriate policy measures in the North are a crucial element for the viability of the actual adjustment processes taking place in the south. If the terms of trade in Latin America had been similar to those prevailing in 1980 (25% better) and if international interest rates had been similar to those obtained when the bulk of the foreign debt was contracted (on average four percentage points below present rates), the region would have had available US$ 35 billion more in 1983. With these resources the region would have easily fulfilled its foreign payment obligations without having to reduce dramatically its imports nor needing additional foreign debt. In other words, if world trade and finance would only return to "normal" conditions, Latin America's foreign payments commitments could be satisfied without sacrificing its consumption levels or its growth possibilities.

Of course, policies in the LDCs have had a degree of responsibility in originating imbalances, but the correction of such policies, a responsibility of the LDCs' authorities, has already been carried out —in excess in many places— and has had a painful effect on both the domestic economy and its social fabric, raising skepticism about the ability of these countries to sustain the effort.

Current approaches to adjustment present two major problems: they maximize the global cost of the process and they are biased against debtor countries, which are bearing a disproportionate share of the cost. There are four major aspects of the international economy where action is needed in order to reverse this situation.

First, high and volatile interest rates have a definite negative impact on the current crisis, for various reasons. As already mentioned, the debt service payments and terms of trade of the LDCs have been adversely affected. Interest payments exceed the cost of oil imports in non-oil LDCs. But interest rates have also helped to delay recovery in the North and have contributed, through capital inflows to the United States, to the strengthening of the value of the dollar *vis-à-vis* other currencies. This has affected the LDCs' competitiveness and increased the real cost of servicing the foreign debt, which is predominantly denominated in US dollars. In relation to this latter point, it has been estimated that if the non-oil LDCs' borrowing from commercial banks, which amounted to about US$ 150 billion between 1979 and 1982, virtually all in terms of dollars, had been diversified to correspond broadly with the currency composition of their trade, the combined savings to these countries in terms of lower interest costs and exchange rate gains would have amounted to over US$ 30 billion (see A. Mohl and D. Sobol, "Currency diversification and LDC debt", Federal Reserve Bank of New York, *Quarterly Review*, Autumn 1983, Volume 8, No. 3). Furthermore, high interest rates (together with overvalued Latin American currencies) have stimulated flights of capital to the United States which, according to private bank sources, reached US$ 100 billion during 1980-1983, aggravating the region's debt problems.

Macroeconomic policies in industrial countries, and especially fiscal policy in the United States, bear major responsibility for the high and uncertain interest rate levels. Monetization and crowding-out effects of the fiscal deficit, expectations that the United State deficit is unlikely to disappear even with a strong, long-lasting recovery (due to the fact that spending growth for both social and defence programmes will outpace the increase in tax revenues), and the fact that the industrial countries' public sector deficits are competing globally for a relatively weak flow of global savings are the major factors behind recent current interest rate levels and movements. Futhermore, the impact of international interest rates on LDCs is bigger than their effect on the average United States or United Kingdom citizen, since American or British borrowers can write off interest rate payments against taxes.

It should also be noted that banks' earnings depend not so much on the level of interest rates as on spreads, so that in principle, the soundness of the banking system would not be at stake and could even be enhanced if real interest rates could be reduced.

In summary, the advanced countries' responsibility for the levels and fluctuations of interest rates —one of the main determinants of current balance-of-payments crises and the highly costly and inefficient adjustment process in the LDCs— should be clearly recognized and action should be taken regarding fiscal and monetary policy mix, as well as on co-ordination of these and exchange rate policies among industrial countries.

The second international element to consider is that the actual adjustment process, based on generating trade surpluses in debtor countries, is being made extremely difficult and more costly due to the lack of sufficient foreign demand and protectionist tendencies in the North, which have affected both the LDCs' exports and their terms of trade.

On average, the LDCs' products account for only 3% of the industrial countries' market; this relative small share should leave ample scope for further expansion. However, relatively large shares for some specific products and protectionist measures against imports of many of these products suggest only moderate growth ahead. Although it should be noted that protectionist measures in OECD countries did not stem the dynamism of the most successful exporting countries in the late 1970s, the export environment in the next years will be much more competitive than in the last fifteen years. In addition to debtor countries' export promotion policies, strong export growth will require not only a healthier world economy but also a restructuring process in the industrialized countries' economies, which is an essential aspect of international economic development to which national policies in both industrial and developing countries must make a positive contribution (see B.A. de Vries, "International Ramifications of the External Debt Situation", AMEX Bank Review Special Papers No. 8, November 1983).

Although developments in 1983 and forecasts for 1984 indicate a recovery from the 1982 world recession, and despite the increase in imports into the United States, the international transmission of the recovery is working less well than in the past. The growth of world trade exceeded the growth of world output by a sizeable margin in the two-year period following the 1975 recession, as it has on average throughout the postwar period. For 1983-1984, in contrast, the excess of trade over output growth is likely to be negligible or non-existent, the main reasons for this being the slower available financing, due to the debt problem and the proliferation of protectionist measures. To this should be added the restrictions imposed on imports by heavily indebted LDCs.

In a dynamic, expanding economy, traditional prescriptions for a single country to adjust by increasing exports and restricting imports have some rational basis. However, since every export is someone else's import, a "composition fallacy" may occur when a generalized crisis takes place. As the IMF has leverage with respect to deficit countries which are in need of financial resources but not with respect to surplus countries (or reserve currency countries whether in surplus or deficit), the burden of adjustment is thrown upon deficit non-reserve currency countries. This fact increases the cost of adjustment for those countries, and reduces the efficiency of certain policy measures, especially when the world economy is not growing at a rapid pace.

Availability and stability of foreign financing is the third international factor which requires urgent policy measures.

As mentioned in section II, bank lending to LDCs, and especially to Latin America, grew at extraordinarily high rates during the 1970s. In hindsight, although in some countries investment rates, and GNP and export growth rates, were high, development strategies based on foreign saving had very weak foundations. Excessive reliance on short-term loans created a serious imbalance between the maturity structure of investment and the debt, increasing the countries' vulnerability to debt servicing problems. Foreign finance in some cases took the place of domestic savings, stimulating consumption. The overabundance of foreign exchange contributed to overvalued exchange rates, putting a brake on export dynamism. Also, attempts to maintain activity levels in the face of the oil shocks, and the fact that high United States interest rates and domestic exchange rate expectations of depreciation stimulated speculative private capital outflows, were all factors that helped to partially offset the value of bank lending and to militate against its efficient use.

The private banks' initial reaction to debt servicing problems in the 1980s was not only to try to reduce their exposure with the LDCs, which by mid-1983 was over US$ 330 billion, but also to charge additional commissions and fees in the rescheduling schemes (which only very recently have tended to diminish slightly), that have added an extra cost on already high interest rates. It is evident that because of their aggressive loan policies, together with less than adequate project evaluation and their lack of awareness of the country and commercial risks involved, banks bear a share of responsibility in the gestation of the current balance-of-payments crisis. They tend to argue that due to the very competitive supply side of the market in the 1970s, spreads were low and provisions insufficient to cope with generalized payments crises. However, their current behaviour of trying to suddenly block the access of "problem" countries to financial markets and to impose rescheduling procedures that have increased financial costs substantially is helping to augment external imbalances, throwing practically all the adjustment cost burden on the debtor countries.

Together with higher financial costs, bank lending has declined and there is little reason to expect it will increase in the near future, except under forceful IMF pressure. However, as real interest rates will probably diminish only slightly and very slowly, if at all, huge and costly trade surpluses of the debtor countries are still not sufficient to close the foreign exchange gap, and countries will require additional loans. The only sources available would be the advanced countries' governments, which are themselves under severe budget constraints, and multilateral institutions which, even if they increased their capital and lending capacity to what seems reasonable limits, will still fall short of required needs. Therefore, although efforts should be strengthened to ensure that the IBRD and IMF play a major role, directly and indirectly, in international financing it appears that no solution to the LDCs' debt problem will be viable unless it includes a reduction of the real burden of debt.

A final element in the international scenario, that has not been sufficiently incorporated in current approaches to adjustment policies, is related to the extent to which both through trade and finance, countries and regions tend to be interrelated.

As the world has become more interdependent, actions by a group of countries are bound to affect the rest, positively or negatively. Actions in the same direction by most or by all countries will reinforce each other, producing on any individual country an effect substantially larger than the one that would have been forthcoming from that country's policies by themselves. The growing interdependence is likewise reflected in the fact that if a country takes adjustment measures to reduce a deficit at a time when surplus countries are applying expansionary policies, the result will be a faster and smoother adjustment process at substantially reduced economic and social cost. However, that is not what is happening at present. Thus, a reduction in expenditures in a deficit country, with the aim of freeing additional resources for use in the tradeable goods sector, will be defeated in its purpose if the rest of the world is also compressing domestic demand because of, say anti-inflationary policies. The case of import protection is even more clear: policies to promote the exports of deficit countries will be defeated if the rest of the world prevents those exports from finding markets. Similarly, if one country devalues its currency to produce a reduction in the external sector gap, it may achieve its purpose. But if many countries producing similar commodities devalue at the same time, the result may not be adjustment, but merely a reduction in the prices of the exports of those countries, and a worsening in their terms of trade which might even increase the imbalance.

Excessive reliance on adjustment delays the North's recovery since the LDCs' markets for the industrial countries' exports are no longer of marginal importance. Added to the above-mentioned composition fallacy, implicit in regional export promotion within a stagnant world economy, is the fact that import cutbacks in the LDCs help to feed the recessionary tendencies in the rest of the world, delaying economic recovery in those same countries. According to Professor Koren, President of the Austrian National Bank, around 20% of world trade is affected by difficulties in deficit countries. Given this situation, it is no longer reasonable to impose economic policy conditions on many countries simultaneously while at the same time expecting them to raise their exports and lower their imports. If many countries were to meet those conditions at one and the same time, the system could not function (BIS press review, 27 October 1983). Up to August 1983, United Kingdom exports to Latin America fell by 35% relative to the same period in 1982, and some calculations indicate that the fall in United States merchandise exports to Latin America accounted for over 40% of the total decline in that country's exports in 1982 and was responsible for the loss of 250 000 jobs in the United States in areas where unemployment was generally higher than the United States average (see S. Dhar, "United States trade with Latin America: consequences of financing constraints", Federal Reserve Bank of New York, *Quarterly Review*, Autumn 1983, Vol. 8, No. 3).

On he financial side, it has been estimated that the LDCs' debt exposure of the major private banks amounts to more than twice their capital and that the annual interest owed to such banks thy the LDCs' is more than the banks' total profits (see R. Wienert, "Banks and Bankruptcy"*Foreign Policy*, No. 50, Spring 1983).

Consequently, the present approaches to adjustment which throw the burden basically on deficit countries and are strongly biased in the direction of recessionary policies should be complemented by trade liberalization policies in the advanced countries and a major new role for financing through debt rescheduling on better conditions, with higher net capital inflows to LDCs. This is in the interests of both North and South, not only through its effects on higher global output and trade growth but also because it minimizes the posible impact of partial or generalized default on the international banking system and its consequent effects on an even deeper and more prolonged world depression.

2. *Adjustment policies a the country level*

Current adjustment policies in the LDCs have been inspired by the traditional IMF approach implemented in the 1950s and 1960s with the aim of improving debtor countries' trade balances. Section II showed that an extraordinary effort has been made by most Latin American countries, with huge economic and social costs. Although trade balance improvement has been impressive it has not been sufficient to generate the re-sources needed to fill the foreign exchange gap. That is why most countries have had to rechedule their foreign debt and still need higher capital inflows and/or a reduction in the real value of debt service in order to "finance" interest payments.

The adjustment experience during the 1980s has revived the discussion regarding its efficacy as well as the question of its sharing of the burden among debtor and creditor countries. The Latin American case reveals that certain old criticisms of traditional policies have solid bases and should receive more attention from multilateral organizations and advanced countries. In addition, however, developments in the 1970s and the changes that have taken place in international, regional and local scenarios have given rise to new, non-traditional issues and problems which should also be incorporated in the analysis and discussion aimed at seeking policies that will allow for more efficient and equitable adjustment processes.

Adjustment policies recently implemented in Latin America show a clear recessionary bias. Improvement in the trade balance has been achieved essentially through lowering imports and diminishing the countries' standard of living, rather than by increasing exports. In other words, the reduction in aggregate demand tends to outweigh the change in output composition, while supply-oriented policies have proven particularly ineffective. The world recession and the increasing protectionism of the 1980s have contributed to this situation as well as the fact that outward-looking policies, when implemented globally, are less efficient (as is implicit in current policy prescriptions) than when applied by a single "small" country.

However, it seems that the traditional approach, applied rather homogeneously to a number of quite different country cases, which assumes that current account problems are derived from excess demand for goods, blurs the basic fact that financial service payments are the major component of the current account deficit. Therefore, given that debt was acquired through time and that interest rates are now extremely high, policy prescriptions aimed at reducing "excess spending behaviour" and attempting to solve a "stock" problem with traditional instruments based on generating an excess supply of goods focus attention on issues and variables that, although related to the problem, are not the most efficient ways of dealing with it.

Furthermore, as mentioned in section I, when restrictive fiscal and monetary policies are implemented and devaluation takes place, the exportable and import substitution sectors tend to respond slowly, while imports and economic growth slow down or are reduced rather quickly and non- tradeables supply, facing a scale effect that in the short run is much more important than the relative price effect, tends to stagnate or even to fall. From a development perspective, traditional adjustment measures present a further problem, since the recessionary impact —given the fact that people will attempt to maintain current levels of consumption— tends to fall more heavily on investment. Finally, inflation associated with devaluation, together with a decrease in real wages and increases in unemployment, generates a regressive domestic distribution of the burden of adjustment, in addition to the costs incurred through the impact of stabilization policies.

The above-mentioned factors, traditionally associated with "orthodox" adjustment policies, have been amplified not only by the international scenario of the 1980s, especially the world recession, terms of trade deterioration and higher interest rates, but also by inconsistencies associated with new phenomena, which tend to exacerbate economic fluctuations and recessionary effects. The amount of adjustment required has been amplified by the fact that the trade balance has had to improve not only to cover higher debt service payments but also to try to compensate for the smaller net lending due to the procyclical behaviour of the commercial banks. This "overadjustment" tends to be self-defeating since, as relative price changes prove less effective for reducing deficits, forcing additional emphasis on restrictive measures, these excessive restrictions damage the economic system as a whole and tend to increase the risks of lending as seen by the creditors.

In a number of countries, a similar situation to what has happened internationally in relation to debt service capacity, has occurred domestically. Much of the "debt" problem is originated not only by the lack of foreign exchange but also by the fact domestic residents, firms and persons, have been unable to service their *domestic* debt. This situation, associated with inefficient resource allocation in previous years, has been exacerbated by the "microeconomic" effects of the adjustment policies that are being implemented. Falling sales and increasing taxes and financial costs —the importance of the latter in the structure of production costs having increased enormously— squeeze firms' profits as well as consumers' ability to pay, shaking the soundness of domestic financial systems and increasing the cost of the adjustment process as a whole. The need for recovery of the economy, so that domestic illiquidity and/or insolvency is eliminated (a necessary condition for servicing the foreign debt) is contradicted by the recessionary effect of the adjustment policies being actually implemented.

Closely related to the internal debt issue is the fact that in a number of countries in the region, especially those which engaged in unrestricted liberalization cum stabilization programmes, domestic real interest rates have reached excessively high levels and experienced extremely sharp movements. While those developments may have been justified on the basis of events taking place in the credit markets, their consequences for other aspects of the economy would have required a closer look, and actions, to deal with events affecting those rates so as to achieve better results in overall objectives of economic policy. Similarly, the extraordinary inflow of foreign capital and anti-inflationary policies based on exchange rate management, together with tendencies to integrate the goods markets into the world economy by lowering barriers to trade, generated in many cases grossly overvalued exchange rates which stimulated, in the wake of the world recession, huge private capital outflows outside the region. In summary, the behaviour of certain variables, namely exchange and interest rates, as well as real wages, foreign debt and asset prices, as "outliers" has enormously complicated and increased the cost of adjustment policies, since much more drastic changes in relative prices are required which, furthermore, may end up to being in contradiction with the overall desired results.

The behaviour of asset prices merits special consideration in some Latin American economies. In the late 1970s and to a certain extent up to the present, real and financial asset prices soared, without adequate capital accumulation effort having taken place, creating a "bubble effect" which stimulated private expenditure. As the cost of domestic financing was higher than that of foreign financing, funding private sector excess spending abroad became a profitable way to circumvent the tight domestic credit or money markets. In many cases this was the main domestic cause of the external imbalance. However, the traditional approach to adjustment assumes that it is the public sector deficit which is the principal element behind excess spending, and higher prices for public sector services, lower government spending, higher taxes, etc., are therefore felt to be called for. Obviously, under these circumstances, although the trade balance will improve, distortions created in the domestic economy, together with an unnecessary fall in investment as compared to the desired reduction in consumption, help to increase still further the costs associated with the current adjustment.

Finally, in more general terms, since the slower growth rates in industrial countries and the higher real interest rates in international markets, as well as the smaller increase in the foreign financing available to LDCs will probably prevail for quite a long time, it would be desirable that the adjustment process in debtor countries should be guided not so much by short-run financial or balance-of-payments considerations, but rather by long-run development objectives. This requires —together with the attempt to minimize and better distribute the adjustment cost in the short run— appropriate "intervened" (as opposed to automatic) adjustment. In particular, policies aiming at increasing the flexibility of the domestic structure of debtor economies are called for. In this respect, it seems that the recent experience of some of the Asian NICs, particularly Taiwan and to a smaller extent Korea, which have been able to rely less on debt, to increase and diversify exports to both advanced and oil-exporting countries, and to substitute imports more efficently, rather than reduce them could be quite illuminating.

IV

Final comments and conclusions. A new proposal

The economic size of the developing world, and its linkages both through trade and finance with the industrial countries, indicate the need to give higher priority to a global international approach to the balance-of-payments problems of LDCs. Even though adjustment is required. the prevailing approach considers countries on a case-by-case basis and tends to minimize the effects of the world economic stagnation on LDCs' recovery and to overlook the impact of their adjustment on the advanced countries' levels of exports and activity. Also, the characteristics of the world economy today are quite different from those prevailing in the 1950s and 1960s. They require from the international community, and especially from the IMF, a new approach to old problems. Recent experience shows, however, that apart from the IMF's role in leading efforts to obtain additional financing no major effort is being made in that direction; the implementation of traditional ideas and standard policies in the new internacional scenario is increasing the burden placed on LDC's by problems which urgently require a more efficient and equitable solution than the one currently being pursued. These considerations, together with the fact that developments that have occurred outside the LDCs' policies and responsibilities have played a major role in the actual crisis, mean that there is now an even greater need for financing than during the renegotiation processes that have been taking place since August 1982.

The adjustment and "overadjustment" of most debtor countries in the past eighteen months has been impressive. In spite of the huge economic and social costs incurred in terms of losses in output and higher inflation and unemployment, however, trade surpluses have not been sufficient to compensate for interest payments and smaller inflows of capital. The monetary authorities and governments in industrial countries, together with the IMF and private banks, have helped by rescheduling and consolidating existing debt.

These results, and the magnitude of the problems yet to be solved, indicate that the current approach to adjustment and the efforts made in that connection by all the principal participants have so far succeeded, at high and not equitably shared costs, in something important but limited: buying time. It is doubtful, however, whether the present arrangements have bought enough time for all the countries concerned or can be used to buy much more in the future.

Private bankers, especially the smaller ones, are displeased with what they perceive as "arm twisting" and increasing official interference in their business, although many of them would appreciate being bailed out by their monetary authorities. The IMF's credibility has been shaken by the many breadkdown in its programmes. The industrial countries' concern about eventual tax increases and trade competition from abroad is reducing their governments' policy options. Last but not least, although it is true that "there is no such thing as a painless adjustment", the question is whether, over the longer term, the current adjustment policies in debtor countries, which tend to maximize cost in terms of output and employment losses and lower investment, will be worth the economic and social costs incurred. Many of the developing countries are concluding that adjustment cannot go on for much longer and are pressing for a much more equitable and development-oriented solution to current problems. Furthermore, they correctly argue that over the longer term improved creditworthiness must be based on growth in output and exports and not on reduction of economic activity.

As already mentioned, economic recovery as well as lower protectionism and interest rates in industrial countries would obviously help. However, it seems that even if developments in the world economy go in the right direction, neither their speed nor their foreseeable magnitude will be sufficient to induce urgently needed growth in debtor coutries. Furthermore, as most of these countries start from such high debt burdens they probably cannot return to normal market borrowing for some years to come. Therefore, together with a healthier international economy, there is need for new loans and adequate growth of official development assistance so as to allow domestic policy changes to be appropriately and more smoothly accomplished.

As lending banks view their exposure with debtor countries as too high by today's standards, and given that the external financial constraint on LDCs is the most pressing one, no solution during the near future seems feasible without a fall in the real debt burden. In this context, a number of proposals in relation to the debt problem have been advanced, which include special treatment of both amortization and interest payments. (Most of these proposals are contained in M. Guerguil, "The international financial crisis: diagnoses and prescriptions", to appear in *CEPAL Review* No. 24.) They range from outright purchases of the loans by governments or official institutions to the establishment of long grace periods and guarantee schemes which would give both lenders and borrowers time to alleviate their problems, while the most extreme ones consist of exchanging real assets for debt.

The main problems regarding the adoption of most of these schemes are the political implications involved in the capital losses associated with them. Although most of the debt problem is one of temporary illiquidity and not of fundamental insolvency, and in spite of recent and current emergency actions, many LDCs will not be able to service their debt, and therefore its level must be reduced. Someone has to make good the losses. In industrial countries the possibilities are reduced to savers or depositors taxpayers, or the banks' shareholders.

Banks will have to keep lending to debtor countries because otherwise they will not even receive interest, or they might have to lower interest rates and/or commissions and fees in future (unavoidable) reschedulings, thus reducing their earnings. A certain amount of money is likely to be lost, and one possibility is that it will have to be written off by the creditors and spread over time, so as to preserve confidence in the banking system. At the other extreme, some proposals suggest that it is the LDCs which should make up for the capital loss, in addition to current losses in output and employment, by exchanging part of the outstanding debt for shares in firms that their governments control (L.A. Metzler, *Financial Times*, 14 December 1983). A whole range of "intermediate" proposals have been suggested, including a major role for SDRs (D. Avramovic, "The debt problem of developing countries at end-1982", *Aussenwirtschaft*, March 1983); reconversion of currencies as loans are rescheduled (M. Zombanakis, *Financial Times*, 9 November 1983); and stabilizing the real value of debt in terms of dollars (S. Brittan, "World debt: a suggestion", *Financial Times*, 29 September 1983).

Some of these ideas could not be considered seriously in the atmosphere of emergency which has prevailed until recently, when the restoration of confidence in the banking system and avoiding defaults by Third World countries had overwhelming importance. But now is the time for all parties concerned (especially governments, monetary authorities and commercial banks in industrialized countries, all of which share the responsibility and ought to share the debt burden) to study these proposals and act appropriately.

As indicated above, the fact that interest rates are substantially higher than their previous long-term average, and that these higher rates apply to the bulk of the external debt of the LDCs, compounds debt service payment difficulties. For Latin America as a whole, amortization and interest payments of medium and long-term debt after renegotiation absorb more than 50% of exports of goods and services, and more than 60% in the case of five countries of the region. A change of one percentage point in external interest rates represents US$ 2.8 billion per year: a sum equivalent to roughly 3% of the total exports of the region.

Lenders are normally willing to reprogramme or refinance amortization payments, but there are very few cases where this willingness extends to cover interest payments. A reduction in interest payments below market rates would reduce the operational income of the lending institutions without a corresponding reduction in operating costs.

Interest rates are not under the control of borrowers or lenders. They are a result of macroeconomic policies, and since these policies are not stable, interest rates cannot be expected to stabilize in the short run. Furthermore, the level of such rates in real terms is now five or six times higher than the longer-term (10 or 20 years) averages.

But if interest rates cannot be stabilized at normal levels, interest payments can be. A new proposal in this respect is as follows (C. Massad, "Una proposición para la solución de los pagos por intereses" (mimeo), ECLAC, November 1983).

a) A "reference" rate in real terms would be established at a level similar to the long-term average international real interest rates plus normal spreads.
b) Original debtors could pay interest in their own currencies to their Central Bank, at the originally agreed market rates.
c) The Central Banks would pay creditors interest up to a maximum equal to the reference rate. The difference, if positive, would be accumulated in special accounts at the Central Bank of the debtor country and credited to the original creditors.
d) If negative, the difference would be paid to the creditors by the Central Bank, drawing against the funds accumulated in the special accounts, in so far as there remain resources accumulated in the accounts. Such resources would accumulate when the market rates exceed the reference rate and would disaccumulate in the opposite case.
e) The Central Bank would assume the exchange risk, but not the commercial risk.
f) In their own accounts, creditors could present the amounts accumulated in the special accounts of the Central Bank as credits guaranteed by the Central Bank involved.

g) The system would operate as long as there are resources accumulated in the special accounts.

h) The scheme would be applied to debt outstanding as of a given date.

This proposal could make a very substantial contribution to strengthening the portfolio of creditor banks and to normalizing the situation in financial markets. Or course, the liquidity problem involved for creditors (banks pay interest at the going rate but would only get them back over time) could be taken care of with the support of their own monetary authority. It would be a minimum contribution to the solution of a problem in which all parties involved bear some responsibility.

Two aspects of the proposal require global agreements: one is the necessary support of national monetary authorities of creditor countries to creditor institutions; the other is that of the general characteristic of the system and the general conditions for its application. The IMF could lead the effort to achieve such agreements. The proposal does not require setting up new institutions, nor does it call for asset transfers among creditors or between them and international organizations. The proposal also provides a simple mechanism for interest subsidization, if desired: funds put at the disposal of Central Banks could be used to reduce the amounts accumulated in the special account.

Other aspects, such as the precise scope of the system, rates and spread involved, funds accumulated in the special account and not fully drawn before payment of the debt, etc., are matters of negotiation, but it would be easy to propose some possible options if needed.

Finally, the scheme could run parallel to the rescheduling of debt amortization payments and need not interfere with it.

It is very probable that after the emergency debtor countries will still find serious constraints that will limit the scope for expansionary policies and will complicate the aim of achieving growth rates similar to those observed in the 1970s. The most important constraint will be external financing. In general, it will not be easy for governments or Central Banks of advanced countries or for official multilateral institutions to compensate for the expected smaller rate of increase in private bank lending. Improved financial management by LDCs, such as diversifying the currency composition of debt and using new financial tools and techniques, will be needed to optimize the use of the limited foreign finance available. In addition to this, it seems that the relatively smaller amount of financial credits will have to be compensated by resource transfers from industrial countries in other forms, mainly direct foreign investment, whose share in the 1970s diminished abruptly in favour of bank credits; new thinking is needed in this area also, so as to avoid the mistakes of the past.

On the internal front, adjustment and policy measures in debtor countries should be designed and implemented with a longer time horizon than is currently being used. Greater reliance on domestic saving, and efficient resource allocation aimed at increasing employment and the rate of growth of output and exports are required. Recent experience in Latin America as well as in some countries in South-East Asia suggests that much more attention than in the past should be given to "macroprice management", i.e., exchange rate, interest rate and wage policies. Consistent policies in these areas may contribute decisively to increasing saving and allocating investment more efficiently. This, together with adequate pricing policies and reforms aimed at increasing market and management flexibility, in a joint effort by the government and the private sector, should contribute decisively to put those countries on a higher growth path based on a dynamic tradeable sector (for export production and import substitution), which at the same time can be induced to use labour-intensive technologies.

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Global monetarism and destruction of industry

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In recent years there has been much discussion of the effect on manufacturing industry produced by the recent application of global monetarist policies. In the present article it is asserted that they have introduced an anti-industrial bias which has diminished the importance of the sector and, in some cases, has even destroyed a large part of its installed capacity. To analyse this process, a study is made of the recent experience of Argentina since 1974 and of Chile since 1973.

Economic literature, and particularly that originating in the United Kingdom (see, *inter alia*, Singh (1977) and Blackaby (1981)) has been full of the concept of de-industrialization, applicable in countries where, after a high degree of industrial development has been reached, the process begins to decline and the size of the sector significantly contracts, while services start to take its place as the prime mover of growth.

The experience analysed in this article fits into the context of the discussion in question; but the severity of the adjustment undergone by the industrial sector in Argentina and Chile exceeds anything that has happened in other countries.

The article is organized as follows: in the first place, the evolution of the industrial sector is analysed in terms of production and employment during the period of application of the above-mentioned policies. Secondly, it is discussed whether the contraction of the industrial sector must be interpreted as a movement in the right direction of reallocation of resources as pursued by the policy, or whether its behaviour must be attributed to the policy's failure. Thirdly, the instruments of economic policy which most influence the behaviour observed are identified, and, in conclusion, some outlines are proposed for an interpretative model whereby the characteristics of a possible process of recovery can be analysed, together with its requisites in terms of investment and employment.

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I

Trends in the industrial sector: de-industrialization or destruction

As a first approximation to analysis of trends in the industrial sector, attention may be focussed on the behaviour pattern of the sector's participation in employment and the national product, together with the evolution of the indexes of industrial production and of employment in manufacturing industry. The information available shows that both in Argentina and in Chile, during the period of application of global monetarist policies a systematic contraction has been recorded in the indexes in question. For example, in Argentina industrial employment in 1974 represented 32.4% of non-agricultural employment, whereas in 1981 it amounted only to 24.2%; in Chile, from the 24% for which it had accounted in 1970-1971 it sank to barely 19.1% in 1981. Much the same thing is observable in the share of the industrial product in the total product, although in Argentina there were slight fluctuations in 1977 and 1979, in neither of which years, however, were the 1974 levels of participation re-established. The share in question fell in Argentina from 27.6% to 21.6% between 1974 and 1982, and in Chile from 25% to 20.2% between 1970-1971 and 1982[1] (see table 1).

The index of employment in manufacturing industry also reveals an unfavourable trend in the sector. In Argentina, industrial employment in 1982 represented only 63% of that generated in 1974, as a result of successive contractions throughout the period, by which the larger enterprises were the hardest hit. In Chile, employment in manufacturing industry also uniformly decreased during the whole period, reaching in 1982 only 72% of its 1970 level (see table 2).

The contraction undergone by the sector is also evidenced in the indexes of the physical volume of industrial output, although not so markedly as in industrial employment, particu-

[1]In both cases the share is calculated on the basis of series at constant prices. At current prices, the reduction is greater, in view of the fall of industrial prices in relation to the deflator of the product.

Table 1
RELATIVE IMPORTANCE OF EMPLOYMENT AND VALUE ADDED IN INDUSTRY

	Argentina		Chile	
	Employment[a]	Value added	Employment[a]	Value added
1970-1971	30.8	25.4	24.0	25.0
1974	32.4	27.6	...	29.5
1975	30.7	27.0	21.8	20.3
1976	29.7	26.3	21.2	23.3
1977	28.8	27.3	21.2	21.7
1978	28.5	25.3	20.4	22.4
1979	27.0	26.1	20.5	21.2
1980	26.5	24.9	19.7	21.5
1981	24.2	22.3	19.1	20.8
1982	...	21.6	...	20.2

Source: Argentina: Central Bank of the Republic of Argentina. Chile: National Planning Office (Oficina de Planificación Nacional - ODEPLAN).
[a]The reference is to the share in non-agricultural employment of employment in manufacturing industry.

Table 2
EVOLUTION OF EMPLOYMENT AND PRODUCTION IN MANUFACTURING INDUSTRY

	Argentina		Chile	
	Employment	Production	Employment	Production
1970	86.3	81.2	101.2	99.8
1974	100.0	100.0	109.0	108.3
1975	103.8	95.7	98.8	77.9
1976	100.4	93.6	91.5	81.8
1977	94.3	99.2	91.0	90.0
1978	85.1	88.1	90.9	96.7
1979	83.3	105.1	89.9	104.2
1980	76.8	102.8	86.1	110.4
1981	67.2	86.4	83.6	110.4
1982	62.8	83.1	72.4[a]	83.9

Source: Argentina: for employment and production, Instituto Nacional de Estadística y Censos, *Encuesta manufacturera.* Chile: for employment, Sociedad de Fomento Fabril; for production, Instituto Nacional de Estadísticas, *Encuesta manufacturera.*
[a]The employment index was published only up to May 1982. For the rest of the year it has been estimated on the basis of the evolution of production, and on the assumption that manpower productivity remained constant.

larly in the case of Chile. In Argentina, by 1982 the volume of industrial production was about 83% of output in 1974. The downward trend was not uniform, however, as recoveries occurred in 1977, when the 1974 level was almost regained, and again in 1979-1980. Industrial production in Chile also shows a 16% reduction between the beginning and end years of the period under consideration, with a sharp drop in 1975, and a gradual recovery in the following years up to 1981, when once again the output of the sector plummeted (see table 2).

It might be supposed that the evolution of employment and production in the industrial sector during the period was "normal" if there were not exogenous referents against which to evaluate it. For this purpose recourse can be had to two types of comparison: the historical behaviour of the same series in the countries concerned, and the evolution of the same indicators during the period in question in other countries of the world.

On making the comparison it can be noted that during the five-year period prior to the adoption of the new policy both employment and production in the two countries' industrial sectors had been growing at rapid rates, so that their behaviour during the period of application of the monetarist economic policy implies a decided slump in relation to past experience. Industrial employment had been growing at annual rates of about 3.5% in Argentina between 1970 and 1974 and 3% in Chile between 1967 and 1972; in the period considered, it decreased at annual rates of 6.1% in Argentina and 2.7% in Chile. The situation was much the same in respect of industrial production; in Argentina the share of the industrial product in the total product went up from 23.2% in 1960 to 25.4% in 1970 and nearly 28% in 1974; in Chile the corresponding proportion rose from 23.5% to 25% between the first quinquennium of the 1960s and the beginning of the 1970s.

Comparison with the evolution of employment and production in other countries during the same period (see table 3) reveals that albeit in every country in the world the growth rate of industrial production slowed down during the second half of the 1970s, it continued to be high, particularly in the developing countries with market economies, and above all in Latin America. Thus, the Latin American countries raised their output by 6.2% between 1968 and 1980, at annual rates of 5.8% from 1970 to 1980 and 3.8%

from 1974 to 1980. In Argentina, on the other hand, during the period 1974-1980 industrial production declined by 4.5% yearly, while in Chile it virtually came to a standstill. A similar situation arose with regard to industrial employment, which expanded very rapidly both in the developing countries in general, and in Latin America in particular, at annual rates exceeding 4%. In Argentina and Chile, on the contrary, as remarked above, the rates recorded for industrial employment were negative during that period (see table 3).[2]

The foregoing observations point to the conclusion that the decline of the industrial sector in the two countries is a product of the policies pursued during that period, since it neither follows a pattern generalized at the international level nor reflects the sector's historical behaviour. On the contrary, it signifies a disruption of the industrial development that was taking place in both countries, and, in particular, constitutes an important change in their economic structure, both on account of the magnitude of the downward movement and because of its protracted

Table 3
PRODUCTION AND EMPLOYMENT IN THE INDUSTRIAL SECTOR, 1968-1980
(1975 = 100)

	Production			Employment		
	World	Developing countries	Latin America	World	Developing countries	Latin America
1968	73	61	61	86	67	68
1970	82	70	71	91	72	73
1973	101	93	94	98	89	89
1974	104	98	100	100	95	95
1976	108	107	105	102	105	103
1977	113	114	109	104	109	106
1978	119	126	113	106	114	107
1979	124	125	121	107	116	110
1980	125	128	125	—	—	—
Annual rates						
1968-1980	4.6	6.4	6.2	2.0	5.1	4.5
1970-1980	4.3	6.2	5.8	1.8	5.4	4.7
1974-1980	3.1	4.6	3.8	1.4	4.1	3.0

Source: United Nations, *Yearbook of Industrial Statistics, 1980,* New York, 1982, Vol. I.

duration. This suggests that rather than fluctuations in the use of installed capacity, what occured during the period was the progressive destruction of productive apparatus in the industrial sector. Conclusions of this type are borne out by the information available on the decrease in the number of establishments in the sector, and on the group of them that have had to close down in consequence of bankruptcy or liquidation. That a considerable part of the industrial sector has been destroyed in Argentina and Chile is apparent when the number of establishments and the volume of employment recorded in 1981 are compared with levels prior to the monetarist experiment. In Argentina the comparison can be made in relation to 1974, the year in which the last economic census was taken, while in Chile 1967 can be adopted as the reference year. The industrial census of that year provides an appropriate basis for looking back to a period regarded as more normal and presenting a

[2]The years 1980 for production and 1979 for employment are the last for which data are available, according to the source used.

breakdown consonant with that available for 1981.[3]

Table 4 shows that in both countries the number of establishments and the volume of employment in industry diminished during the application of the monetarist policy. Moreover, the trends recorded in the two countries closely coincide. The number of establishments decreases by about 15% and employment does so in still greater measure, by approximately 30%.

Table 4
EVOLUTION OF NUMBER OF ESTABLISHMENTS AND EMPLOYMENT IN THE INDUSTRIAL SECTOR

	Argentina (1974 = 100)						Chile (1967 = 100)											
	Number of establishments			Employment			Number of establishments						Employment					
	1	2	3	1	2	3	1	2	3	4	5	6	1	2	3	4	5	6
Total manufacturing industry	*82*	*81*	*89*	*70*	*73*	*66*	*87*	*98*	*78*	*88*	*75*	*76*	*74*	*97*	*76*	*85*	*75*	*64*
Food, beverages and tobacco	88	97	90	85	93	74	110	105	108	134	133	121	112	107	105	126	131	105
Textiles, clothing and footwear	73	73	86	54	54	53	64	78	65	69	49	60	58	76	61	67	48	53
Wood and furniture	62	62	67	83	38	87	84	98	85	59	38	25	67	94	85	62	55	19
Pulp and paper	90	90	92	80	82	77	103	118	84	117	70	100	92	116	83	109	66	94
Chemicals/plastics	88	87	93	85	94	73	110	129	93	98	140	116	110	127	91	93	134	115
Non-metallic minerals	86	85	95	75	72	81	74	98	45	96	27	114	72	96	47	96	31	84
Basic metalworking	76	76	78	64	46	72	78	107	64	83	57	83	33	109	69	66	64	21
Machinery and equipment	84	84	89	62	65	59	81	104	64	88	74	57	66	104	64	86	73	52
Other industries	72	72	50	38	2	43	79	71	131	63	60	—	61	68	133	56	56	—

Source: Argentina: Instituto Nacional de Estadística y Censos (INDEC) (1982). Chile: *Censo manufacturero 1967*; unpublished data from the 1982 industrial survey.

Notes: Argentina: 1. Total; 2. Establishments employing between 25 and 399 persons; 3. Over 400 persons employed. Chile: 1. Total; 2. Establishments employing between 10 and 14 persons; 3. 20 to 49 persons employed; 4. 50 to 99 persons employed; 5. 100 to 199 persons employed; 6. Over 200 persons employed. (The reference is to Greater Santiago.)

No process of concentration seems to have taken place during the period because both in number and in employment the reduction was proportionally more substantial in the larger establishments. The fact that it was bigger in respect of the number of persons employed resulted in a contraction of average size, especially in the case of the largest establishments (employing more than 400 persons in Argentina and more than 100 in Chile). The explanation of the smaller absorption of manpower on the part of those large establishments that did not close down might lie in the introduction of technological innovations that made for more efficiency and less employment. If it is borne in mind, however, that production and investment in the sector declined during the period, such an explanation does not seem very convincing. This question will be reverted to later.[4]

[3]If the comparison were made in relation to 1973 or the most recent industrial census, taken in 1979, were introduced, the conclusions reached would not be significantly affected. Taking 1967 as the base, the number of establishments was reduced to 96 in 1973, 97 in 1979 and 82 in 1981; the level of employment reached 105 in 1973, 86 in 1979 and 71 in 1981. The evolution by branches of industry is also relatively uniform, in the sense of showing that 1973 presents great similarities with 1967 and 1979 resembles 1981.

[4]Given the sources used in the case of Chile, it may also have happened that the size of establishments was reduced through a change of classification interval in between the years compared. The decrease in average size per establish-

It is worth asking, then, why the contraction, contrary to expectations, was concentrated in the bigger units. A possible explanation is related to the differential characteristics of the establishments by size and *modus operandi.* The smaller establishments, which operate with a higher percentage of family labour,[5] less linkage to production for export and a smaller proportion of loaned capital, or none at all, are not so much affected by the loss of international competitive capacity and the rise in interest rates. The larger establishments, on the contrary, have to face keener competition from imported products, lose profits on their exports and have more frequent recourse to loans at very high real interest rates which make short-term amortization extremely difficult.

Surprising, too, is the similarity of the impact of the policies adopted in the two countries on branches of industry. While in Argentina the number of establishments and the volume of employment decrease in all branches, and the same thing happens in Chile, except in the case of the food and chemicals industries, there are some branches in which the negative effect is more marked. Thus, in both countries the textile, metalworking and wood and furniture industries underwent considerable reductions.[6] The first two are the sectors in which tariff protection was strongest prior to the monetarist experiment and where price decreases of major significance were recorded in the producer countries, in textiles because of the increasing introduction of synthetic fibres and in metalworking because of technological progress in electronics. In the furniture industry the reduction was linked to the decline in domestic demand and, in particular, in real wages.

By way of confirmation of the foregoing remarks, the information available on bankruptcies in Argentina and Chile indicates that during the period 1974-1982 a large number of establishments in both countries declared bankruptcy, went into liquidation or instituted insolvency proceedings. In Argentina about 5 000 establishments were affected, the annual records showing a more rapid increase in numbers as from 1978. The liabilities of the establishments in this situation amounted in the course of the period to US$ 10 160 000. In particular, industrial establishments so placed registered liabilities exceeding US$ 5 billion. The liabilities most affected by financial collapses of the type in question in the industrial sector were recorded from 1977 onwards, a peak being reached in 1982. In Chile, too, a rising trend is observable throughout the period, but a notable feature was the accelerated increase in the number of industrial joint-stock companies (or corporations) between 1979 and 1982 (see table 5).

In short, a significant proportion of the industrial sector disappeared, the deterioration being concentrated in the larger establishments and in the textile, metalworking and wood and furniture industries. Lastly, it must be pointed out that the conclusions reached here underestimate the real impact, since only in 1981 was the negative effect of monetarist policy beginning to make itself felt in Argentina, while Chile was still experiencing its "economic miracle". Thus, recent research on Chile (PREALC, 1983) shows, for example, that of the country's five largest textile enterprises existing in 1981, one went bankrupt and the other entered into liquidation in 1982. The remaining three reduced the number of jobs they provided by 15%.

ment recorded in all the intervals, but to a lesser extent than in that of over 200 persons employed, suggests that this transfer from one category to another does occur, but that the number of closures still remains higher in the larger establishments.

[5]In Argentina, according to the Economic Census taken in 1974, the share of owners and family members in the total number of jobs provided by establishments employing from 1 to 35 persons was 49%, whereas in those with over 500 persons employed it was 0.1%. In Chile, in industrial establishments providing 5 to 50 jobs, 10.5% of the persons employed were owners and family members, while in enterprises employing 200 persons and over the corresponding proportion was 0.1%, according to the Industrial Census of 1967.

[6]In Chile the wood industry contracted a little less than in Argentina because of the export trade. Again, in the case of non-metallic minerals the contraction was more severe in Chile than in Argentina, in consonance with the different behaviour pattern of the construction industry in the two countries.

Table 5
ESTABLISHMENTS GOING OUT OF BUSINESS IN ARGENTINA AND CHILE

	Argentina (indexes 1974 = 100)			Chile		
		Amount of liabilities			Number of joint-stock companies (corporations)	
	Number of establishments affected	Total	Manufacturing industry	Number of bankruptcies (1973=100)	Industry (1977=100)	Total
1975	46.1	12.7	48.5	356.5	...	...
1976	22.1	1.4	0.1	573.9	...	...
1977	47.0	105.8	326.7	973.9	100.0	100.0
1978	132.9	216.2	306.5	1 395.7	172.2	113.3
1979	103.0	374.2	585.0	1 600.0	88.9	53.3
1980	111.1	606.5	236.4	1 856.5	133.3	126.7
1981	213.7	607.9	158.0	1 873.9	194.4	140.0
1982	142.1	756.7	719.7	3 521.7	416.7	313.3
Total 1974-1982	*4 886*[a]	*10 167*[b]	*5 087*[b]	*2 823*[a]	*199*[a/c]	*127*[a/c]

Source: Argentina: Fundación de Investigaciones Económicas Latinoamericanas (FIEL), *Indicadores de coyuntura*, Buenos Aires, several issues. Includes establishments declaring bankruptcy, in liquidation or instituting insolvency proceedings. Chile: Sindicatura de Quiebras. Includes only establishments declaring bankruptcy.
[a]Number of establishments.
[b]Millions of dollars.
[c]Relating to the period 1977-1982.

II

Efficient de-industrialization?

The decline in the level of employment in the industrial sector and the closing-down of establishments may also be interpreted as a positive effect aimed at by the policy pursued, i.e., a reallocation of resources to the sectors endowed with greater comparative advantages: a measure that would be detrimental to an inefficient industrial sector sheltering under the aegis of an industrialization process protected by high tariffs.

We shall attempt to analyse how far this assertion is correct. In the first place, we shall examine changes in the structure of employment, since if the allocation of resources promoted is to be effective, the drop in the levels of employment generated in the industrial sector should be offset by the creation of jobs in high-productivity activities other than industry. Secondly, as one of the important functions of the industrial sector, owing to the external constraint prevailing in the two countries, is to contribute to the supply of manufactured goods available without pressure on the balance of payments, another indicator of the degree of industrial efficiency should be the net foreign exchange effect of external trade in manufactures.[7]

[7]This criterion is known in the literature as the "Cambridge view", and was introduced by Singh (1977), who defined de-industrialization as a symptom of inefficiency or imbalance in the industrial sector in relation to an "efficient" sector, understood as one whose function is the provision (real and potential) of sufficient net exports to cover global import requirements at socially acceptable levels of product, employment and exchange rates. See also Cairncross (1981) and Brown and Sheriff (1981).

With reference to the first criterion, in Argentina and in Chile alike employment in manufacturing industry decreased both as a percentage of urban employment and in absolute terms. Keeping to the traditional classification of sectors, in both countries it is trade and services that absorb most of the reduction in employment in industry.[8] Greater absorption of manpower is also observable in the sectors linked to finance, an effect produced by the expansion of capital markets which the adoption of the models under discussion implied. Lastly, the role of construction in Argentina, where the level of employment in this sector was raised, differed from the part it played in Chile, where employment declined in construction just as in manufacturing industry (see table 6).

Table 6

VARIATIONS IN THE STRUCTURE OF EMPLOYMENT[a]

	Argentina[b]	Chile
1. *Sectoral structure of employment*		
Manufacturing	−100.0	−56.5
Construction	30.8	−43.5
Energy	1.4	2.1
Trade, transport and services	38.0	59.8
Finance	29.9	38.1
2. *Structure of the labour market*		
Manufacturing sector	−99.0	−25.7
Non-manufacturing modern sector	46.9	−66.6
Subtotal for variation in employment in modern sectors	*−52.1*	*−92.3*
Informal sector	25.6	17.9
Domestic service	−1.0	−7.7
Minimum Employment Programme		33.1
Overt unemployment	27.6	49.0

Source: Argentina: INDEC, *Encuesta permanente de hogares 1974 y 1981. Gran Buenos Aires.*
Chile: *Muestra nacional de hogares. Encuesta continua de mano de obra,* October-December 1970; October-December 1971; October-December 1981.

[a]The coefficients are estimated by applying the structure in the initial year (Argentina, 1974; Chile, 1970-1971) to the economically active population in the final year (1981) and subtracting the effective figure for the last year.

[b]The reference is to Greater Buenos Aires.

Although classification by sectors suggests that employment in manufacturing industry was diverted to the tertiary sectors, this does not make it possible to evaluate the types of job generated as an alternative. To that end some sectorialization criterion must be utilized whereby jobs can be classified by their levels of productivity. Accordingly, in line with the methodology worked out by PREALC,[9] the destination of those workers who were not absorbed in manufacturing industry is analysed.

In Argentina, between 1974 and 1981, out of every 99 workers who lost their jobs in the industrial sector, 47 found work in other modern sectors, while the remaining 52 went to swell the ranks of those working in low-productivity occupations or left without any job at all. In the case of Chile, comparison of the period 1970-1971 with the year 1981 reveals a similar situation. Out of every 26 workers who lost their jobs in the industrial sector, 13 fell into overt unemployment and the other 13 had to make do with low-productivity activities and, in particular, the emergency programmes that provided an income equivalent to only one-third of the minimum wage (see again table 6).

The result is muchs the same in both countries. It is not the new jobs generated in the modern activities that serve to absorb the overflow of manpower from the industrial sector; rather do these workers go to swell the volume of overt unemployment, or participate in disguised-unemployment programmes (as in Chile), or have to resign themselves to undertaking lower-productivity acivities. It might further be argued that the reallocation of resources implies changing urban jobs for rural jobs. The information available on this subject is limited, but in the case of Chile, for which some data were available, it must be noted that in the period analysed rural employment decreased in absolute terms by about 14 000 persons, and that if the share of rural employment in the total labour force had been kept constant, there shoud have been, in 1981, 150 000 more rural workers than were actually recorded in that year.

[8]It must be noted that in both countries the transport sector reduced its share in employment.

[9]The methodology consists in breaking down labour markets by four segments: two rural and two urban. In the urban sector a distinction is drawn between a modern sector and an urban informal sector.

Lastly, the other criterion by which to measure the efficiency of the sector would be its contribution to the balance of payments in terms of trade in manufactures. Once again, this does not seem to have been a period in which the lower levels of production and employment in the sector were offset by greater efficiency in the generation of foreign exchange. On the contrary, in the course of the period an increasing deficit was recorded as between imports and exports of industrial products. In both countries, especially from 1978 onwards, the deficit on foreign trade in manufactures more than trebled the historical levels recorded at the beginning of the 1970s. As will be seen later, the speeding-up of its rate of increase was largely attributable to a combination of tariff reductions and the exchange lag registered during the last sub-period of the monetarist experiment (see table 7).

Table 7
FOREING TRADE IN MANUFACTURES
(Millions of dollars)

	Argentina			Chile			
	Exports	Imports	Balance	Exports	Imports	Balance[a]	Balance[b]
1971	...	...	...	119.6	975.7	−856.1	−834.5
1972	...	...	...	82.4	1 152.5	−1 070.1	−1 054.6
1973	1 568.0	2 235.3	−667.3	84.4	1 356.0	−1 271.1	−1 236.6
1974	2 034.7	3 634.9	−1 600.2	290.6	2 050.7	−1 760.1	−1 720.4
1975	1 436.6	3 946.5	−2 509.9	390.6	1 084.8	−694.2	−634.0
1976	1 972.8	3 033.0	−1 061.2	520.1	1 519.4	−999.3	−919.1
1977	2 959.5	4 161.5	−1 202.0	627.6	2 243.7	−1 616.1	−1 516.4
1978	3 401.5	3 833.7	−432.2	782.0	2 699.0	−1 917.0	−1 763.7
1979	4 381.4	6 700.1	−2 318.7	1 245.0	3 904.8	−2 659.8	−2 453.0
1980	4 442.5	10 540.6	−6 098.1	1 558.9	4 782.3	−3 223.4	−2 942.5
1981	4 454.8	9 430.0	−4 975.2	1 279.6	5 995.8	−4 716.2	−4 389.6

Source: Argentina: Central Bank of the Republic of Argentina.
Chile: Central Bank of Chile.
[a]Relates exclusively to manufactures.
[b]Including non-traditional agricultural exports (fresh fruit, beans, wool, fresh fish and algae).

It might also be argued that the more and more adverse effects of de-industrialization on the balance of payments may have been offset by the export of products in which the country enjoys comparative advantages, such as fruit, fish, etc., in the case of Chile. But exports of these products during the period did not suffice to cushion the increasing impact of the negative balance generated in trade in manufactures (see table 7).

III
Explanatory factors

The destruction of industrial capacity is especially manifest in the disappearance of employment opportunities in the sector, which were not replaced in the rest of the economy. Notwithstanding the argument frequently adduced by the defenders of the economic policy pursued, it does not seem to have been wage increases that determined the fall in employment. On the contrary, in the period in question, both in Argentina and in Chile, real wages in the industrial sector decreased. If in addition increases in productivity are taken into account, the cost of manpower per unit of output systematically declined in both countries, dropping in 1982 to 53% of the 1974 level in Argentina and 69% of the 1970 level in Chile. The average reduction in the cost of manpower, in the periods analysed, amounted to 32% and 37% in Argentina and Chile, respectively (see table 8).

Table 8
COST OF LABOUR IN THE INDUSTRIAL SECTOR

	Industrial wages (A)	Industrial productivity (B)	Cost of labour per unit of output $(C) = \frac{(A)}{(B)} \times 100$
Argentina			
1974	100.0	100.0	100
1975	85.7	107.3	80
1976	55.7	108.0	52
1977	58.9	112.3	52
1978	64.4	103.8	62
1979	77.2	127.5	80
1980	96.3	112.7	85
1981	82.8	108.3	77
1982	61.3	115.9	53
Chile			
1970	100.0	100.0	100
1974	49.2	103.5	48
1975	40.5	79.5	51
1976	48.4	93.9	52
1977	63.5	104.4	61
1978	69.8	109.5	64
1979	69.0	113.0	61
1980	73.8	122.7	60
1981	90.8	126.5	72
1982	82.9	120.4	69

Source: PREALC, 1982, and data from each country.
(A) Industrial wages deflated by the wholesale price index for industrial products in Chile and by the wholesale price index for non-agricultural domestic products in Argentina.
(B) Output-employment ratio in the industrial sector.

Secondly, the elimination of jobs might be due to changes in the production system of the sector, which, in face of external competition, had to step up its productivity. Neither does this seem to have been the explanation. On the one hand, entrepreneurs encountered two contradictory investment trends. The instability of economic policy and its restrictive character exercised a negative influence, whereas the cheaper cost of imported capital goods encouraged investment. The available information is scanty and partial, but it suggests that in Chile at least, the reduction of the investment coefficient in the industrial sector between 1968-1970 and 1977-1979 was in the neighbourhood of 31%.[10] Nor do there seem to have been increases in productivity per worker surpassing the historical trends. On the contrary, annual productivity increments fell short of 2% in both countries (see table 8). With respect to Chile, a recent study (PREALC, 1983) identifies the technological effect as an important explanatory factor of changes in the level of industrial employment, but this effect consisted mainly in increases in the participation of the smaller establishments.

It is therefore worth while to explore the factors that determined the decline in industrial production and the changes in its composition, effects which in their turn were reflected in a reduction of employment. Generally speaking, four important explanatory variables can be identified: one relating to level and the other three to relative prices. The first is the restrictive character of global monetarist policy in the two countries. During much of the period analysed, the money supply in real terms showed negative variations in both countries, particularly in the early years of application of the policy.

Secondly, three mechanisms make for changes in relative prices. The first is the loss of ability to compete in the international market as a result of the reduction of tariffs and of the exchange lag. Both in Argentina and in Chile, the exchange rate-industrial wages ratio increased at

[10]The coefficient of investment over the sector's production dropped from 4% to 2.76%. The reduction of the coefficient expressed in relation to value added was 15%, because the share of value added in total production decreased as a result of the opening-up of the market to imports. Investment relates to new additions to assets, depreciation not being included. Data come from INE's industrial survey and the censuses of manufacturing industry taken in 1967 and 1979.

the time of initiation of the monetarist policy, only to drop abruptly as from 1976 in Argentina and 1975 in Chile. The downturn is even sharper if the effect of tariff reductions is included. In Argentina the exchange rate-wages ratio sank to 48% of the 1970 level in 1981 and in Chile to 35% in 1982. The loss of competitive capacity might also have its origin in wage increases. But as has already been mentioned, despite variable behaviour during the period, real wages in the sector (deflated by the producer price index for manufactures) averaged during the period 73% of the 1974 level in Argentina and 64% of the 1970 level in Chile. Furthermore, in no year did they reach the same level as in the initial year (see table 9).

Table 9
EVOLUTION OF THE MAIN MACROECONOMIC VARIABLES

	e_r/w_i	e'_r/w_i	wi_r	i_r	$\dot{p}$	$\dot{P}$	$\dot{M}_1$
Argentina							
1974	65.4	65.4	100.0	n.d.	40.1	6.1	
1975	79.8	79.8	85.7	n.d.	334.9	−0.9	−32.7
1976	163.2	163.2	55.7	−59.2	347.5	−1.7	−20.3
1977	160.6	126.6	58.9	8.6	160.4	4.9	−13.6
1978	129.7	96.3	64.4	9.2	169.8	−3.9	0.2
1979	80.4	55.8	77.2	−0.7	139.7	6.8	2.4
1980	49.3	34.2	96.3	23.2	87.6	1.1	5.4
1981	48.3	68.5	82.8	2.4	131.3	−6.0	−27.1
1982	134.8	93.9	61.3	−0.9	209.7	−5.7	4.1
Chile							
1970	100.0	100.0	100.0	−32.3	34.9	3.7	15.8
1973	109.2	109.1	77.0	−87.5	508.1	−3.6	−12.5
1974	118.8	93.6	49.2	n.d.	369.2	5.7	−27.1
1975	163.3	125.9	40.5	9.1	343.3	−12.9	−14.4
1976	115.8	81.0	48.4	37.5	197.9	3.5	9.4
1977	78.0	49.0	63.5	41.9	84.2	9.9	36.9
1978	68.4	40.1	69.8	38.5	37.2	8.2	23.2
1979	54.7	31.2	69.0	15.0	38.9	8.3	14.5
1980	37.8	21.5	73.8	11.7	31.2	7.8	36.9
1981	28.3	16.1	90.8	37.9	9.5	5.7	−12.2
1982	34.6	19.6	82.9	48.4	20.7	−14.1	−11.1

Source: Fundación de Investigaciones Económicas Latinoamericanas (FIEL), *Indicadores de coyuntura*, Buenos Aires, several issues; and Central Bank of Chile, *Boletín estadístico*, Santiago, Chile, several issues.

Notes:

e_r = exchange rate.

w_i = wages in manufacturing industry.

e'_r = exchange rate modified by lifting of tariff barriers = $\frac{(1+g)}{(1+g_o)} e_r$, where g is the tariff rate; o, the base year; i, the current year.

wi_r = industrial wages in real terms deflated by the wholesale price index for manufactures in Chile and by the wholesale price index for non-agricultural domestic products in Argentina.

i_r = annual equivalent of lending interest rate for 30 days deflated by the same indexes as wages.

$\dot{p}$ = variation in consumer price index, from December to December.

$\dot{P}$ = growth rate of gross domestic product.

$\dot{M}_1$ = changes in the money supply in real terms deflatedy the consumer price index.

A second factor affecting production possibilities was the high cost of money. Both monetarist experiments introduced a major change in the operation of the capital market, which implied positive and very high real interest rates, especially in Chile. Industrial entrepreneurs in both countries, who were used to working with a high percentage of loaned capital and negative real rates of interest, were hard hit by this change. It meant an additional cost, which, in combination with the high level reached generated a borrowing financial-burden spiral which obliged many enterprises to close down and affected almost all enterprises in the economy. This happened on so large a scale that in Argentina (in mid-1982) and in Chile (early in 1983) the Government had to take energetic steps with a view to resolving the problem, thereby marking the beginning of the end for the economic policy that was being applied.

Lastly, a third element that helps to account for the decline in the industrial sector is the change in the system of incentives as a whole. We have already seen how they became negative for the sector, but that also signified the creation of other possibilities of obtaining higher rates of return, especially over the short term. The loss of competitive capacity diverted resources to the sectors producing non-tradeable goods, in particular construction; the "apertura" or opening-up process, together with the exchange lag, paved the way for a boom in incomes linked to imports; and the inordinate rise in interest rates switched reproductive resources to financial speculation, which during the period afforded profits impossible to earn in the production system.

These are, in our opinion, the four factors that caused the destruction of a significant proportion of the industrial sector: the fall in demand resulting from a restrictive monetary policy; the loss of international competitive capacity due to the exchange lag and the reduction of tariffs; the rise in interest rates, a product of the financial reform; and the creation of incentives that promoted non-productive investment. These factors operated with different degrees of intensity at different times. It is therefore useful to analyse the behaviour of the variables in three distinct sub-periods: that of market liberalization and monetary control; that of de-indexing of key prices; and that of global monetarism.[11]

The first phase was characterized by the liberalization of markets together with monetary restrictions and devaluations of the currency, and extended from the launching of the monetarist economic policy up to 1977 in Argentina and 1976 in Chile. The main determining factor was the fall in effective demand brought about both by the contraction in real liquid balances and the sharp drop in real wages, related in turn with the inordinate rise in domestic prices, resulting from the liberalization of the markets. This caused a steep decline in levels of employment and production in the industrial sector. At the same time, the capacity to compete in international markets improved, thanks to the devaluations, but, at bottom, in consequence of the fall in real wages. Tariff reductions got off to a slow start during this period, and largely absorbed the existing superfluous protection. In Chile this phase coincided with a significant change in the capital market, implying a high rate of interest in real terms, whereas in Argentina the rate in question continued to be negative until early 1977. This meant that industrial production contracted more in the first country than in the second.

A characteristic feature of the second phase was the de-indexing of certain key prices and, in particular, of the exchange rate, as an instrument for frustrating inflationary expectations. This phase occurred in Chile between 1976 and 1979 and in Argentina from 1978 onwards, with different results, depending upon the degree of deceleration of domestic price increases in the two countries. The exchange rate-wages ratio can be seen to have dropped abruptly, especially if tariff reductions, which speeded up, are taken into account. The decrease in the ratio is partly linked with the recovery achieved by real wages, which alleviated the existing constraint on demand and, in Chile's case, allowed of increases in industrial production. The interest rate, in real terms, continued to be high and in Argentina reached its peak in 1980, precipitating the collapse of the

[11]For a more detailed analysis of the economic policy pursued during the period see Canitrot (1980 and 1983) for Argentina, and Foxley (1982) for Chile.

policy pursued, since it was superadded to a very serious loss of competitive capacity. In relative terms, the non-alignment of the growth of domestic prices with that of international prices accelerated this loss of competitive capacity more rapidly in Argentina than in Chile, affecting the balance of payments and making it essential to raise the rate of interest as an instrument for maintaining the inflow of capital from abroad.

In this second phase the effects of the opening-up of trade can be more clearly appreciated, since demand was not subject to constraint (wages recovered in real terms) and the loss of competitive capacity (owing to the deterioration of the exchange rate-wages ratio) was not yet so marked.

The data on Chile available for 1976-1979 suggest some conclusions with regard to the reaction respecting investment and degrees of specialization provoked by the demolition of tariff barriers. In the first place, keener external competition did not generate a process of modernization and capital accumulation to cope with it, but, on the contrary, investment in manufacturing industry stood below its historical levels. Only in nine of the 37 branches of industry was there an increase in the investment coefficient, in most cases corresponding to export sectors (wood, pulp and paper and foodstuffs) and only in two (clothing and footwear) to sectors that endeavoured to adjust to competition from imported products. Secondly, an intensive reversal of the process of import substitution occured, which was only very partially offset by increases in exports of manufactures. The latter expanded at very rapid rates (of about 23%), but this expansion was concentrated in the wood industry, the only branch which considerably enlarged its share in total exports of manufactures. Only three branches (wood, furniture and paper) were net exporters, and these three were linked to the existence of abundant natural raw material in respect of which the country is endowed with absolute comparative advantages.[12] Lastly, changes also took place in the structure of production and employment. The most highly-protected and more labour-intensive sectors were those worst affected by the opening-up process (in particular, textiles and metalworking) and major technological effects were produced, with increased participation of smaller establishments in production (PREALC, 1983).

In Chile the third phase dawned only in the year 1979, when it was considered that the economy had successfully passed through the second phase and was ready for the introduction of global monetarism with automatic adjustment of disequilibria. Its main characteristic was the fixing of the exchange rate, which speeded up still more the loss of competitive capacity. The rate of interest in real terms again began to rise, reaching unprecedented figures in 1981 and reproducing with a time lag of one year the situation described in phase two for Argentina: loss of competitive capacity, balance-of-payments deficit, raising of the interest rate as a mechanism for ensuring the inflow of capital and a decline in industrial employment and production, accompanied by the liquidation of many enterprises. In short, the monetarist experiments of the 1970s collapsed.

IV

Destruction of industry and conditioning factors of reactivation

The cost of the policy pursued has been considerable in terms of potential employment and production in the industrial sector. In Argentina,

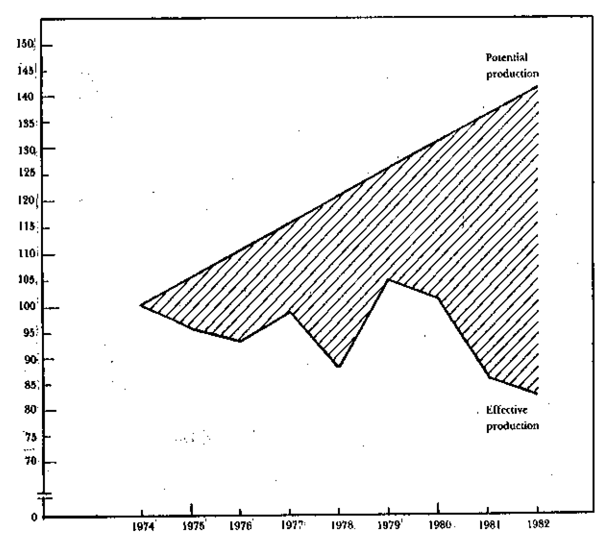
[12]The existence of large quantities of timber is the result of afforestation plans set afoot two decades ago. Similarly, exports of paper were feasible because of the existence of

even if industrial employment had continued to grow at the slow historical rates of the period 1950-1970, i.e., by 1% per annum, the cost would amount to 20% of cumulative employment during the period and 17% in terms of cumulative production in relation to the potential that would have been attained if an annual growth rate of 4% had been maintained. A similar situation occurred in Chile, where the cost averaged 16% of cumulative employment and nearly 30% of cumulative production during the period.[13] The effects were calculated in relation to potential annual growth rates of 2% in the case of employment and 5% in that of production. Even if the potential growth rate of industrial production is assumed to have been 3%, the cost would still be as much as 16%.[14] The shaded areas in figures I to IV give a clear idea of the magnitude of the above-mentioned effects.

Notwithstanding the importance of the foregoing observations, the aim pursued in this section is to explore the effect of industrial destruction on the possibilities of reactivating the economy and on the long-term growth model. In the first place, the destruction of industry implies introducing an asymmetry in short-term fluctuations in so far as recovery cannot be based on the use of idle installed capacity. While a margin of unutilized capacity does exist, some of the losses in production and employment in industry were due not only to the liquidation and closing down of a large number of enterprises, but also to the unusability of equipment resulting from the sharp fall in investment rates. When reactivation is faced with only marginal idle capacity, its rate depends upon constraints on demand and possibly on the availability of inputs. In this case, in addition to such constraints as these, there is a physical restriction consisting in the non-existence of productive capacity. This has at least two consequences. The first is that investment requirements are greater, since not only depreciation but also destruction of capital has to be covered. The second is that given the rigidities obstructing investment "leaps" and the time required for new investments to yield returns, the recovery of the pre-crisis levels will take longer than the phase of contraction lasted.

Figure I

ARGENTINA: INDUSTRIAL PRODUCTION



Nevertheless, the destruction of installed capital carries with it the advantage of allowing "technological leaps" whose incorporation is a slower business when marginal changes are in question. To change a machine or a production subprocess is a different matter from installing a new plant. It seems clear, moreover, that in the last decade technological innovations have been generated which revolutionize some production processes, in particular, by the introduction of micro-processers and robotization. This has

plants installed in the preceding decade with State support. In any case, it seems clear that the opening-up process afforded an opportunity of activating a sector which, on the basis of the existence of absolute comparative advantages in respect of raw material, introduced into its structure various degrees of processing: sawnwood, furniture, and pulp and paper.

[13]The equivalent in terms of years with effective average levels would be as follows: Argentina, employment 2 years and production 1 year 8 months; Chile, employment 1 year 9 months and production three-and-a-half years.

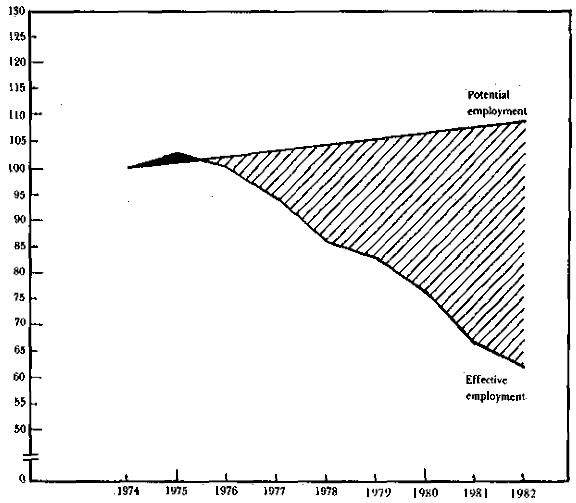
[14]Part of the loss can be attributed to the change in the international situation. If account were taken of the average Latin American rate of deceleration of growth in industrial employment and production as from 1974 (see again table 3), the losses would be as follows: Argentina, employment 90.3% and production 14.4%, with projection rates of 0.66 and 2.6%, respectively; Chile, employment 13.5% and production 15.7%, with projection rates of 1.3 and 3%, respectively.

Figure IV

meant that the technology available at the international level has also progressed by leaps and bounds. The combination of the two factors will mean that the characteristics of the production process after the crisis will be very different from what they were before.

Figure II

ARGENTINA: INDUSTRIAL EMPLOYMENT



Take, for example, the textile and motor-vehicle industries which existed in both countries, and which to a large extent physically disappeared, and consider the type of plant that could be accessible to the national entrepreneur if he were to observe the changes that have taken place in production in these branches of industry at the world level. In the textile industry self-programming robotic arms have been introduced for cutting; as well as computerized systems for design, producing patterns, monitoring the quality of fabrics, and guiding laser beam cutters. Micro-processers are being used to control fast stitching, knitting heads and ink injectors which can be rapidly adjusted to produce different designs and colours (Rada, 1980). In the United States motor-vehicle industry, undoubtedly one of the most backward in the developed countries, 2 800 robots have now been incorporated, which carry out many of the assembly line jobs with greater rapidity and precision than can be achieved by manual means (Alexander, 1983).

What are the predictable characteristics of this new technology? In the first place, they are known to be "superior" in the sense that they raise the levels of productivity of both capital and labour.[15] Secondly, higher productivity per person employed will imply lower levels of employment.[16] Thirdly, a change will be brought about in the skills required, inasmuch as unskilled labour will be superseded by personnel with higher skills.[17] With this substitution will be associated a change in average wages and in wage structure. Average wages paid in the industrial sector will follow an upward trend and intra-sectoral distribution will be homogenized.

All this will have a bearing on the long-term style of development. If the bigger surplus generated by the technological leap is not appropriately invested or is insufficient, the result will be a more heterogeneous structure and a more unequal distribution of income. Those who are privileged to enter the modern industrial sector will be proportionally fewer, better paid and more homogeneous; but the differences between them and the workers not so incoporated will tend to widen. In effect, there will be a reproduction of the historical style of development in Latin America which had been slowly giving way to something better. This will perhaps be the great paradox of global monetarism: not only has it failed to resolve the structural deficiencies that gave it its justification, but it has implied regression to a situation which these countries had already left behind.

[15]In the textile industry, for example, the application of the methods mentioned makes it possible to economize on labour, skills and materials. The saving on materials alone ranges from 8% to 15% (Rada, 1980).

[16]While the net effect of the technological changes mentioned is a moot question, there seems to be a consensus to the effect that fewer persons would be required in the first place in services, but subsequently in industry, owing to the change in products and processes. While the use of the new technology implies the possibility of saving capital per unit of output, it significantly increases the capital-labour ratio. This generates a twofold effect: substitution of manpower and reduction of potential creation because of its higher cost (Rada, 1980).

[17]This poses the problem of adaptation of the industrial workers who will be left unemployed, both because of the shortage of new jobs and because of the type of skills which management of the new technology requires and the high cost and risk of re-training.

Figure III

CHILE: INDUSTRIAL PRODUCTION

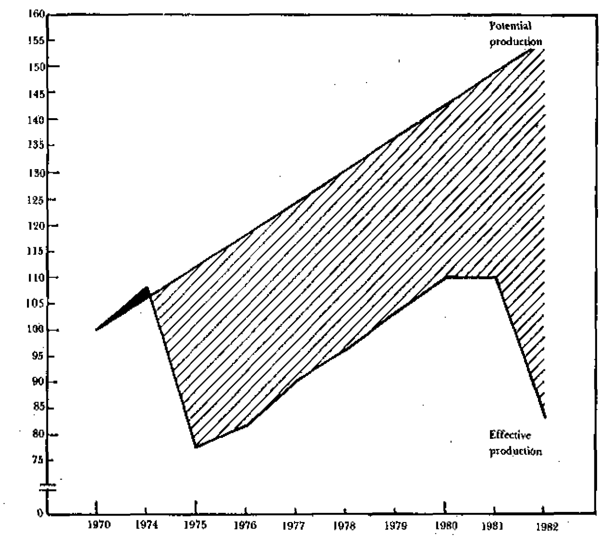
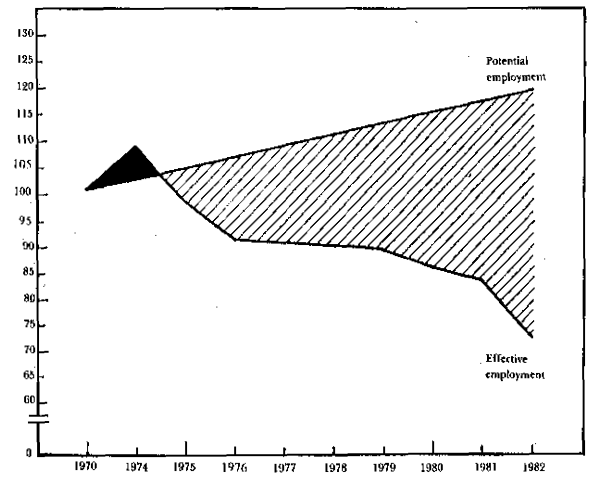


Figure IV

CHILE: INDUSTRIAL EMPLOYMENT



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CEPAL REVIEW No. 23

The structural crisis in Argentine industry

*Adolfo Dorfman**

In a concise summary, the author outlines the main trends in Argentine industrial development and discusses the problems which they entail. In so doing, he reviews, *inter alia*, the evolution of the industrial product in recent decades and the gaps which exist in the structure of this sector, its increasing technological progress —especially in the fast-growing branches of industry, the drop in industrial employment occasioned by industrial modernization and by the production slump of recent years, the concentration of economic power in industry and the increasing role of foreign capital, the persistent geographic centralization of the sector, and the expansion of industrial exports.

Throughout the article, but especially in the final section, he outlines the principal measures which should set the direction for Argentina's industrial development strategy. These basic guidelines relate to how to overcome the current industrial crisis by means of a suitable expansionary policy, as well as the elimination of the structural flaws affecting the sector. Correcting these defects will, in particular, require the expansion of the industrial structure in those sectors exhibiting significant gaps (such as the production of intermediate metal and chemical inputs and capital equipment), the geographic decentralization of production, and a suitable combination of domestic and external demand. The expansion of production which would result from the reactivation of industry and the elimination of the existing gaps in its structure should not be unilaterally carried forward by the forces which shape the prevailing trends in industrial development. The author therefore suggests a combination of large, high-technology capital-intensive companies with more labour-intensive medium-sized and small enterprises, along with a thorough assessment of the part played by foreign capital.

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Introduction

Argentine industry is currently experiencing the deepest crisis in its history. Its causes are of two distinct types, with different origins, meanings and implications, which are interconnected in a variety of ways. The first type is structural and relates to the composition and relative weight of the various branches of industry, as well as to the nature of the technological changes spreading throughout the sector. The other type of cause is cyclical, and such factors have had an extraordinarily intense effect on industry for over the past five years. Their impact takes the form of radical structural changes, the consolidation of concentrated economic power, and the dislocation and regression of the process by which major Argentine industries were established, thereby contributing to the denationalization of companies and the increasing sway of transnational capital.

It is imperative to draw a clear distinction between these two types of determinants so that their relative impact on the crisis may be gauged correctly. Confusing the two would be to commit a mistake having major and perhaps irreparable consequences for economic policy, inasmuch as pinning the hopes for recovery solely on an improvement in the current economic situation —i.e., on short-term measures— would be to forget that such steps are mere palliatives which do not affect the underlying structural phenomena. If the latter are not duly interpreted and dealt with on an integral basis, critical problems in the manufacturing sector will remain unresolved, and it would be a very grave error indeed to minimize or underestimate their ramifications on the entire economic and social apparatus of the country.

I

Long- and medium-term trends

By the mid-1930s, the gross product of the Argentine industrial sector was already similar to that of agricultural activities, and it has grown steadily ever since then (with short-lived cyclical fluctuations) in terms of both its absolute value and its relative position *vis-à-vis* the agricultural product. It should be pointed out that this expansion took place against a backdrop of very slow growth (when not outright stagnation) in agricultural activities and that the favourable rates characterizing the country's overall economic development were in large part attributed to the dynamism of the manufacturing sector. Even in the primary sector, the direct influence of industry was seen in the fact that industrial crops expanded more rapidly than traditional ones, reflecting a strong tendency to channel the import substitution process towards the initial and less complex production stages for primary inputs, while its economic and social impact and the origin of capital were perhaps quite different from what they are today. Thus, the source of raw materials during the earlier stages of industrial import substitution was, first and foremost, intensive crop-farming; later on, in the stages to follow, it was to be hydrocarbons and large-scale mining, especially of metal-bearing ores.

The industrial sector accounts for a very large share of the gross domestic product (nearly one-third of the total) and represents nearly two-thirds of what is generated by the country's production activities as such.

In considering the long-term statistical series, however, the impact of changing the base year for those figures should not be underestimated. This modification was made in response to the major changes which have occurred in the Argentine production structure, and it causes distortions in those years for which the series calculated using the old base overlap with those calculated using the new base year.

Thus, as may be seen in table1, the relative drop in the prices for some chemicals, metal manufactures and machinery does not only reduce the total product of the industrial sector in relative terms, but also decreases the share of these fast-growing branches of industry. It would be a mistake to conclude from the foregoing that the process of structural change has been reversed in Argentina, since there are gaps which remain to be filled in the production of intermediate chemical and metal goods as well as capital equipment. Instead, it might well only be a temporary problem of a disparity in relative prices, having no implications for a structural analysis of the situation other than the very significant one that these dynamic branches of industry appear to have increased in efficiency, and that part of the benefits are being passed on to the consumer in the form of lower prices.

Table 1

ARGENTINA: RELATIVE IMPACT OF THE INDUSTRIAL SECTOR ACCORDING TO DIFFERENT BASE YEARS

(Percentages)

	Base 1960			Base 1970		
	GDP	Industries I	Industries II	GDP	Industries I	Industries II
1970	36	30	55	27	35	45
1980	34	25	60	25	30	50

Source: Official figures.
Column I: Foodstuffs, textiles, clothing and related products.
Column II: Chemicals and related goods, and metal manufactures and machinery.

This brief article does not allow for an exhaustive analysis of medium- and long-term Argentine industrial development, nor a specific description of its various stages. Nonetheless, at the risk of being drawn into making rather arbitrary definitions involving sometimes blurred distinctions, we feel it would be useful to differentiate between the "stages" and "periods" of industrial development. The stages may be marked off by a change in the defining feature of the industrial process; the periods are characterized by modifications which, although significant, are not of pivotal importance.

Following the period of incipient industrialization, the first stage was the substitution of simple imports, primarily by the light, labour-intensive industries which depended heavily upon imports for their inputs and capital equipment. The next stage was marked by the establishment of large dynamic industries which made a greater contribution to the sectoral product than the vegetative industries (although there continued to be a large number of non-basic light chemical and metal manufactures and machinery industries) and by a heavy inflow of foreign capital, especially to this new type of enterprise. During the third stage, more basic matallurgical, chemical and paper and pulp industries were formed, the use of modern methods became widespread and companies began to concentrate in large integrated units, transnational enterprises and technology transfer came to the fore, and the exportation of industrial products represented a significant share of foreign trade, as well as a considerable proportion of the volume of production in many branches. Towards the end of this stage, many small and medium-sized companies (as well as some large ones) disappeared as a result of the move to "open up the economy", and denationalization was stepped up.

With respect to the periods involved, that of incipient industrialization (until the late 1920s) was followed by a period of industrial formation, which ended in the mid-1940s. The period leading up to the major changeover spanned the years between the end of the Second World War and the early 1950s, and was followed by a period of industrial consolidation, which lasted until the mid-1960s.

Since that time the country has been undergoing a period of industrial maturation (not to be confused with maturity) in which changes and distortions abound, as elements gradually take form which will be decisive in shaping the future of Argentine industry.

As regards the concomitants of industrial development and its interrelationships with some basic variables of the social and political arena, reciprocal action may be observed among industrial development, the organization of management and the working-class, the often changeable attitudes of public authorities and theoretical platforms which lead to the creation of what might be called an "industrialization-oriented frame of mind". None of these factors develops along a straight line; instead, processes take shape through numerous actions representing incentives or obstacles, all of which is interwoven into a complex and convoluted network.

A structural analysis of Argentine industry also reveals the pre-eminence of vegetative industries (which meet the basic mass needs of the population) even until shortly after the Second World War; these were then gradually displaced by the advance of dynamic and much faster-growing industries. Even though the previously mentioned change in the base year for the statistical series reduced these industries' share in percentage terms, they still account for far more than half of the industrial product. If, however, the classification is based on the categories of light industry (consumer goods) and heavy and semi-heavy industry (intermediate goods and capital equipment), the second category would scarcely represent one-third of the entire industrial sector's output.

It follows from the above that the structural flaws of Argentine industry lie in the lack or shortage of industries producing intermediate goods, metal and chemical inputs, and equipment. Although the time when the import substitution process was an easy one ended quite some while ago, these structural defects must be corrected; in order to do so, the critical industries which are lacking will have to be established and progress must be made, in so far as it is possible and economically feasible, in the direction of the domestic production of industrial inputs. This would bring some cycles full circle and would considerably ease the pressures on the trade balance, thereby lessening the dependency and imbalances to which they give rise.

These flaws had been in the making for quite some time, but they became much more evident as a result of the policy aimed at opening up the economy which was applied until late 1983.

II
Recent industrial trends

An examination of the quarterly indexes gathered by the National Institute of Statistics and the Census (INDEC) makes it possible to trace the course of industrial trends during the 1970s and up until 1983. The indexes are based on only about 1 500 establishments (just lately reduced to slightly over 1 300) representing 27 industrial groups or branches. They account for perhaps over two-thirds of total industrial production and employ more than half of the workers. They therefore correspond to the upper industrial strata, which have been hurt relatively less by the recession than medium-sized and small companies. The drops in production and employment shown by these indexes thus underestimate the actual scope of the crisis within Argentine industry, since the closure of companies has been much more marked in the middle and lower strata (not covered by the statistics), which are lacking in financial capacity and suitable equipment.

A review of these indexes from 1970 (base year = 100) to the present shows that the overall level reached 123 in 1974, began to decline when it slipped to 115 in 1976, and then dropped to 108 in 1978. It later recovered to 122 in 1980, but then fell very sharply (to 102 in 1982). It again rose to a certain extent in 1983, when it appears to have exceeded 110 according to preliminary figures.

This overall average, however, conceals large internal differences among categories and groups, as well as mixed performances. Foodstuffs and related items maintained relatively high indexes (similar to the overall average, in which they no doubt had an influence) since mass purchasing power is oriented towards these basic items. In contrast, textiles and clothing underwent a deep and prolonged recession. After reaching a high point of over 120 in 1974, this category dropped to 70 in 1982 and recovered only slightly in 1983. The machinery industry is very heterogeneous, and there were offsetting trends in this category; nevertheless, low real wages as well as the depletion of intra-industrial demand resulted in major declines after 1980 (in that year, the index for this category exceeded 130, which was above the overall average). The disparities in performance have become more marked as industrial disaggregation has moved forward.

Industrial activity has thus been hard hit by the recession, slipping back to the levels of 15 years ago. As a result, a large percentage of production capacity remains idle; according to various sources, the figures for some groups or branches range between 40% and 50% or more. Employment in this sector has consequently decreased as well.

III
Industrial employment

Traditionally, there has been a large and steady demand for manpower in the industrial sector. In the early days of its development when cottage industries or semi-industrial activities predominated in which there was little capital formation and a meager supply of energy, industrial workers were the most important factor of production. This continued to be the case for quite some time, and although industries with more modern equipment were established, the expansion of industrial activities was enough to produce a considerable increase in the labour force.

For a long time, the manpower employment in the manufacturing industry represented roughly one-fourth of the economically active population and, in some years, easily surpassed that mark. Total personnel in 1939 amounted to less than 700 000 people. By the end of the Second World War (1946), their number had grown to nearly 1.2 million, and continued to increase to 1.5 million in 1964 and 2 million in 1974. The peak seems to have been reached around 1976-1977, with somewhat more than 2 million, and then went into a decline which was interrupted by only the briefest boom periods. The total number of people employed in manufacturing industries in 1983 may be no higher than the level of 25 years ago. Naturally, the structure of employment has changed during this time, as has the training demanded of job seekers.[1]

The number of hours worked in industry reached it lowest point in 1982 (25% less than in 1970 and 35% less than in the peak year of 1975), although it recovered slightly in 1983. Since this index refers to a few large companies, it may be assumed that the decrease was much greater in medium-sized and small companies and that up to half of the work capacity of the labour force was idle in 1982-1983. (As this is an overall industrial index, there are considerable differences from one branch to another; however, the activities showing smaller decreases, or even increases, are generally of little significance as regards production and employment volumes.)

The number of employed persons (disregarding the length of their work day) appears to have decreased in a similar manner —even dropping in 1983 with respect to 1982— while there was a small increase in the number of hours worked.

The indexes of industrial employment and of the number of hours worked have not followed the same curve during the entire period from 1970 to the present. Although they maintain a satisfactory degree of parallelism, the number of workers who are theoretically employed is greater than the number of hours actually worked. This points to an exceedingly short work day for a large proportion of the personnel in all industrial subsectors.

The largest increases were recorded during the period of expanding industrial development (which was accompanied by structural changes having only a superficial impact). In the ten years immediately after the Second World War, big increases followed very closely upon the growing process of urban conglomeration; this, in turn, was the result of a large-scale internal emigration from the inland areas, which was spurred by expectations of better pay and the availability of the services offered by urban conglomerates; at first these expectations were met, only to be frustrated in more recent times. The stagnation, or retrogression, of rural activities and the beginnings of overpopulation, in relative terms, worked as incentives for the exodus from the countryside to the large cities.

A comparison of the production and employment series shows that the decrease has been greater in the latter, indicating a rise in worker productivity. This is not surprising in view of the increasing mechanization and technical modernization of established industries and the high technological and capital intensiveness of the new activities. Currently, the modernization of numerous segments of the Argentine manufacturing industry requires an investment of some US$ 150 000 per worker. Similar figures are given in the foreing capital investment requests approved in recent years. In high-technology industries such as petrochemicals, the amount is much higher still and approaches US$ 1 million per employee for some projects.

Judging by these facts, there would seem to be little hope even of maintaining the same industrial employment level. It would come as no surprise (even if the most optimistic forecasts concerning the expansion of the domestic market were to prove correct and international demand for Argentine industrial products were to soar) if it turned out to be difficult for industry to provide employment for even 20% of the economically active population.

It is therefore to be expected that the industrial sector will cease to perform its longstanding function as a factor contributing to the dynamic absorption of the labour force. However, any prudent industrial development policy

[1]These statistics, which are derived from the industrial censuses and indexes for the past decade, do not tally entirely with the higher figures given in the population censuses; this is probably to the inclusion of semi-industrial strata.

would not focus only on the industrial product but would also accommodate its many broader social functions and should therefore make sufficient provision for checking this slowdown in industrial employment as well as moderating its impact and features. Even without changing the occupational structure of high-technology activities —above all, the chemical and metallurgical industries— there is a great deal of leeway for regulating certain aspects of the advance of mechanization which are not an inherent part of the process. In this respect, adopting highly labour-saving measures is not necessarily the wisest or most efficient solution in economies such as Argentina's. Thought should also be given to a well co-ordinated system for promoting medium-sized and small enterprises, whose capacity to absorb the labour force is not so rapidly depleted.

Be that as it may, employment opportunities in other sectors will also have to be sought; this is quite feasible in a society having serious flaws in its infrastructure and great possibilities for increasing effective domestic demand.

IV
Technological progress: electrification

The relative reduction in the number of man/hours needed to obtain a given volume of industrial production, its low product elasticity and the probability that this coefficient will decrease in the future are due to: i) the change occurring in the industrial structure as the incorporation of metal manufactures and machinery as well as chemical industries intensifies; ii) the increased concentration of industry in large-scale production units; and iii) growing technical modernization, mechanization and energy use in industry. The mechanism which permits the relative and absolute displacement of the labour force from the industrial sphere (thus increasing its productivity, but also making a large part of that labour force redundant) is, without question, technological progress. This process, which is manifested in the very nature of production itself as well as in the linkages of its successive stages at different levels, has recently become very marked.

Studying the technological progress made by a branch of industry does not present many difficulties, since there is a great deal of material on which to rely. Such an examination becomes even easier when it is focussed on individual companies; in both cases, the results are relatively homogeneous and continuous over time.

This homogeneity disappears, however, when comparing the technological development of different industries (foodstuffs, textiles, chemicals, metal manufactures and machinery), and vast changes or fundamental differences between processes may be observed, as is also true of the factors relating to mechanization itself. There is no suitable standard for making generalizations. It thus becomes necessary to seek a more universal criterion which will make the results less conditional and so justify their proper quantification.

Energy use —or, still better, the degree of industrial electrification— seems to provide an acceptable overall yardstick fo gauging technical progress in the industrial structure. The changes coming about within that structure tend —from all standpoints— to substitute mechanical power for human labour or to introduce processes for producing previously unknown goods (especially through chemical processes). All of this calls for a high degree of capital intensiveness as well as a greater and greater use of energy, particularly electricity. Total energy consumption exhibits conflicting phenomena at one and the same time. On the one hand, energy-intensive industries are established (especially in the metallurgical and basic chemicals sectors), thereby raising the overall coefficient per product unit; on the other hand, there is an increasing tendency to conserve energy, which reduces unit consumption. The energy/product coefficient, after climbing steeply during the formative stages of such activities, will therefore tend to level off as the structure is consolidated and will show signs of slackening in later stages.

The same thing does not occur, however, in the case of electrical power consumption. Demand will continue to rise steadily, keeping pace with the mechanization of operations and the introduction of increasingly complex production controls and mechanisms as well as with the advance of semi-industrial activities or cottage industries as they move up into higher strata. Electricity consumption, in absolute terms, doubles or trebles every ten years (with periods of more rapid growth) and the great elasticity which results is maintained over long periods of time.

Electricity consumption by Argentine manufacturing industries doubled between 1939 and the mid-1970s *vis-à-vis* this sector's product. Although it probably accounted for less than one-third of the country's total consumption of energy, its share in the consumption of electricity was over 50%. Industrial electrification has greatly accelerated since 1975, although the rate has been substantially lower in more recent years due to the recession (see table 2).

Table 2

ARGENTINA: RECENT TRENDS IN THE INDUSTRIAL ELECTRIFICATION INDEX

Year	Hours worked	Electricity consumption	kWh/man-hours
1970	100	100	100
1973	109	130	120
1975	115.5	138	120
1977	113	155	135
1979	102.5	187	180
1981	78.5	165	210
1982	75.5	165	220
1983[a]	80	180	230

Source: Data provided by INDEC and the Ministry of Energy and compiled by the author.
[a]Preliminary estimates.

V

The concentration of economic power

The latest overall figures available on Argentine industrial activity date back to the 1974 census. They are corroborated to a certain extent by more incomplete but sufficiently comprehensive statistics taken from the National Industrial Registries for 1980 and 1981. During those years, companies employing over 500 workers generated 40% of production, employed less than 30% of the labour force and accounted for the bulk of motive power, which demonstrates their high level of technological modernization and productivity. According to various sources, slightly more than 2 000 establishments with over 100 workers each accounted for 70% of the product and 60% of employment during those years. At the other end of the spectrum, the industrial enterprises which employed less than 10 workers per establishment, represented two-thirds of the total, but only accounted for 10% of production and 20% of the personnel, thus indicating their marked labour intensiveness and low technological level.

According to the above figures large-scale industry, combined with the upper range of medium-sized industrial enterprises, generates the major part of industrial production in terms of volume and represents the bulk of that activity. The situation is similar in all the peripheral countries, and also exists in a much milder form in the industrial countries without doing any great harm to their technological progress.

This heavy concentration has been heightened by the application of a policy aimed at opening up the economy in more recent years, along with the fact that there may have been more casualties among the industrial enterprises in the medium and lower strata than at the higher levels. If one adds a marked tendency for companies to merge, the consolidation of conglomerates in major branches of industrial activity, and stronger ties with financial interests to the factors discussed above, the current picture of Argentine industry becomes complete.

According to the 1964 census data, foreign capital represented one-fourth of the total value of industrial production. This figure climbed to over 30% in 1974, while it exceeded 50% in some critical branches of the chemical and metallurgical sectors. Judging from the foreign capital investment requests which had either been approved or were being studied by the appropriate national agencies as of mid-1983, before the end of this decade such industries may well be contributing production values far in excess of the present industrial product, which would involve a massive increase in the flow of foreign capital to industrial activity in the form of direct private investment. Around 1982, this type of investment was estimated at approximately US$ 5 billion, with over three-fourths of that figure corresponding to dynamic industries, while the external debt with multilateral and bilateral lending institutions amounted to some US$ 3.5 billion, a large part of this amount having been devoted to developing the energy sector and industry.

The policy of eliminating protectionist measures for industry has had dire results for this activity in Argentina. Only two aspects need be mentioned: the denationalization of industries as seen in the absorption of companies relying on domestic capital by foreign ones, and the demoralizing setbacks suffered by the industrial process in a large number of branches. Activities which took 15, 20 or 25 years to complete their productive cycle in the country have been forced to dismantle these structures within the span of a few years or months and to return to importing a large proportion of the value that they previously generated, to the serious detriment of employment and the consolidation of the industrial structure, to say nothing of the loss of foreign exchange and the harm done to the trade balance.

In sum, then, the concentration of industrial economic power in the form of monopolies or oligopolies has continued at a rapid rate in recent years, along with an increasing dependence on technological transfer and foreign capital.

VI
Industrial exports

Argentine industry does not only satisfy a very large percentage of domestic demand, but also sends increasing amounts of a large variety of goods to external markets. Between 10% and 20% of the industrial product, depending on the time period and the activity involved, goes to external markets. The percentage is much higher in some branches of industry and is very sensitive to measures that encourage or discourage exports, such as the international exchange rate and promotional incentives, which have not followed a consistent pattern.

If, as would appear to be true by definition, industrial exports are understood to include all goods which have undergone some type of processing and originate from what are classified as industrial activities in national censuses, then they include products which have figured under export headings for a long time, some in significant quantities, such as meats and other cold-storage goods, dairy products, washed or semi-processed wool, ginned cotton, cured hides and quebracho extract. All of these goods have brought in a significant amount of foreign exchange and have represented no small part of total Argentine exports.

These industrial exports, which are usually termed traditional exports because they are closely and directly related to basic agricultural activities and either involve very little processing or are semi-processed, represent natural outgrowths of a specialization in primary products and in no way change the pattern of dependence. They were first joined by such items as textile products and some more highly-processed goods in the above-mentioned categories and, later, by an increasing volume and variety of exports from the chemical and metal manufactures and machinery industries.

For a long time, industrial exports as such represented a very small percentage of the total, experiencing sharp fluctuations and temporary increases during the Second World War, only to slip back later to previous or even lower levels. These were typical products of traditional industries, along with a few new items which generally disappeared when there was a change in the abnormal external circumstances which had made their appearance possible.

Sweeping changes began to occur in the 1950s, with sharp increases in the following decade and especially during some years in the 1970s. Short-term external economic factors clearly had an influence in this, and the measures at the national level to which reference was made earlier also had a considerable impact. Despite the fact that temporary variables were involved, this has been an irreversible phenomenon affecting one-third, or perhaps a great deal more, of all industrial exports and one-fourth of total exports.

In this way, export products involving some degree of industrial processing have represented an increasingly greater amount of trade. At the same time, the items entailing a more rudimentary level of processing, which had once clearly predominated, have gradually lessened in importance. Exports of manufactures increased more than six times over between the end of the 1950s and the end of the 1960s; almost 40% of these products were consumption goods, 50% were intermediate goods and the rest were capital equipment. External sales of non-traditional industrial products played a very conspicuous role, jumping from 15% of industrial exports in the mid-1960s to 40% ten years later. The largest increase was in the metal transforming industry, including automobiles and some machinery, although an analysis of the major groups shows that the structure was generally quite changeable.

Between the mid-1960s and the end of that decade, the dollar value at current prices of these non-traditional exports doubled, as did their percentage ranking. Since then they have grown very rapidly, especially (with some fluctuations) since the mid-1970s. The absolute value of exports (in dollars at current prices) doubled between 1970 and 1980.

VII

The domestic market or exports?

The growing importance of external markets for national production, combined with the tightness and recent contraction of domestic demand, has contributed to the development of schools of thought which place an inordinate amount of hope in the possibility of favourable trends in those markets. For a variety of reasons, we believe that it would be unwise to exaggerate those possibilities. Perhaps the main reason is that it would obscure the enormous economic and social potential represented by rapidly and steadily growing diversified domestic demand; this type of demand could continue to play a basic role in encouraging national industry to progress, provided that the economic, social and institutional requirements which make this possible are fulfilled. Mention might also be made of the obstacles hindering international trade of the industrial products coming from our countries, the direct or built-in subsidies for those goods in many exporting markets and domestic costs in Argentina.

One significant factor is the possibility of exporting intermediate or semi-finished petrochemicals, which is a topic that is currently very much in vogue. In this field, the sums mentioned in the foreign capital investment requests which have been approved or are in the final stages of consideration total several billions of dollars. Foreign capital has played such an important role in the intensive exploitation of known natural gas reserves (including the utilization of the natural gas which is now bled off) that if all the petrochemical projects currently under study were to be carried out, there would be a danger of exhausting the deposits in a short period of time.

Recent experience demonstrates the influence exerted by radical changes in the international exchange rate and of a favourable reimbursement system for certain exports. Iron and steel products as well as paper are good examples of the fact that the impact of internal costs is not as decisive as has been claimed, while the influence of alleged comparative advantages is even less so.

Moreover, the exportation of a large percentage of the new industrial products is carried out through the subsidiaries of large transnational industries located in Argentina. This practice will presumably become more widespread in the future, judging by the trends in capital investment in, for example, the automobile and large-scale petrochemical industries. Under these circumstances, of course, the decisions relating to such matters will not be in the hands of the national authorities but rather in those of the companies and, as is only natural, their decisions will not necessarily protect the country's commercial interests.

It is a serious economic mistake to promote industries for the sole purpose of exporting, even in the case of high-technology petrochemical industries. Exporting (as in this instance) the country's raw materials, while camouflaging them under a more refined label, to very competitive international markets in which the scales of production, access to commercial channels and supply of inputs in various countries are quite similar is another version of dependence, of technological colonialism. In such cases, a policy of price subsidies for these basic inputs, such as natural gas, is a decisive factor. Argentina is currently at a critical stage in this respect.

The country needs a type of industrial development which, while allowing it to play a role in world markets, is firmly rooted in an extensive domestic market, although there will certainly be cases in which exports represent a large percentage of producction, rather than merely surpluses which improve a company's economic standing.

The foregoing considerations bring out the need to resist the lure of industrial exports and to weigh carefully the variety of factors which determine the advisability of promoting industries that direct a very significant percentage of their production towards international channels.

VIII
Prospects

In order to overcome the short-term aspects of the industrial crisis in Argentina, institutional changes will have to be made in the country and its economic and social policies must be thoroughly reviewed. Restructuring domestic demand, the steady advance of economic activities in general and a vigorous, intelligent public works programme involving an increase in domestic inputs and replacement equipment are all that is needed to bring the industrial economy out of its recessionary phase. More thoroughgoing measures must be taken to deal with the structural flaws, however, and this calls for a coherent medium- and long-term programme whose basic guidelines are strictly observed without wavering or faltering. One of the objectives of such a programme must be to round out those components of the industrial structure for whose establishment, development or integration the country can offer the appropriate elements.

Contrary to the prevailing belief in some circles, the possibilities of import substitution have not been exhausted in Argentina. The process is not so simple as it used to be, but it is perfectly feasible and could be set into motion. The expansion of traditional industrial activities in order to meet a greater and more differentiated effective demand, along with the insufficient development or lack of some initiatives, points to the existence of broad vistas for growth.

Filling the structural gaps in the industrial framework, apart from its importance for internal consolidation and foreign exchange savings, would be the main factor in satisfying the long-standing desire for industrial decentralization, which has so far gone unmet. No more need be said than that 55% of the country's industrial production in the mid-1960s was concentrated in Greater Buenos Aires, and that over two-thirds of that output was accounted for by the La Plata / Buenos Aires/Rosario corridor, this being nothing more than a logical outgrowth of the historical phenomenon of concentration. There is no sign that any substantial change has occurred in the situation since then.

If priority is given to the production of basic metal and chemical intermediate inputs, the tendency will be to locate these activities near the corresponding natural resources; as it happens, these sites are scattered over various points of the country's territory, far from the existing industrial / demographic megolopolis. These new industrial enclaves will be supplemented by the natural development of existing ones —such as Córdoba or Mendoza, or more recent enclaves such as Bahía Blanca and other nearby centres to the south— each with their own particular characteristics. This process will help to speed up a well-conceived form of industrial decentralization, whose delay is also proving to be prejudicial in terms of environmental pollution and ecological deterioration. These results cannot be achieved by decree, but only by formulating suitable industrial policies.

This does not mean that the domestic market should be the sole consideration, while the opportunities offered by the external sector are forgotten. It has already been seen that industrial exports increased in volume and came to represent a large percentage of Argentina's sales on the external market. This trend could become considerably stronger, to the point where significant volumes might be exported of products from traditional industries and, in particular, from the dynamic branches of the industrial economy. Basic metallurgy and petrochemicals are excellent examples, but not the only ones. The development of these possibilities will reinforce the economic viability of the facilities in these critical areas of the structure.

With the expansion of domestic demand and the increase in industrial exports, it would not be overly optimistic to envision a doubling of the industrial product during this decade. In order for this to happen, however, any action in that direction will have to be guided by a clear sense of both economic and social timing and suitability. If development is allowed to be directed entirely by the factors which currently predominate, substantial increases might perhaps be achieved in some high-technology capital-intensive branches of industry, but the manpower thus employed would be minimal, and the situation would be aggravated by the fact that these activities would be dominated by the major transnational centres of capital, which would also take the decisions relating to production and exportation. This would reinforce oligopolistic control over this vital sector of national development and would darken the outlook for the lower-middle and lower strata, which hold out the greatest hope of an increased demand for manpower.

The goal to work towards is an appropriate combination of high-technology, very capital-intensive industries —whose manpower needs are extremely slight— with those offering good possibilities for absorbing the labour force, while also incorporating any necessary and suitable technological innovations.

It is by no means a question of ignoring technological progress or of advocating a utopian return to small-scale enterprise, whose image has been idealized with the passage of time but whose predominance, apart from being anachronistic in today's world and in Argentina itself, would be anti-economic. Instead, the objective would be to combine the development of high-technology industries operating on a large scale of production with that of industries having a clear possibility of surviving and expanding while functioning at less complex levels. Numerous examples in an international context support the belief that this is feasible. The promotion of these companies calls for an intelligent, co-ordinated and complex effort at various governmental levels and in private enterprise (perhaps through co-operative organizations and chambers of industry), which could benefit from the valuable co-operation of groups formed by medium-sized and small enterprises in the industrialized countries.

It would be a mistake to reject entirely the possibility of receiving capital and technology from abroad. Such contributions may be decisive in certain fields, while they may be superfluous and unnecessarily costly or even harmful in others. It would be a question of preparing a clear-cut industrial development programme which would be firmly anchored, by means of many different links, in the entire social and economic context and backed up by enough bargaining power to arrive at satisfactory terms for both parties. There are options with respect to the use of foreign capital and technology which should be evaluated with care. It is necessary to know how to make use of the internal differences which exist between industrial sectors and interest groups in and among the industrialized countries. An in-depth understanding of these situations may be very productive, particularly in regard to the contributions which medium-sized industry can make to the development of their counterpart strata in our countries. Some rudimentary experience has already been gained in this respect in a few countries and some major sectors. It would be beneficial to expand upon this type of experience considerably, on the initiative and with the firm support of the public sector, at various levels of private local enterprise and in close co-operation with it.

With an orientation of this type, private efforts could be mobilized to good effect in industrial sectors clearly having a national calling; their development would be the best possible guarantee that the benefits of this process would yield optimum results for the country.

CEPAL REVIEW No. 23

Population-resources-environment-development interrelationships in the United Nations: in search of an approach

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The International Conference on Population is meeting in Mexico in August 1984. It is to discuss "selected issues of highest priority", with a view to contributing to the evaluation and further implementation of the World Population Plan of Action. One of the "issues of highest priority" that were singled out concerns the interrelationships between population, resources, environment and development. The purpose of the present essay is to review this question, which, though it has been on the agenda of the United Nations for more than a decade, seems to have defied the attempts to delimit and tackle it firmly in theoretical, methodological, operational and policy terms. The specific intention here is to deal with the manner in which the problem presents itself in the United Nations and to probe —sometimes at the risk of over-simplification and generalization— the basic dimensions of this complex, polemical and often baffling topic of international concern and discourse. In the short space available, this is a risky undertaking. This essay obviously cannot do justice to and deal comprehensively with the wide-ranging subject matter, nor does it pretend to explore in depth the substance of the issue or the great many fine points and controversies involved.

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Introduction

From time to time, given propositions and/or catchwords are launched, gain admittance into the international development dialogue and become foci of controversy and protracted debate. Lines of battle are drawn up, and the concepts acquire multiple and often dissonant meanings. The case of "basic human needs" is a well-known instance of this. "Population-resources-environment-development interrelationships" (PRED), is yet another broad and all-encompassing formula generating disagreements as to its meaning and intention, and causing difficulties when concrete responses to its challenges are sought, nationally and at the international level.

The complexity of the PRED discussions is magnified because of the interjurisdictional, multidisciplinary, and often longer-term, highly uncertain and holistic characteristics of the problems, and the lack of experience in how to deal with them. The emotional pitch and the degree of substantive and policy controversy tend to be high, with the subject matter offering fertile ground for clashes between world views, social paradigms and ideologies. Some of the underlying issues are central to an almost 200-years-old debate initiated by Malthus' work on the relationships between rates of population growth, the natural resource base needed to sustain it, and human happiness. Moreover, the present issue is in dispute in the midst of the conflictive, relationships between the rich North and the poor South, a circumstance which only adds fuel to the flames. The oft-heard arguments on behalf of quantitative and qualitative limits to development and economic growth, combined with overaggregation and simplistic extrapolation of given trends, and replete with alarmism and doomsday pronouncements, give further incentives for debates and disagreements.

In its basic dimensions, the problem —as old as the human race— is that of access to the resources and material base —including water, land, food, energy, minerals— necessary for the survival of a particular social unit consisting of a given population number at a given standard of living. At different junctures in history it was resolved (or it sorted itself out) through a variety of means, including wars, societal collapse, famines, ecosystem change, massive migrations, imperialism and subjugation of faraway places to the dominator's own needs, but also by virtue of technological and scientific innovation and breakthroughs, social reorganization and change, and increasing international trade and specialization.

Today, in a situation of rapid world population growth, combined with the explosive and diversifying demands of the consumer society, with an increasing and ever more varied capacity to impact the environment and the natural resource base, and with the global repercussions of these impacts, plus the fact that some of the traditional ways out are no longer normatively acceptable (e.g., massive famines, permanent stratification of rich and poor) or feasible under normal conditions (massive migrations to new lands and rewriting the world's political geography), the issue is assuming new dimensions and is also becoming a topic of international concern. What accentuates its international dimension, and what is novel compared to the past, is the progressive meshing and interdependence of the various levels at which the problems in question manifest themselves (ranging from purely local, thorugh national and regional to global), and the increased importance acquired by the world level.

Paradoxically, while the potential ability to resolve the attendant problems has never been as great as today, at the same time the potential for slipping into serious predicaments is also great. Indubitably, the dilemmas are aggravated by the global setting, which is characterized by stratification into rich and poor, dominant and dominated countries, social groups and classes, and by international economic structures which are well defended and have not changed much in favour of the periphery since colonial times. Thus, in some of its ramifications this problem also assumes the attributes of a global class struggle.[1]

The persistent controversies and the difficulty of getting a firm grasp of the subject and establishing an agreed framework for discussion and action surfaced once more in the deliberations of the Expert Group on Population, Resources, Environment and Development convened in Geneva in April 1983 as part of the preparations for the 1984 International Conference on Population.[2] This was almost ten years after the interrelationships item had been formally placed on the agenda of the United Nations systems.

The search for an approach and for agreement therefore continues. The present essay is intended to contribute to this quest. Its objective is to review the matter critically and to arrive at general conclusions which could help to identify some possible and promising lines of research and action in the United Nations system. The first step is to describe the genesis of the PRED interrelationships issue in the United Nations and its evolution on the United Nations agenda over the past decade.

I
Origins and evolution of the issue in the United Nations

The initial debates on environment and limits to growth, which originated and evolved primarily in the United States, assigned the leading role among the causes of the emergent problems to population growth, and reflected an unmistakable neo-Malthusian inspiration. People from different disciplines and walks of life contributed, united by a shared anxiety over rapid population growth in a finite environment and the limits set by the natural resource base on

[1] For an interesting comment on this aspect of the problem, see Nathan Keyfitz, "World Resources and the World Middle Class", *Scientific American*, July 1976, pp. 28-35. The essence of the question posed by Keyfitz is "what is the size of the window through which the world's poor will climb into the middle class", on the assumption that the size of the opening is limited by the shortage in world resources. According to him, only new scientific and technical knowledge can accelerate entry into the high-consumption world middle class.

[2] For the wide-ranging and valuable background documentation presented at the meeting of the Expert

which these added population numbers would have to depend for their sustenance. Such dramatic and picturesque catchwords as "population bomb", "population explosion", "population plague", "standing room only" and even "people pollution" were used to epitomize the basic message.

Biologists, relying on models and theories derived from population dynamics in the animal world, provided simplistic, albeit heuristically useful inputs for the ongoing discussion and consciousness-raising process.

Natural resource economists, strategists and futurologists began to be seriously concerned about the exhaustion of some key natural resources. Their over-simple linear projections and world models projecting current trends, showed an obvious mismatch between the growing world population and its demand on the one hand, and the known reseves of some raw materials and food production capacity, on the other, eventually implying a profound crisis, if not the collapse of human society, should there be no change of course.

Ecologists and conservationists sounded the alarm regarding the pressures of the growing number of human beings and of society on the physical environment, nature, soil, forests and sensitive ecosystems, especially in the tropics and sub-tropics.

The vociferous population and planned parenthood lobby also played an important role in the alerting of perceptions. Preoccupied with population growth, especially in the Third World —an attitude which to an important degree fed on and fanned the traditional popular malaise in the North over the multiplying numbers of hungry and destitute in the South— it advocated birth control as a solution to most problems, including the pressures on the environment and the natural resource base.[3]

In the majority of arguments there was a marked disarticulation between society —as the chief and adaptable mechanism for mediating between human numbers and the natural environment and resource base— and the manner in which the problem was formulated. The quantitative reductionism, the mechanical, naturistic and deterministic interpretation of the interrelationships, and the quantitative models used, did not readily allow the admission of "soft" variables into the discourse.[4] In particular, they did not seem to show adequate —if any— sensitivity to history, to world political economy, and to the world divisions into rich and poor countries, and definitely suffered from what could be called "ethnocentric" or "hegemonic myopia". To what extent this was a result of conscious pursuit and defence of given interests, or simply a reflection of the societal context in which the arguments were formulated, is of course a moot point. What is obvious, however, is that the solutions proposed tended to favour some groups of countries over others.

From the heated rhetoric, mass of complex arguments and burgeoning literature two basic messages —oversimplified, as is usually the case— filtered through into the public and policy debate:

—Population was perceived unidimensionally as a threat, since the growing numbers, it was felt, would increase demands and pressures on the environment and the natural resource base and lead to their deterioration and exhaustion. Since the lion's share of world population and world population growth is in the South, this is where the danger lies and this is where urgent action should be taken to control and limit demographic expansion.

—It was held that economic growth, as we know it, could not continue indefinitely, as it would ultimately undermine its own foundations and bring about a collapse of modern Western civilization. Therefore economic growth must cease, and be replaced by a quantitatively and

Group, see United Nations documents IESA/P/ICP.1984/EG III/1-26. Selected papers are published as *Proceedings of the Expert Group on Population, Resources, Environment and Development*, Geneva, 25 to 29 April 1983 (United Nations document ST/ESA/SER.R/55).

[3]See, for a typical example of such arguments and literature, L. Lader, *Breeding Ourselves to Death*, New York, Ballantine, 1971.

[4]This *déformation professionnelle* of given disciplines, which seek solace in the certainty of quantification and mathematical interpretation of social phenomena, has affected negatively the formulation of the issues and the search for solutions. Thus it has often happened that some logical lines of thinking were not pursued, while at the same time some obvious dead ends were given undue attention.

substantively different model of zero GNP growth or a steady-state model.

To the developing countries, the current discussion of population, resources and the environment sounded rather hollow and irritating, because, among other things, they perceived it as being directed at themselves and at their development aspirations. Their annoyance at the neo-Malthusians from the North, at the assignment of priority to the population variable, and at the strong pressures put on them to curb population growth was further accentuated by the muted racial connotations of some population control arguments and the thinly disguised imperialistic motivations of some writings on geopolitics, population and natural resources.

They also felt ill at ease with the limitations on their development objectives and aspirations and on their national sovereignty over their natural resource base, which were of topical relevance in the context of both their internal development efforts and their economic relations and confrontation with the industrialized North. To many developing countries (if not whole continents) which had an abundant natural resource base, a well-preserved environment and relatively low population densities, the way to the future and the fulfilment of their aspirations lay precisely in an active and positive interrelationship between population, resources, environment and development. It should not be surprising, then, that many of them suspected the attendant arguments to be yet another attempt of the rich countries to protect their privileges, preserve their dominion and maintain the *status quo*, keeping for themselves a disproportionate share of entitlement to global resources.

The population-environment issue became so controversial during the preparations for the Stockholm Conference that a deliberate effort had to be made to play down its importance during the Conference proceedings. The Declaration and Final Act of the Conference mention the population issue only briefly, in an effort to accommodate the opposing views, without, however, managing fully to conceal the underlying polarization.[5]

In sum, then, the early discussions and formulations of the population-environment-resources problem branded the issue with a neo-Malthusian imprint: a stigma which it has been difficult to wipe out. Since then, a continuing effort has been made to purge the subject of neo-Malthusian connotations, to make its consideration acceptable to developing countries, to formulate the right questions, and to devise an integrated and balanced conceptual framework which would offer a solid base for practical action and for meeting the challenges. The undertaking has been a difficult one, because the conceptual and policy tangle and the resulting polarization of views tend to persist in their basic dimensions.[6]

To return to the Stockholm period, notwithstanding all these arguments and divisions, the kernel of a more balanced and comprehensive approach to the problem was already outlined in the report of the Founex Panel on Development and Environment. The Panel met on the eve of the Stockholm Conference with the explicit purpose of seeking a conceptual and

[5]The Declaration says that "the natural growth of population continuously presents problems for the preservation of the environment, and adequate policies and measures should be adopted, as appropriate, to face these problems". In the same paragraph, it notes, quoting in part from Mao Tse-Tung, that "of all things in the world, people are the most precious. It is the people that propel social progress... and through their hard work, continuously transform the human environment. Along with social progress and the advance of production, science and technology, the capability of man to improve the environment increases with each passing day" (A/CONF. 48/14/Rev.1, p. 3). Principle 16 also states that "demographic policies which are without prejudice to basic human rights and which are deemed appropriate by governments concerned should be applied in those regions where the rate of population growth or excessive population concentrations are likely to have adverse effects on the human environment and impede development" (*ibid.*, p. 5). Furthermore, recommendation 12 of the Action Plan calls on the World Health Organization to promote and intensify research endeavours in the field of human reproduction so that the population explosion can be prevented from having serious consequences for the human environment.

[6]The population variable is the key ingredient of this tangle, giving rise as it does to extreme and ideologized positions, which either assign the leading place to population numbers or else completely deny their importance. Another contributing factor has been the mixing of levels of analysis and time scales, and in particular the overgeneralization resulting from oversimple efforts to make global statements combined with clumsy attempts to deduce from them implications for the national and local levels.

policy package which would help to overcome some of the reticence that the developing countries manifested *vis-à-vis* the very issue and concept of environment.[7] The basic contributions of the Founex report to the population-environment-resources debate were i) its attempt to provide a base for an integrated approach, and ii) the stress that it laid on societal forces and mechanisms and the development process itself, and on their effects on the environment and the natural resource base.

The conceptual package was improved and further elaborated in the context of the preparations for the 1974 Bucharest World Population Conference, which included a Symposium on Population, Resources and Environment.[8] The World Population Plan of Action adopted by the Conference represented a further important step in giving greater objectivity and balance to the population debate and recasting it to take into account the conditions actually prevailing in the world and the sensitivities of the developing countries.

The whole issue became topical and acquired greater policy relevance following the 1973 "energy crisis" and the Sixth Special Session of the General Assembly, which launched the concept of the New International Economic Order. In brief, it was energy crisis which, among other things, brought home in very practical and visible terms some of the problems associated with the limited availability of, access to, control over, and ultimately the finiteness of some key natural resources which are of critical importance for the functioning of contemporary societies.

The next step was taken by the 1974 Cocoyoc Symposium on Patterns of Resource Use, Development and Environment.[9] One of the principal messages of Cocoyoc was that the problems of contemporary society were not caused by a lack of physical resources, but by economic and social maldistribution and misuse, and by existing economic and social structures and behaviour within and between countries. It highlighted the throwaway economy and the often wasteful and profligate life styles and patterns of development, production and consumption common in the developed countries, which in both absolute and per capita terms account for the lion's share of consumption of world natural resources and pressures on the environment.[10]

The special contribution of Cocoyoc to the evolution of the PRED debate, and its political importance, was that it pointed to the developed countries, and to national and international socioeconomic structures and processes, including maldistribution, as being among the principal causes of the irrational and unsustainable pressures on the environment and on the natural resource base. It did not ignore the demograph-

[7]See *Development and Environment*, Report and Working Papers of a Panel of Experts Convened by the Secretary-General of the United Nations Conference on the Human Environment (Founex, Switzerland, 4-12 June 1971), Paris, The Hague, Mouton, 1972.

[8]See *The Population Debate: Dimensions and Perspectives*, Papers of the World Population Conference, Bucharest, 1974, Vol. II (United Nations publication, Sales No.: E/F/S. 75. XIII. 5). Annex II of the document (pp. 687-699) contains the Report of the Symposium on Population, Resources and Environment, held in Stockholm from 26 September to 2 October 1973. The report sums up very well the different views expounded at the Seminar. The document also contains selected background papers presented at the Stockholm Symposium (pp. 3-236).

[9]The Cocoyoc Symposium, organized jointly by UNCTAD and UNEP, was conceived as the continuation of the Founex Seminar discussion, taking into account the intervening conferences and events, and in particular the energy crisis and the ideas on a New International Economic Order formulated by the Sixth Special Session of the United Nations General Assembly. (For the Cocoyoc Declaration see United Nations General Assembly document A/C. 2/292.)

[10]The importance of development styles is well illustrated in an example given by Keyfitz. In the United States, energy consumption in 1947 amounted to 1.21 billion tons of coal equivalent; in 1973 it reached 2.55 billion. During the same period the United States population increased from 144 to 210 million. Had the United States population maintained the same volume and patterns of production and consumption as in 1947, it would have required only 1.77 billion tons of coal equivalent. Thus, of the total increase in energy production during the period, 0.56 billion was due to population growth, while 0.78 billion was due to other factors, including increasing affluence in development styles. He argues that the increase of affluence has had a much greater effect than population growth on use of materials and on the environment (especially air and water); or, put differently, that the ascent of people into the "middle class" (in terms of consumption levels and life styles) or "consumption population", compounded by the continuous raising and diversification of levels of consumption, has greater effects on the environment than the increases in world population, and specifically in the poorer strata. (See Keyfitz, *op. cit.*, pp. 31-32.)

ic or population growth variable, noting the likelihood that world population will double or even possibly treble at some future date. It laid stress on meeting this challenge in the context of an overall response to the whole set of problems on mankind's agenda, through a positive and dynamic approach, and through changes of a structural character. In sum, then, the Cocoyoc Symposium produced an initial counter-hegemonic statement on the PRED problem, drawing attention, among other things, to the policy context, the historical roots of the contemporary problems, the time dimension, the social class variable, the structural and economic imbalances between and within nations, and the nature and role of the international economy. It represented the basic building block in the efforts to arrive at a balanced treatment of the subject.

The Bucharest World Population Conference had urged the Secretary-General of the United Nations to support research aimed at synthesizing, integrating and advancing knowledge on the interrelationship between population, natural resources, the environment and development. This, together with the Cocoyoc Declaration, helped to inspire the initiative taken by some countries in the United Nations General Assembly which resulted in a recommendation that a co-ordinated study be carried out within the United Nations system on relationships between population, resources, environment and development.[11] This is how PRED was formally placed as a standing item on the agenda of the United Nations system.

The matter lay dormant for a few years, for the apparent reasons that nobody was quite sure how to handle it and it was also desired to avoid the inevitable controversies inherent in the subject. It was eventually revived by Sweden in the Economic and Social Council.[12] The governments gave it an approving nod, though it appeared that many of them did not seem to consider the matter to be of high priority and were perplexed as to its exact meaning and practical implications. (Indeed, some developing countries perceived the issue as yet another "population"—i.e., birth control— question, and were not happy that it was given prominence. They refrained from objecting, however, in deference to Sweden, considered as a friend among the developed countries.)

Valuable activities and numerous consultations were undertaken at the inter-agency level in the ensuing period in an attempt to agree on conceptual and operational approaches to the subject.[13] The representatives of the various organizations faced a difficult task. The inherent complexities of many aspects of the problem made it difficult to fathom the issues involved by using standard analytical, methodological and decision-making approaches and institutional designs. The usual disciplinary and jurisdictional cleavages between the agencies did not make things any easier. The controversies due to differences of policy, ideology and world views per-

[11]See General Assembly resolution 3345 (XXIX) of 17 December 1974, which, *inter alia*, called on the Secretary-General to provide facilities for co-ordinated multidisciplinary research, also at the regional level, aimed at synthesizing, integrating and advancing existing knowledge on the relationships between population, resources, environment and development, in order to assist member States, particularly the developing countries, and the organizations of the United Nations system in their efforts to cope with the complex and multidimensional problems related to this field in the context of socioeconomic development. (Note the addition of "development" to the formula. The 1973 Stockholm Symposium was on "population, resources and environment".)

[12]See Economic and Social Council decisions 78/51 and 79/49.

[13]Among the various reports and studies on interrelationships see: Economic and Social Council documents E/1979/75 and E/1981/65; the Administrative Co-ordination Committee's report on the inter-agency consultations held in July 1980 (ACC/1980/35); United Nations Environment Programme, *Work on interrelationships between population, resources, environment and development*, UNEP/GC. 9/2/Add. 4; Department of International Economic and Social Affairs, *Interrelations: resources, environment, population and development*, report of a United Nations Symposium held at Stockholm from 6 to 9 August 1979, New York, 1980 (Sales No.: E.80.II.A.8); the report of the Director-General for Development and International Economic Co-operation, *Interrelationships between resources, environment, people and development*, 1981 (A/36/571); and the set of documents of the 1983 Expert Group on Population, Resources, Environment and Development (IESA/P/ICP. 1984/EG III/1-26). For an ambitious effort to deal with the matter comprehensively and to work out a conceptual foundation for dealing with it, see P. Bifani, *A conceptual framework for the study on the interrelationships between people, resources, environment and development*, UNEP, mimeographed text, December 1980.

sisted and were hard to conceal, though an apparent effort was made to gloss them over.[14] In the meantime, a complex debate and study on the subject was simultaneously going on, mainly in the academic circles, governments and regional institutions of the industrialized countries.[15]

Before continuing with the discussion of the interrelationships exercise, it is necessary to set forth explicitly certain reference markers that ought to guide such considerations in the United Nations. These are briefly discussed in the section that follows.

II

Some premises for devising a United Nations approach to PRED interrelationships

The preceding review of the origins and evolution of PRED underlines the significance of conceptualization and of initial premises in trying to approach such complex and controversial subject matter.

PRED, as an issue of international discourse, has been negatively affected by some of the earliest formulations which started it off on a mistaken track. Years have gone by in trying to set the matter straight and to disentagle it from the initial mix-up of issues, levels of analysis and time scales, from wrong and misleading questions that are not susceptible of useful answers at this stage, from predictions and trend projections which result in little but loss of credibility ... and the job is far from finished. The oversimplification which results inevitably in public and policy debates of such issues makes the task that much more difficult.

In the foregoing section, some of the key elements responsible for the tangle have been identified. To recapitulate briefly, they are, first and foremost, the central role assigned to the population variable, the static and deterministic

[14]For example, the population control groups adhered to their basic arguments and used the standard analogies. See the paper entitled "People, sustainable development and family planning", submitted by the Planned Parenthood Federation to the Expert Group on Population, Resources, Environment and Development (Geneva, April 1983). At one point, the paper speaks of tying "conservation and contraception together at the field level". Quoting the May 1983 special issue of the magazine *People*, the paper notes that the environmental movement has remained aloof to warnings about environmental threats from a rapidly growing world population. The paper was accompanied by a wall-chart, prepared by the World Wildlife Fund and distributed with the magazine *People* (Vol. 10, No. 1). The chart shows increasing sensitivity of the population/conservation lobby to development questions, and attempts to provide a balanced picture of the resources-population issue. Unavoidably, the wall-chart gave prominence to well-known stories of the snow-shoe hare and the lynx and of the Rocky Mountain mule deer in the federal game refuge of the Kaibab region in the United States.

[15]A number of studies were commissioned by the Club of Rome as a follow-up to the initial study by D.H. Meadows *et al., The Limits to Growth*, Washington, D.C., Universe Books, 1972, including M. Mesarovic and E. Pestel, *Mankind at the Turning-Point*, New York, E.P. Dutton, 1974. Among other notable analyses were the Bariloche Foundation study, *The Latin American World Model*; the study executed by OECD on *Interfutures, Facing the Future, Mastering the Probable and Managing the Unpredictable*, Paris, OECD, 1979; the United States Government sponsored *Global 2000 Report to the President, Entering the Twenty-First Century*, Washington, D.C., 1980; and a study by the Secretariat for Future Studies, Stockholm, entitled *Resources, Society and the Future*, Oxford, Pergamon Press, 1980. The Worldwatch Institute Paper Series treated the subject extensively in a number of popular monographs, including several by Lester R. Brown, for example, *Resource Trends and Population Policy: A Time for Reassessment* and *Population Policies for a New Economic Era*. A number of interesting academic studies also appeared, including such works as P.R. Ehrlich, A.H. Ehrlich and J.P. Holdren, *Ecoscience, Population, Resources, Environment*, San Francisco, W.H. Freeman, 1977; the cornucopian vision of the future presented by H. Kahn (with W. Brown and L. Martel), *The Next 200 Years*, New York, W. Morrow, 1976; the controversial population study by J. Simon, *Economics of Population Growth*, Princeton, N.J., Princeton University Press, 1977; D.S. Kleinman, *Human Adaptation and Population Growth: A Non-Malthusian Perspective*, Montclair, N.J., Allanheld, 1981, and the counter-study to *Global 2000*, edited by J. Simon and H. Kahn, under the title of *The Resourceful Earth. A response to "Global 2000"*, Oxford, Blackwell, 1984.

approach to environment and the natural resource base, the inadequate treatment of society as a mediating instrument between man, his environment and his future, the overgeneralization of trends, problems and solutions, and the lack of sufficient sensitivity to the global social, political and economic setting, brought about in part by the training and in part by the limited geographical representativeness of those in the forefront of the debate.

When these issues are examined in the global setting, replete with inequities, injustice, twisted historical heritage —all superimposed on unequal natural resource endowments, physical and climatic differences, and social, national and international barriers— even the most objectively inspired scientific statements acquire controversial and conflictual connotations. After all, the real world is somewhat different from a cage populated by white mice, equal in colour, size, needs, status and aspirations...

Hence the necessity of designing, in the universal forum of the United Nations, a foundation for the consideration of PRED issues which would: 1) respond to the sensitivities and objectives of its members, and be based on the normative and policy goals and values for which the United Nations system stands, in particular those that have to do with development; 2) ensure that United Nations policy and research outputs are in the forefront of the continuing policy debate and scientific discourse; 3) choose areas of work where the United Nations system is particularly well placed to make useful and concrete contributions.

With this in mind, to begin with, several simple premises need to be highlighted which should serve as referents in elaborating the framework for tackling PRED interrelationships through the United Nations at the current juncture.

a) It is the "society" (i.e., social structures) and the key actors and groups within it, rather than the population *per se* or its size, that interact with and transform the natural resource base and the environment through the development process.[16] Indeed, as already noted above, such factors as development styles, levels of development (poverty and affluence have different manifestations), patterns of production and consumption, food and agricultural systems, means of production and levels of technological development, modes of transport, concentrations of population, etc., play a crucial role in determining the nature of the interrelationships in a given setting and at a given time.

b) The PRED interrelationship finds expression in many different ways, is shaped by a variety of influences, is by its very nature dynamic and varies in terms of place, time, level (e.g., global versus local), etc. There will thus be a diversity of objectives and of solutions to the problems at stake, which will be influenced by such factors as type of society, time, historical heritage, geographical location, climate, space available, type of resources, actors and social forces involved, means of production and control over these, technological and institutional solutions, changes in economic rationale, etc.[17] These levels of analysis need to be always kept in mind, both because they are interrelated and

[16]This was recognized by the General Assembly when, in some of its resolutions, it substituted "people" for "population", and reshuffled the order to "resources, environment, people and development". (For example, see resolution 36/179 on interrelationships between resources, environment, people and development.) "People" however does not appear to have fully caught on, and the initial PRED formulation continues to be used, for example, in the context of preparations for the 1984 Conference on Population.

[17]In his discussion of PRED, Ridker refers to the demand for and supply of material and environmental resources. On the demand side he lists the following categories: i) demographic variables; ii) output per capita; iii) styles of living, individual preferences for certain goods, types of leisure, etc.; iv) technological methods used at different stages of economic activity; v) internal institutional arrangements, including land tenure and market regulations; vi) government policies and measures which affect population growth and distribution, the economy, natural resources, environment; vii) international relations; viii) distribution. On the supply side, he identifies, *inter alia*, a) material and resource endowments; b) material resources that are known and available for exploitation (on the basis of current prices and technologies); and c) capacity to produce usable materials from reserves and waste. He notes that the importance of given materials will vary between different contexts. See R. Ridker, *Population, resources, environment and development*, Resources for the Future, Washington, D.C., prepared for the Interagency Consultations on the Relationships between Population, Resources, Environment and Development (Geneva, 29 and 30 November 1978). A similar classification is to be found in the report of the 1973 Stockholm Symposium, of which Ridker was a rapporteur. *Op. cit.*, p. 690.

interdependent, and because they should not be mixed and confused with one another.

c) The ability of an ecosystem and of its natural resource base to support a given population, or its "carrying capacity", is relative and dynamic, a socially conditioned concept. It evolves, and so far has usually been continuously modified and expanded by such factors as increasing knowledge; international trade; research and development; pace and nature of technological innovation which alters resource availability and accessibility and expands the natural resource base potential and its uses; material and manpower resources available to the society and its level of development; modes and systems of transport; evolving production systems, etc. Indeed, were it not for all these, the "carrying capacity" of many places and regions in different parts of the world would have been exceeded long ago, as used to happen frequently in the past (and could happen today in some isolated and backward social units) when societies collapsed in face of change in, or constraints imposed by, the local environment and natural resource base.

d) The PRED interrelationships issue is organically linked to and closely intertwined with international stratification, the international economic system and international economic relations, in particular between the North and the South, and cannot be considered without full reference to these. Indeed, the objectives of global equity and of the New International Economic Order need to be taken into account when the issues are analysed and concrete measures proposed.

e) PRED is neither purely nor even primarily a population matter. It is important to underscore this point, which also forms the very basis of the interrelationships exercise in the United Nations, and to place the population variable in a proper focus, especially as in many circles the view persists that by controlling and reducing the rate of population growth it will be somehow possible to avoid and resolve the dilemmas and problems that have begun to appear. For the purposes of the PRED exercise, the rate of population growth can be seen in a dual perspective. It is a dependent variable within the broader context of development process and societal change; however, in studying qualitative and quantitative pressures on the natural resource base and the environment, it has also to be treated as an independent variable, a datum, because a given increment of world population and individual countries' populations will have to be accommodated until some future date when their numbers will tend to stabilize. This is why the population factor occupies an important place in the interrelationships formula, and needs to be taken fully into account in strategy and policy formulation, planning, management and decision-making at all levels of human society and with different time perspectives in mind. It is also clear, however, that though population policies and population control policies are important, and in some instances essential even in the short run, and would attenuate some of the problems and difficulties, they will not by themselves contribute much towards resolving any of the fundamental PRED issues, in particular at the global level, either today or on a historical scale.

f) What is really at stake is the very nature, pace and direction of the development process; the rationality and long-range sustainability of the patterns of production, consumption and life-styles personified by the so-called "affluent society"; the problem of their spread and replication on the global scale; access to, control and distribution of resources, inequities and struggle for power within and between societies, and globally. What is further in question is how we do and should plan the social and development process, and direct and manage the modern society and community of nations as a whole.

Starting from the above referents, a few brief comments are made, in the section that follows, on the way in which the PRED exercise has been handled in the United Nations so far.

III

Some comments on the current PRED exercise

The argument advanced here is that on the whole the United Nations approach to the PRED issue at the inter-agency level suffers from several shortcomings, which are the reflection partly of the lack of a generally-accepted conceptual framework and of faintheartedness towards tackling some sensitive questions, but also of the drift into technically specialized areas and of the absence of a clear and determined leadership in the exercise. This is so in spite of the fact that various studies and reports produced and meetings held in one way or another touched upon and identified most of the issues involved.[18]

The first shortcoming has to do with the overall substantive and policy balance of the exercise. The dominant and virtually exclusive concern is still with the Third World countries. In contrast, such issues as the role of the industrialized countries in global PRED interrelationships and the crucial problem of transnational patterns of development and life styles, all of which were highlighted in particular by the Cocoyoc Symposium, are played down or overlooked. This may be so because the United Nations system is oriented towards and has greater access to information on what is happening at the domestic level in the developing countries, and/or it may be because most industrialized countries do not appear to favour any type of United Nations probe into their internal development affairs.[19] The controversial nature of many of the issues, and of alternatives which are not always in harmony with the dominant economic order, may be an additional inhibiting factor. Also, the weight carried by the demographic factor in the perception of the problem helps to focus attention on the Third World. Whatever the reasons, or combination thereof, this lack of balance deprives the exercise of some critical dimensions.

The second deficiency has to do with the strong methodological orientation of the exercise. The political sensitivity of some of the issues involved, and the danger that this might give rise to polemics, together with the constraints on action at the inter-agency level, resulted in the exercise's being principally oriented to methodological concerns.[20]

This type of work provides the international secretariat with relatively safe ground on which to tread, and does produce concrete and potentially useful outputs. Also, it offers an opportunity for lengthy engagement —especially as the PRED interrelationships, with their multiple levels

[18]Note especially the report of the Director-General for Development and International Economic Co-operation (A/36/571). It represents an attempt to devise a comprehensive framework for the study of interrelationships. It also includes, albeit in somewhat circumspect fashion, areas of study that focus on issues having to do with the industrialized countries, such as patterns of development and intensity of resource use. One of the important reasons why this programme of work has not been fully implemented is the fact that the Trust Fund to finance various PRED activities never materialized as had been hoped.

[19]Symptomatic of this situation was the UNEP/ECE Seminar on Alternative Patterns of Development and Lifestyles in the ECE Region, held in Ljubljana, Yugoslavia, in 1979, and organized as one of the follow-ups to the Cocoyoc Symposium, focusing on the industrialized countries. For the report and background documentation, see *Lifestyles, Environment and Development - A European Perspective*, UNEP Reports and Proceedings, Series 4, Nairobi, 1982. While some developed countries were interested in analysing and pursuing the subject, others, including some of the most important ones, were distinctly annoyed and refused to take part in the discussions, insisting that the matter should not be brought up again in ECE —the natural forum for this subject in the United Nations— on the grounds that its mandate allows it to deal only with "economic" questions. As a result, the subject was quietly shelved in ECE, though it continues to figure in the programmes of other United Nations regional economic commissions.

[20]In 1983, approximately US$ 280 000 were available in the Trust Fund created for this purpose. Two-thirds of this sum were allocated to the FAO/UNESCO co-ordinated study on *Carrying capacity (Kenya): Interactions between Population, Food, Energy and Material Standards*; one-third was allocated to a UNEP co-ordinated project on deforestation in the foothills of the Himalayas. See United Nations, *Interrelationships between resources, environment, people and development. Report of the Secretary-General* (A/38/504).

and direct, indirect and feedback effects, do indeed represent a challenge of considerable proportions.

Methodologies, however, in spite of their usefulness, are of secondary importance, and have seldom helped to resolve social conflicts and dilemmas like those inherent in the PRED interrelationships. Moreover, by their very nature they lead to a hunt for quantitative tools and reference models, which are sought in the sphere of traditional economics and of natural science.[21] In this quest an important role has been played by the concept of "carrying capacity". Borrowed and transposed from the biological and ecological sciences, the concept is crude and inappropriate for complex problems of contemporary society and international relations. Referring basically to a balance between population size and its requirements, and the available resources in a given geographical setting, the concept has exerted influence in several important ways on what has so far transpired in the United Nations system in the effort to cope with PRED interrelationships.[22]

The result has been a propensity to focus on marginal resources, fragile ecosystems and subsistence farming societies. Thus, for example, one will frequently come across studies having to do with firewood, with arid zones, and especially with small islands, which lend themselves to this type of analysis.[23]

"Carrying capacity", usually coupled with the notions of ecosystem stability and optimum population size, is an intrinsically conservative concept. It is not surprising, then, that solutions are often sought within this population-resources equilibrium, rather than through "expanding the carrying capacity of a given marginal ecosystem" (for example, the carrying capacity of an arid zone increases with the infusion of manpower, capital, technology and know-how). In the case of the former approach, which means adapting to environment and rigidity, the options are essentially to control the population and/or to limit development aspirations in keeping with the currently possible and the sustainable uses of the existing base. The latter approach, which implies flexibility and the transformation and adaptation of the environment and the natural resource base, means a dynamic and progressive development scenario.

All this is not to say that the concept of "carrying capacity" has no value as a reference base. Rather the point made is that the framework in which it is implanted should be more comprehensive and sophisticated than has been the case so far. In order to do this, it may first be necessary to go back a few steps. Thus, a didactic purpose would be served if all engaged in PRED work were to undertake "carrying capacity" studies on Manhattan, as an example of a small island, on the United Kingdom and Japan, as large islands, and on the Netherlands as a densely populated country, all in the industrialized world.

The third weakness of the PRED exercise has to do with its glossing over the role of the international economy and international economic relations, including its historical and colonial roots, and the fundamental role of North-South divisions, in shaping PRED situations nationally and internationally. This omission is all the more striking not only because international economic relations are one of the major concerns of the United Nations, but also because in many places in the world where PRED interrelationships are unbalanced, the international dimension or the "transnational connection" is one of the key independent variables ("independent" as far as the local people are concerned, who can do little if anything to modify it) and one of the determinants of what happens locally, or of what could be done locally to improve the situation.

[21]One of the pitfalls of this kind of work in the case of PRED is getting bogged down in a morass of data, often of trivial or no importance to the real problems at stake. For an effort to come to grips with some of these issues, see United Nations, *The application of an extended social accounting matrix to the analysis of interrelationships between population, resources, environment and development* (ESA/P/WP. 80).

[22]A United Nations document defines carrying capacity as "the number of people sharing a territory who may, at a given time, sustain a standard of living by applying organization and skills to the exploitation of available physical resources, including land, energy, water and minerals" (A/38/504, *op. cit.*, p. 4).

[23]For example, UNESCO has completed a study of Fiji Islands, and is attempting a similar study in the East Caribbean. Admittedly, with time the methodology is becoming more sophisticated. Thus, the above-mentioned pilot study in Kenya is being carried out with a view to assisting countries to clarify the levels of food self-sufficiency and material standards attainable within the limitations of existing resources, environment and demographic circumstances.

In sum, then, although the various elements which make up the total picture have been identified,[24] the PRED exercise seems to have moved deliberately along the less controversial lines.[25] It continues rather diffuse, often drifting into relatively marginal issues and approaches, and neglecting fundamental problems.

IV

A structure and some possible concentration areas for PRED work in the United Nations system

It is important that the United Nations system carry on with the work on PRED interrelationships. Participation and regular involvement of the United Nations would help to introduce greater policy and substantive balance and representativeness in this type of work and analysis. As discussed above, part of the problem with academic and policy studies, analyses and projections related to the PRED problematique is that so far, with some exceptions such as the Bariloche Latin American World Model, they have been confined to the developed countries and their regional organizations.

The mix of academic, policy, operational and technical concerns, combined with the interdisciplinary and integrated nature of the subject matter, affords an opportunity to bring together and unify the work taking place in the various parts of the United Nations system, and to infuse it with the integrated vision that it tends to lack because of the traditional fragmentation of work among various specialized agencies and organizations, and the inhibition of integrative and holistic analyses and strategies.

The future look of the problematique implies formulation and discussion of alternatives, which in itself gives the United Nations a chance to lead and influence, and to spearhead the process of cognition, which is especially important at this stage, when the world economic crisis and the crises of development styles have brought to the fore the need to search for alternatives.

In considering what would appear to be the more promising lines of work in the United Nations, PRED can be approached in two distinct though interrelated ways. It can be seen as a topic of research and academic study to help advance the relevant knowledge, to sensitize, to awaken new consciousness, and to provide inputs for policy and strategy deliberations in so far as these relate to the future, the development process, North-South relations, and, in general, the human condition. It can also be viewed as a series of practical problems for policy- and decision-makers, and planners, especially at the national and local levels, but also for groups of countries and in some instances for the international community as a whole. The United Nations, of course, is capable of making a contribution in both directions.

There is a considerable number of possi-

[24]See the various documents cited in footnote 13 above. For example, the 1979 Stockholm Symposium speaks of consumption patterns and life styles as being one of the important sources of conflict in the world. *Inter alia*, it notes that although the countries pursuing wasteful styles of life are in a minority, they have preempted a large part of world resources (ST/ESA/ 109, *op. cit.*, p. 7). The report of the Director-General of the United Nations cited above and endorsed by the General Assembly, represents an attempt to set in motion a comprehensive programme. Among the problems/projects that it identifies for system-wide work are study of regions with high consumption of resources, resource use, development and life styles (A/36/571, *op. cit.*).

[25]See document A/38/504, which speaks of planned action within the United Nations system. See further, the report of the 1983 Geneva Seminar on Population, Resources, Environment and Development, which also manages to steer clear of some important but polemical issues.

bilities, and it is important to choose nodal points for United Nations study and action which are likely to yield some benefits in the immediate future, feed the ongoing worldwide debate on PRED-related issues, and also strengthen the base for future work of this kind.

Two possible areas of concentration seem to be of special importance for generating data and knowledge that are necessary to back up the consideration of PRED issues in the global forum of the United Nations and to make it better informed, and in particular to link it to current concerns on the socioeconomic scene.

a) *Quantitative data base.* The United Nations is well placed to seek, systematize and synthesize on a continuing basis the quantitative data that are of relevance to PRED interrelationships. A series of indicators could be elaborated, including resource use profiles, to keep track of the pressures exerted on the natural resource base and the environment by contemporary societies and processes.[26]

Such a reference data base, and the comparability of data and indicators, would enrich and add an important policy and substantive dimension to international deliberations and projections, making it possible, *inter alia*, to check up on the content and growth of global demand, to monitor and compare national performance (including that of the industrialized countries and, in general, of high consumption strata of world population), and to disaggregate various global indicators, all of which are important in evolving more rational and sustainable patterns of development and in husbanding and managing global resources. This type of statistical data would also find its applications in the North-South dialogue, it would be useful for projections, systems analyses, futures studies, and construction of world models,[27] and it would also fill serious gaps in the current international statistical yearbooks and more generally in the data base used for PRED and related policy and strategy considerations.

b) *Study of exogenous factors affecting local PRED problematique.* By drawing on the capabilities of the various organizations of the United Nations system, it would be possible to undertake a useful baseline empirical study of a representative sample of national and local crisis areas, especially in the Third World, where tensions in PRED interrelationships are manifested, with the special goal of identifying and analysing those influences and variables having to do with the activities of exogenous agents (for example, transnational corporations) and with macro-level processes. Such data and analyses would help national decision-makers and those in the field to gain a better understanding of the full range of causes of the problems they face at the micro-level. It would also be of help in generalizing and theorizing about the overall situation, in figuring out and defining the nature of the mechanisms which transmit influence from global via national to local levels, and in adopting policy and action measures in the United Nations as necessary.

The two lines of work suggested above are intented to produce eventually the data base

[26]The Worldwatch Institute has initiated a regular annual status report on the world's store of resources. See *State of the World 1984*, a Worldwatch Institute Report Toward a Sustainable Society, Norton, New York, 1984. Quite obviously the United Nations would appear as the most appropriate locus for undertaking this type of global accounting on a regular basis.

[27]The most notable United Nations-sponsored incursion into the sphere of world models was the study by W. Leontief *et al.*, *The Future of the World Economy: A United Nations Study*, New York, Oxford University Press, 1977. (Parenthetically, it was commissioned on the initiative of the Netherlands in the wake of the Stockholm Conference, to analyse some of the basic issues inherent to PRED interrelationships on the global scale. The fact that the study failed to grapple successfully with many of these issues, especially those connected with the environment (for example, soil erosion), and drifted into the more traditional concerns and familiar spheres of economic projections, was, *inter alia*, a reflection of the problems encountered when trying to approach these issues by using traditional modes of thinking and economic tools of analysis, as well as of the absence of data and indicators that one could use.) Whatever the problems of world modelling, its biases and shortcomings, it will continue, it is heuristically useful, and it will feed a continuing debate and controversy, which in itself is beneficial. The United Nations should provide some of the important data for this kind of work, but should also play an active role in critically approaching the paradigms and preferred world orders from which such models invariably start. (For a recent essay reviewing world modelling, see Richard K. Ashley, "The eye of power: the politics of world modelling", *International Organization*, Summer 1983, pp. 495-535. See also C. Freeman and M. Jahoda (eds.), *World Futures, the Great Debate*, London, M. Robertson, 1978.)

which is necessary for fully informed consideration of PRED interrelationships at the global level, and especially in the context of North-South relations, as well as for empirically introducing the transnational variables and processes which have not been given their due so far.

As regards the specific problems of developing countries, and modes of assisting these countries in coping with them, two possible courses can be suggested.

a) *Mapping the critical problem areas in the Third World.* The PRED issues which are discussed in abstract and methodological terms in the United Nations fora translate into tangible, hard-core problems in the field. How to approach and manage a given situation is essentially a matter of decision-making and management at the micro-level, which, of course, takes place in a series of concentric circles leading ultimately to the global level. An overview, or a map of micro-locations in the Third World where tensions in PRED interrelationships are experienced, with the nature of these tensions explicated and classified, would be of assistance not just in providing a comprehensive picture of the real situation and for monitoring and keeping up to date with its evolution worlwide, but also for the purpose of selecting critical locations in order to mount some type of international support and assistance.[28] In any event, such an overview would be useful in introducing qualitative and quantitative knowledge into the discussion, and would be also helpful in orienting the operational and development assistance activities of the United Nations.

b) *"Expanding the carrying capacity"*. The notion of "expanding the carrying capacity" implies a perceptional and conceptual shift in the way the "carrying capacity" issue has been treated hitherto. Expanding the carrying capacity is part and parcel of the development process, manifested in an increased ability to draw on the local environment and the natural resource base. This objective is bound to be given a substantial boost by the technological advances being made today, especially in the field of renewable energy technologies, and of diversified and novel modes of exploitation of the natural resource base, including those originating in the field of biotechnology and genetic engineering, both for industrial and, in particular, for agricultural development purposes.

The "expansion of carrying capacity" could represent a useful point on which to focus the discussion and around which to generate yet another transfer-of-technology front in the North-South dialogue.[29] Possibly a good rhetorical argument to start with would be to remark upon the willingness of the North to dispense advanced birth control technologies on very favourable terms, or gratis, in order to alleviate PRED problems in the South. Were this motivation and reasoning applied, for example, to renewable energy technologies, which would imply their development and diffusion in the Third World on other than purely commercial terms, some of the critical PRED problems, such as deforestation and soil loss, could be handled with more success than is at present the case.

The preceding suggestions were related specifically to the development mandate of the United Nations system, and the need to assist the developing countries in their internal development efforts.

The United Nations also has a unique capacity and mandate to deal with truly global problems, beyond the control of a country or a

[28]In some places, for example, Nepal, given the prevalent socioeconomic conditions, level of development, technologies and knowledge used, and resources available, increasing population numbers can exceed local production capacity and threaten serious social dislocation and physical damage. In such instances, exact knowledge of the nature of the problem could help, among other things, to identify the type of support and inputs from the international community which would assist the national authorities to manage the problem. The above-mentioned study, co-ordinated by UNEP, of PRED interrelationships in the Himalayan foothills represents and attempt in this direction.

[29]The need for increased food production is closely related to the levels of farming technology. See the FAO/IIASA study on *Potential Population Supporting Capacities of Lands in the Developing World*, FAO/IIASA/UNFPA Technical Report of the Land Resources for Populations of the Future Project, Rome, 1984. One of the conclusions of the study is that of the 117 developing countries studied, 57 would not have enough land to satisfy the needs of their projected populations by the year 2000 were they to continue to apply their present farming technologies. Were they to achieve an intermediate level of farming technology, then only 36 countries would not be self-sufficient. At still higher levels of farming technology, not more than 19 countries would be unable to meet the needs of their projected populations.

group of countries. There are a number of global manifestations and implications of PRED dilemmas, which need to be assembled and given integrated considerations in a single place in the United Nations system. The interrelationships exercise offers an opportunity for doing this.

"Global outer limits". The notion of "global outer limits" derives from the concept of "the outer limits of the global carrying capacity".[30] Among the important problems for the present and especially for the future of human society which fall under this head, and which have been highlighted up to now in international deliberations and scientific discourse, are inadvertent climate modification by man, depletion of the ozone layer, pressures on major life-support systems, climatic and biological effects of nuclear war, etc.

The usefulness of the "global outer limits", as a conceptual and policy "chapeau", in the context of the PRED exercise is that it would encourage integrated consideration of these issues, and serve to bring them to the centre of the United Nations stage and to give them the sustained policy visibility and importance which they deserve, but cannot attain in the specialized and technical fora where they are normally studied and examined.

The concept of "global outer limits" suggests also some of the transcendental qualities of the PRED problematique, which subsumes certain complex and challenging questions of the present age that will become ever more critical and central as years go by. PRED is *prima facie* a system's issue, baffling to study and think about, and even more difficult to act upon. Furthermore, it raises many sensitive questions about contemporary society and where it is heading. It is no wonder that political leaders and decision-makers generally have not shown great enthusiasm for thinking seriously and even less for acting upon these with an integrated approach and with a longer-term horizon in mind, preferring to ignore them or relegate them to some future date and to their successors. Or, and what is more disturbing from the global perspective, countries act on their own, affecting future options of others and of the international community, all this in the absence of political will and of appropriate mechanisms for analysis, policy consideration and negotiations at the global level.

It will be some while before the community of nations develops the consciousness, political will and capability to deal with the global implications of the PRED problematique in a truly integrated manner. In reaching that point, continuing study, conceptualization and general debate will play a fundamental role. This points to the last line of action suggested here.

Fostering public debate. The United Nations, as the universal policy forum, should spearhead the evolving PRED debate. The global and forward-looking visions that it embodies and its normative goals and development objectives make it imperative for the United Nations to assume this role, among other reasons to counterbalance some of the less-universally inspired formulations, such as those emerging from the United States domestic scene where what amounts to a PRED debate of sorts has of late assumed political importance. Its inherent though inadequately utilized and/or realized capacities to confront, synthesize and integrate data, disciplines, varied and conflicting interests, policy and philosophical perspectives, to link different levels and loci at which the subject manifests itself, to identify causal chains, etc., place it in a unique position for this task.

To secure for itself the central and influential role in the evolving debate will not be easy. Determination and leadership will be necessary to overcome the disciplinary and jurisdictional barriers manifest in inter-agency endeavours, and some of the bureaucratic hesitation and diffidence commonly occurring in politically controversial matters. A special effort will be required to get full and committed participation of the governments in the exercise, and to convince them of its usefulness. In addition, the work in the United Nations needs to be closely linked and interacting with the mainstream of academic and policy thinking. Ultimately, it is the choice of issues for consideration, and the way they are treated, that will give relevance and

[30] The concept of outer limits was given prominence by the Cocoyoc Symposium and has been used by the United Nations Environment Programme in classifying some problems on its agenda. For an elaboration of the concept see W.H. Matthews, "The Concept of Outer Limits", in W.H. Matthews (ed.), *Outer Limits and Human Needs. Resources and Environmental Issues of Development Strategies*, Dag Hammarskjold Foundation, Uppsala, 1976.

weight to what the United Nations does. Two generic issues could provide a good starting-point for mounting and fanning the debate, one relating to sustainability of development styles and access to these by the less privileged of the world, another to ways and means of increasing the resilience and decreasing the vulnerability of contemporary societies.[31]

In concluding this section, a reference to the PRED formula must be made. Were "society" to be added, making it "society, population, resources, environment and development interrelationships", or SPRED, the formula would both better reflect the very nature of the interrelationships, and diminish the primary stress on population that the current wording continues to project.

V

Developing countries and the PRED exercise

The developing countries as a group have not evidenced much interest in the PRED exercise in the United Nations. Many among them have tended to overlook the issue or deny its importance. Some of the reasons for this have roots in the origins and evolution of the problematique discussed above, and are also possibly related to the fact that so far the matter has been considered mainly at the inter-agency and expert level. More generally, it is the consequence of ambivalence *vis-à-vis* the whole matter both on the domestic plane, and as regards ways and means of inserting it usefully into the negotiations with the North.

This attitude, however, is not justified, since the dilemmas and problems inherent in the interrelationships present themselves in a very special light for the developing countries, and have an important role to play in their development process, prospects and options for the future. Strained PRED interrelationships are occurring today in many parts of the Third World, negatively affecting the people and undermining the process of development, the natural resource base and the environment.[32] Resolution and

[31]One of the important resilience/vulnerability topics has to do with the progressive homogenization of agricultural and food systems, and the potential risks that this entails. (As a sidelight, it is interesting that the Irish potato famine, which has been used as an example of a mismatch between population size and the ability of the local environment and economy to sustain it, was in fact a monoculture crisis and collapse, when the potato was attacked by a fungus. While social, economic and scientific progress has made most of the parallels between the Irish case and the current situation irrelevant, the example conveys the basic message about various types of vulnerability that are being built into contemporary societies.)

[32]Situations vary widely between different places, as do their causes. For a review of the situation in Latin America, which is notoriously critical in some of the region's major metropolitan areas, see, *inter alia, Development, life styles, population and environment in Latin America* (IESA/P/ICP. 1984/EG. III/9), a document submitted to the Expert Group on Population, Resources, Environment and Development (Geneva, April 1983). As regards the expansion of the agricultural frontier in Latin America, and in particular the Amazonia, see Economic Commission for Latin America (ECLA) and United Nations Environment Programme (UNEP), *Expansión de la Frontera Agropecuaria y Medio Ambiente en América Latina*, United Nations-CIFCA, Madrid, 1983, containing the background documentation of the joint UNEP/ECLA Seminar on this subject (Brasilia, November 1981). For a comprehensive overview of the situation in Latin America, see O. Sunkel and N. Gligo (eds.), *Estilos de Desarrollo y Medio Ambiente en la América Latina*, 2 volumes, Mexico, Fondo de Cultura Económica, 1981, based on the proceedings and background documentation of the joint UNEP/ECLA Seminar on Styles of Development and Environment in Latin America (Santiago, Chile, November 1979). (Some of these papers were translated into English and reproduced in *CEPAL Review*, N° 12, December 1980.) In this volume see, among others, the interesting study on the Chaco region, by Carlos Adolfo Barrera y Grupo de Análisis de Sistemas Ecológicos, "Economía y ambiente: análisis del subsistema regional chaqueño", *op. cit.*, pp. 580-614. For a conceptual discussion of the problematique from a Latin American perspective see P. Pirez, V. Sánchez, G. Salas, *Medio ambiente y dinámica poblacional*, Colegio de México (mimeographed text), August 1983.

management of these problems is thus on the way to becoming a high-priority and permanent item on the development agenda of most developing countries.

In general, they would benefit from full participation in the United Nations exercise, as well as from an overall policy and conceptual framework devised and from methodological advances made at the international level. To understand problems and implications better and to be sensitized to them are among the prerequisites for action. A significant factor in this process will have to do with the international and/or global aspects of the PRED problematique, which are relevant not merely for local PRED issues in the developing countries, but also for their development and well-being in general. Three such aspects come readily to mind:

i) *Access to and control of natural resources.* In a situation of increasing and diversifying pressures and demands on the natural resource base, especially in an era of energy transition, further global inequities are likely to arise. A few powerful countries, and transnational corporations, with global outreach and influence, are likely to use their advantages to maintain and/or obtain the necessary access to and control over given natural resources without worrying too much either about the needs of others or about the goals of global equity. Among the general effects that are likely, and that the developing countries also may have to face, are the disappearance of high-grade and easily accessible resources, increasing costs, and in general the narrowing range of resources exploitable with the existing technologies. Such trends will no doubt introduce additional obstacles in their development path, with novel modes of technological dependence, and will probably reduce the options available to them.

ii) *Sharing and diffusing new technological and scientific know-how.* New technologies and scientific know-how, which in many instances draw on the natural and genetic resources originating in the developing countries, are beginning to play a critical role in contemporary society, offering new opportunities for economic and social development and betterment. Quite obviously, these hold great promise for expanding both the potential of the productive system and the "carrying capacity" of the environment and of the natural resource base.[33] The challenge is how to guide and harness the new knowledge and the new technologies in this endeavour, avoiding the likely and all too familiar scenario in which such developments and the technology lag are ultimately responsible for widening the gap between the developed and developing countries, and leading to new monopoly and dependence situations.[34]

iii) "*Global ecological interdependence*". This concept is mentioned with increasing frequency, and needs to be gradually and effectively incorporated among the issues on the North-South agenda.[35] The point worth retaining in the context of this discussion is that action in one country, or a group of countries, may affect the sustainability of the development process, environment and PRED interrelationships in other countries, close or far away, and on the global scale. Generally, most developing countries appear to be powerless spectators and at the receiving end in situations of this kind. Moreover, while at the subsistence level their societies

[33]For a discussion of the possibility of exhaustion of non-renewable resources, excluding energy, see H.E. Goeller and A. Zucker, "Infinite resources: the ultimate strategy", *Science*, 3 February 1984, pp. 456-462. The key argument is that, with a few exceptions, the world contains plentiful retrievable resources, and that these resources "can be extracted and converted to useful forms indefinitely, with acceptable environmental consequences, and within the boundaries of foreseeable economic constraints". One of the essential requirements for the achievement of this goal is timely, vigorous and successful research in the field of materials, to ensure the use of lower-grade and alternative ores, and substitute materials, in place of those resources most likely to get scarce and expensive. (Among additional conditions cited are continuous supply of energy, of available capital and of new facilities such as mines, mills and processing plants.) The authors argue that a dozen elements are already economically in infinite supply; that technology is already partly or fully developed, though it is not economical, for an additional seven elements to become virtually unlimited (including iron and aluminium); and that a century of R+D would result in the approximation of another fourteen elements to infinite supply.

[34]For a review of this problem in the context of plant genetic resources, see P.R. Mooney, "The law of the seed, another development and plant genetic resources", in *Development Dialogue*, 1983:1-2, Dag Hammarskjold Foundation, Uppsala.

[35]See, for example, *Economic and Ecological Interdependence*, a Report on Selected Environment and Resource Issues, OECD, Paris, 1982.

and economies are quite resilient, the modern sector may not be capable of such timely and quick adjustment as that exhibited by the highly diversified and materially well-endowed economies of the rich countries.

Obviously, these trends and issues provide a policy and substantive base for a longer-term, forward-looking initiative on the part of the developing countries in the context of their global dialogue and negotiations with the North. Their national lines of action, including a quest for alternative solutions, which implies filtering out influences of transnational development styles and greater self-reliance in developing their own approaches,[36] devising of specific national energy strategies especially tailored to domestic objectives and endowments and with an eye on the post-petroleum age, and horizontal co-operation with one another in devising approaches to their own problems and joint regional positions, would perform an important function in strengthening their international stance, their arguments and their bargaining position *vis-à-vis* the North, as well as their efforts to bring forward in the United Nations practical problems and new forms of vulnerability they are likely to experience.

VI
By way of conclusion

In spite of a great deal of altercation and mutual exclusiveness which has characterized the discussion of PRED-related issues, it can be argued that the basic diagnosis of the interlocking problems —notwithstanding the qualitative, quantitative and time-scale variations— is broadly agreed upon by almost everybody who has seriously thought on the subject. Also, it is by and large agreed that society has entered upon a stage of transition and significant change, even discontinuity, impelled in part by the issues intrinsic to PRED interrelationships.

The real hornet's nest is ecountered when it is considered what this implies for the future of the society, and even more so when proposals are made for approaches and solutions to the problems emergent, as it is these that are strongly influenced by world views, social and ideological paradigms, national and group interests, and so forth.

Some insist on population control policies as the principal mode of coping with the problems on the global scale. Indeed, such measures do have an important and immediate role to play in some countries, for example, India and China, though always in the broader context of the development process. It is, however, obvious that population policies are of marginal or no relevance in the case of many other countries, especially the industrialized ones, and to their critical contributions to global and national PRED problems. Nor do such policies address some of the principal causes of tension in PRED interrelationships. Thus, even were the world population to be stabilized by some magic at its current levels, this could attenuate some of the issues in some parts of the world, and possibly give more time to adjust and prepare for change, but, on the whole, problems and dilemmas stemming from PRED interrelationships would persist and would have to be faced and resolved in some other manner.

Others zero in on the technological and scientific road to salvation. Certainly, were it not for the promise of science and technology, the prospect would be very bleak. Whether it be genetically engineered crops, renewable and/or perma-

[36]The question of development styles is critical for the developing countries. Trying to imitate and transpose to their societies the basic transnational model, mostly patterned on the United States, had led *inter alia* to marked domestic inequities and increasing stratification between the privileged few enjoying the concomitant benefits and the rest of the population on the sidelines. As far as environment and resources are concerned, it leads to a two-pronged pressure —from the waste and irrationality of the transnational development style, and from the poverty and increasing marginalization of important segments of the society.

nent sources of energy, discovery of new resources and substitutes, securing infinite supply of some key minerals, recycling, low-waste and non-waste technologies, durability of products, miniaturization, or pollution control techniques (including those using bacteria end enzymes, etc.), technological progress, and, in general, the exponential rise in human knowledge, represent the key condition for coping with the multiple problems emerging from PRED interrelationships, for creating lead times and paving the way to more advanced stages in the development of human society. Yet one must keep in mind that though all scientific and technological progress does not necessarily imply a Faustian bargain, many of the most serious environmental and natural resource problems faced today are the product of the technological society, and many new and yet undreamt of problems are likely to be spawned by science and technology in times to come. Moreover, scientific and technological progress does not flow freely; it happens to be concentrated in relatively few countries, and its fruits are not in the main a public good, easily accessible to everybody.

Still others place their faith in the magic power of the market and the demand and supply mechanisms to sort out and find solutions to such problems as scarcity and depletion of given natural resources, and to serve as incentive and guide to human creativity and responses to emerging problems. One of the few inconveniences of the market and the market rationale, in addition to its being one of the chief causes of many serious environmental problems and natural resource degradation, is that, especially in the global context of differences in power, material and financial resources available and levels of development, it has not been known as an equitable device for sorting out the problems and catering to the varied needs and abilities of different actors.

There are also those who assign special importance to improved modes of decision-making and management and new methodologies, to institutional change, and in general to the adaptability of human society and its ability to respond incrementally to the emerging needs.

What is notable about the various prescriptions listed above and the analyses that they are based on is that they tend to obscure socioeconomic causes of the problems experienced and dilemmas faced, and represent essentially technical responses to social problems which promise a way out without questioning or jeopardizing cherished institutions, structures and ways of life. These approaches, of course, are among the necessary conditions for meeting the challenges ahead. But it is also clear that either by themselves or together they will not be sufficient conditions. They should form part of a comprehensive approach, rooted in fundamental social, economic, political and cultural change, and involving all countries and the international community as a whole. This is one of the reasons why the role of the United Nations, as a universal forum, is of such critical importance in this endeavour. In fact, many of the elements which need to form part of a comprehensive approach of this kind have been either identified, or given prominence in the international fora.

Several components of such a comprehensive approach are worth recalling here: important changes in patterns of development production and consumption; changes in life styles; the attainment of various internationally agreed development goals; changes in the rules and structures of the international economy; channelling of R+D, resources and manpower into critical areas having to do with PRED interrelationships; recasting the traditional societal and especially economic criteria and rationales, which guide and inspire individuals, non-governmental actors and governments, in order to internalize environmental and sustainable development objectives; progressive institutionalization of international régimes and management of global commons, and adoption of norms for countries' activities affecting regional and global environment.

All of these have profound structural implications and mean significant departures from the way things are or get done. Indeed, in many instances they go against the very grain of dominant and/or entrenched social paradigms, structures and institutions, policy and decision-making criteria and practices. Changing these and overcoming the obstacles and interests involved is a task of monumental proportions, especially as the key actors and forces are hardly inclined to such change.

Under these conditions, to expect a comprehensive and planned approach to social change would be ahistorical and utopian, in spite of the fact that such an approach is objectively possible and within the reach of mankind. As things are, mankind is likely to accost the PRED dilemmas in the usual way, improvising and reacting disjointedly to crises well under way, inching forward through conflict and vituperation, which in a world of unequals means strong possibilities of Darwinian mechanisms becoming more openly and deliberately operational in international relations. This road is certain to lead to serious imbalances and turbulence in the global community of nations.

Dialogues and debates in international fora on such issues as PRED interrelationships seldom appear to affect or shape the real world, visibly and directly. Yet they do lead to a new cognition —as the marked evolution of the PRED subject over the last decade demonstrates—, plant seeds of new ideas, generate policies, increase knowledge and understanding of what is involved, and define possible levers which slowly and with time can and do exert influence on reality and may come to constitute the very basis of action, and which at the very least could lead to a better-informed "muddling through" process.

This is one of the reasons why the present essay has gone to such lengths in discussing what may appear as a marginal and obscure item, tucked away in the organizational labyrinths of the United Nations system, but is in fact of great topical and policy importance and happens to contain many of the key elements needed for study and definition of societal paradigms corresponding to the requirements of the new age.

CEPAL REVIEW No. 23

Participation: the view from above

*Marshall Wolfe**

Past experience shows that efforts to increase the participation of the excluded groups are usually based on mistaken, and often mythical ideas regarding development, democracy, the State and the people themselves. When put into practice, these ideas have been the cause of frustrations, unforeseen consequences and paradoxes, which have helped to erode them, creating a propitious climate for a more realistic evaluation of the phenomena to which they relate. In this connection, the author's central thesis is that political processes in which participation is encouraged will always be attended by a permanent tension between their main protagonists, in particular the State, progressivist movements and the people.

In pursuit of this central thesis, the author examines some of its key aspects. Beginning with an analysis of the concepts of development and participation, he then goes on to discuss the controversial issues of accumulation and consumption, planning and the market, conflict and consensus between social classes, local and national forms of participation and solidarity, the role of bureaucrats and technocrats and the tension between them and participation, and the national character of development processes.

Lastly, he outlines a set of recommendations in terms of the attitudes or predispositions to be desired in agents of the State, ideologists and intermediaries between the State and the popular movements, in order to further the participation of the excluded groups.

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I

Introduction

The first version of the ideas set forth below responded to a request from the United Nations Department of Technical Co-operation for Development to prepare a "Conceptual Framework for Promoting Popular Participation in Development" for an International Seminar on Popular Participation attended by government nominees and focussed on the comparison of "policies, experiences and institutions".[1] The terms of the assignment justified some uneasiness, particularly in their specification that the paper should discuss "requirements (institutions, policies and socio-economic considerations) for popularizing people's participation at all levels and on a sectoral basis". A response deserving the name of "conceptual framework" would amount to a treatise on theories of the State, democracy, and development. The organizers of the Seminar clearly wanted something more "practical", but not much more modest.

However, the assignment seemed a worth while challenge to step back and look at participation from the perspective of the State, its agents, and its advisers. In what ways do ideological preconceptions and development policy choices condition the capacity of different kinds o régimes now on the world stage to envisage a place for "participation"? What are the real constraints on their ability to act on prescriptions or intentions to "promote" and "popularize" participation?

The 1979 *Inquiry into Participation - a Research Approach,*[2] the conceptual background document of UNRISD's Participation Programme, touched on these questions and stated a position on "inner limits": "The need to define an overall national policy in the interests of the larger society, to reconcile divergent interests and to ensure a certain degree of co-ordination and integration of development policies calls for a central authority and puts limits to the degree of popular participation. As technological modernization of the society increases and as ever more complex

[1]The Seminar was held in Ljubljana, Yugoslavia, in May 1982. The DTCD is to publish a report on the proceedings.

[2]See Andrew Pearse and Matthias Stiefel, *Inquiry into Participation -a Research Approach,* UNRISD/79/C. 14, Geneva, May 1979.

problems affecting ever larger socio-economic units require solutions these limits to participation are likely to become more pressing. Ultimately, the study of popular participation as national policy must lead to the critical study of the State, its origin, nature, function and justification".[3] The sub-debate on "The Urgency Factor and Democracy"[4] advanced the proposition that only a certain type of revolutionary mobilizing State can combine planned, decisive action to overcome mass poverty with a measure of popular participation or control, a proposition rejected or received with strong reservations by most of the debaters.

The subsequent course of investigations and discussions within UNRISD's Participation Programme suggest that its main strength and unique contribution lie in adhering to its original definition of participation as "the organized efforts to increase control over resources and regulative institutions in given social situations, on the part of groups and movements hitherto excluded from such control",[5] and keeping its distance from claims by the State to its right and capacity to "promote" participation tailored to the solution of problems it defines as urgent and national. In particular, studies of institutionalized participation carried out with the approval of mobilizing régimes risk identifying the perspective of power with that of the "hitherto excluded".

Nevertheless, the questions posed above cannot be disregarded, and one can even hope that there is something to be gained by stimulating agents of the State to think about them. I thus tried to delimit and focus the questions by first considering the two key terms of the assignment —"development" and "participation"— and the impact of recent experience on their interpretation. This required a hasty resurvey of some of the ground covered in the UNRISD/ECLAC exploration of "a unified approach to development analysis and planning".[6] I then discussed how a series of choices between theories of economic growth and of the legitimate functions of the State, along with ethical and cultural values, interacting with real processes of socio-economic change, condition a régime's answers to the questions: Who should participate, how, why and what?

My bias in discussing the choices and processes has been toward the supposition that tensions between the efforts of the State to "promote" popular participation, on the one hand, and the efforts of the groups "hitherto excluded... to increase control over resources and regulatory institutions", on the other, are permanent although continually changing. They are not to be overcome by the perfecting of planning systems to the point of their being able to demonstrate to State and people the "One Right Way" to develop, nor by the revolutionary triumph of régimes identified with the "hitherto excluded", nor by the self-liberation of democratic local groups from the tutelage of the State. (Obviously, this proposition supposes some degree of authenticity in the State's intention to promote participation and some degree of self-identification with the "nation" on the part of the groups "hitherto excluded". One can easily call to mind cynically oppressive and exploitative régimes in which the tensions do not exist because the authorities have no interest in participation even as a means of manipulation for their own purposes, and the "hitherto excluded" have no hope of obtaining any benefits from the régime.)

Furthermore, the tensions are tripartite, even if one assumes for the moment that the "hitherto included" have lost their monopoly of power. They involve the political parties and other movements organized at the national level that aspire to represent the people and dominate or influence the State. Each of these actors needs the other two but its limitations, as demonstrated by experience, justify distrust on the part of the others. History has been equally unkind to theories of the State as the embodiment of ideal rationality and guardian of the general welfare;

[3] *Ibid.*, pp. 24-25.

[4] See *Dialogue about Participation 1*, UNRISD/81/C.17, Geneva, June 1981.

[5] See A. Pearse and M. Stiefel, *op. cit.*, p. 8.

[6] See *The Quest for a Unified Approach to Development*, UNRISD, 80.3, Geneva, 1980; Marshall Wolfe, "Elusive Development: the quest for a unified approach to development analysis and planning", *CEPAL Review*, No. 17, August 1982. (Originally issued, under the title *Elusive Development*, by UNRISD, Geneva, 1981.)

of vanguard parties equipped by theory to guide a destined class to power; and of the people as sources of democratic controls over State and parties.

The idea of permanent tension does not preclude the possibility of mutual accommodations, a conflictive learning process leading toward "styles of develpment" functioning better than heretofore for the well-being and freedom of the majorities now exploited or excluded. One might, at the risk of triviality, recommend to all the actors that they strive to reconcile conviction of the urgency of finding solutions to current problems with mutual tolerance of shortcomings, distrust of infallible prescriptions, and flexibility in coping with the unexpected. The following pages include an exercise along these lines directed to agents of the State.

The present mutations in the world order, the perverse consequences of the myths of development as well as the myths of revolution, are generating new paradoxes in the attempts of the State, political movements and people to make sense of one another, to manipulate one another, or to dispense with one another. To the hitherto excluded, participation for the purpose of self-defence *against* development sometimes comes to seem more relevant than participation *in* development.

Fernando H. Cardoso has vividly presented one of these paradoxes. In the first place, he states, popular distrust of national institutions and withdrawal to localized community self-help can harmonize with the efforts of neoliberal régimes to divest the State of social responsibilities and leave disadvantaged families and communities to shift for themselves as best they can. In the second place, through a "perverse dialectic", "horror of politics, attachment to action exclusively at the level of the bases and of concrete demands, animated by the social institutions and movements most identified with the people... may motivate the population to claim its rights "autonomously" and impel it to demand solutions which, in modern societies, can be offered by the government agencies alone. In that case, the popular leader ends by dealing —on his own, that is, without the backing of broad political solidarity— with the State functionary, technocrat or not, who is the only figure capable of offering concrete solutions. Unintentionally and unwittingly, the purest and most autonomous movement makes a pact with the devil; it runs the risk of becoming the interlocutor and sanctioner of precisely what it wants to combat —the bureaucratic and alienating State".[7]

Other paradoxes, to be discussed below, emerge from the austerely egalitarian ideologies of some States and political movements, their hostility to the transnational consumer society, and their assertion of a right to protect the people (and the national process of capital accumulation) from noxious influences. Still other paradoxes appear in the efforts of certain régimes to mobilize and manipulate direct popular support as a counterweight to political and economic élites whose power they wish to curtail.[8]

II

What is development?

During the 1950s and 1960s an international consensus on "development" took shape, many features of which were endorsed by régimes identifying themselves as socialist or capitalist, or refusing to accept either label. Development meant rising income levels accompanying structural shifts in national economies from the predominantly rural-agricultural to the urban-industrial, from self-employment to wage-

[7]Fernando H. Cardoso, *Las políticas sociales en la década del 80: ¿Nuevas opciones?* (E/CEPAL/ILPES/SEM. 1/R.4), April 1982, pp. 23 and 24. (Unofficial translation.)

[8]The present paper does not give due attention to this last question, which is discussed in another paper to be circulated by the UNRISD Participation Programme: Bruno Jobert, *Clientélisme, patronage et participation populaire.*

earning employment, from local markets to national markets. It required a continual incorporation of productivity-raising technological innovations, along with increasing ability to exploit natural resources and transform the environment.

It was assumed by this consensus that certain industrialized countries identified as "developed" constituted models for what the rest of the world could and should accomplish, and that these countries would be able to sustain indefinitely their interacting processes of increase, diversification and innovation in production and consumption. It was further assumed, with many differences of timing and emphasis, that initial phases of income concentration in the hands of entrepreneurs or the State, restraint in consumption, and social services concentrated on the upgrading of "human resources" would lead to phases of increasingly equitable distribution, rising and diversifying consumption for all, and building-up of collective services and subsidies designed to equalize opportunities and determine a floor for levels of living —in other words, to a "Welfare State". It was asserted that national States could and should guide and stimulate development through "planning", and that the "developed" countries could and should help the others through financial flows and transfers of technology.

The consensus envisaged the initial participation of the broad masses mainly as producers, through their acquisition of skills and internalization of the work-ethic of industrial societies, and viewed their premature participation as consumers or through organized struggles for a larger share of the national income as a danger. It foresaw, however, that the very process of development would increasingly involve these masses not only as producers and consumers but also as citizens capable of reconciling their narrower interests and controlling the developmental activities of the State through democratic political procedures. Development would enhance autonomy at the national level and thus the capacity of people to influence its pace and the distribution of its fruits.

This consensus came under question during the 1960s for several well-known reasons. First, while a good many "developing" countries achieved creditable rates of increase in national income, the expected benefits seemed no nearer; distribution remained highly unequal. Secondly, the concomitants of industrialization and agricultural modernization were proving very disruptive, heralding the prospect that major segments of the population would lose their hold on traditional ways of livelihood and sources of security without finding a place in the new order. Thirdly, international economic and political relationships made developmental achievements precarious. National governments were no more capable than before of foreseeing and controlling the key factors determining the feasibility of policies, in the face of unstable export commodity markets, ever-weightier debt burdens, recurrent balance-of-payments crises, penetration by transnational enterprises, and distribution of public resources on the basis of the strenght of claimants (particularly the military) rather than of development priorities. "Planning", in the shape of preparation of fixed-term "development plans" at least, fell into discredit. Fourthly, the real course of economic growth and modernization, combining with unprecedentedly high rates of population increase, had a devastating impact on the endowment of natural resources and on the physical environment, particularly in the enormous urban agglomerations that were taking shape. Fifthly, the industrialized countries were beginning to lose their plausibility as models, partly because of exposure of their exploitative relations with the rest of the world, and partly because of dissemination of internal disillusionment with the consequences of their technological and cultural transformations, even before their quarter-of-a-century of sustained economic growth and rising levels of consumption came to a halt in chronic stagflation.

One result was an extraordinary proliferation of research efforts, prescriptions and "Plans of Action" seeking to redefine development or find the missing ingredient whose lack prevented observable processes from fulfilling their original promise. Practitioners of the social sciences other than economics challenged the dominance of the latter discipline and embarked on inconclusive interdisciplinary quests for a solution.

By the early 1970s two opposed "families" of conceptions of development and the way to achieve it could be identified. The first was far from internal consistency in its efforts to derive guidelines for action from the socially-oriented criticisms of economic development. It included utopian blueprints for egalitarian new civilizations as well as relatively cautious proposals seeking within real political and economic constraints to assign a higher priority to the satisfaction of basic human needs, the protection of the environment, the safeguarding of human rights, and the reconciliation of economic transformation with differing cultural values. In any case, the area of consensus included the propositions that development could and should be subordinated to human values; that societies can evolve rational and coherent ways of accomplishing this; and that popular participation must be a central factor, as end and means, in the achievement of "another development".[9]

The other family of conceptions reaffirmed the economic Kingdom of Necessity: State intervention through planning, regulation and the building-up of a large public sector hindered rather than helped economic development. State efforts to redistribute income, protect the population from all contingencies, and provide elaborate services were self-defeating. The market and the law of comparative advantages should determine the allocation of resources. The State should limit itself to safeguarding the rules of the game, thereby making it possible for the market to function efficiently.

We are now in the early 1980s. While all the previous conceptions and prescriptions regarding development remain current, their promotion having become institutionalized, the international setting for the debate has changed to a marked extent. The salient feature is that practically all countries, whatever their previous level or style or strategy of development, are in complex difficulties. The possibility of their emerging from these difficulties through any coherent policy decided upon and applied by the State seems less plausible than at any time since the 1940s. In the "developing" countries, the minorities able to benefit or at least hope to benefit from economic growth have shrunk, and even the wealthiest are insecure; their loss of faith in national prospects accelerates the flow of funds to presumably safer havens for investment. The perplexities of the central industrialized countries are becoming chronic and in many respects resemble weaknesses for which their development ideologists previously reproached the "poor" countries. Their will and ability to promote the development of the rest of the world continue to erode, and their exportation of the costs of their crises continually disrupts development prospects elsewhere.

The few national societies whose dominant forces have professed to aim at "another development" have encountered more frustrations than successes. The same can be said of the societies whose dominant forces abjured the Welfare State and hoped to invigorate their economies by freeing market forces. Régimes trying to follow both paths, as well as those clinging to more conventional development policies, are now concerned rather with short-term "crisis management" expedients than with long-term development strategies. While the shortcomings of "development" from the standpoint of human welfare and equity are even more pronounced than in the early 1970s and real events have justified the warnings then uttered, the proposals for coherent development alternatives risk falling out of currency, into a rut of ritual repetition at international gatherings, through the very severity and complexity of today's challenges.

For present purposes, three questions arise: If international consensus on the meaning and requisites of development has disintegrated, how are people to "participate" in it? Can national societies —the "people"— reinvent development in terms corresponding to their own needs and capabilities? Have the kinds of participation that have already emerged, shaped by the development style now in crisis, generated a momentum of expectations and group tactics that will be compatible with participation in radically different styles of development?

In the early 1970s, the UNRISD/ECLAC project

[9]The most readily accessible of the many sources of information on the quest for development so conceived are the periodicals *Development Dialogue*, published by the Dag Hammarskjöld Foundation, Uppsala, Sweden; and IFDA *Dossier*, published by the International Foundation for Development Alternatives, Nyon, Switzerland. See also the two United Nations Research Institute for Social Development (UNRISD) publications named in footnote 3.

on a "unified approach to development analysis and planning" proposed two complementary ways of looking at development: "(i) as a perceived advance toward specified ends based on societal values; (ii) as the system of interrelated societal changes that underlies and conditions the feasibility of the advance". From this point of view, "all national societies will be developing, or trying to, during the foreseeable future, and at the same time will be trying to cope with the contradictions and disbenefits that arise from their development processes". "No detailed universal set of specifications or particularized 'definition' can be satisfactory; styles of development necessarily differ. But some general standard is nevertheless needed against which to assess styles of development. In the simplest terms, a style of development should be both *acceptable* in the importance it gives to human well-being and equity and *viable* in terms of its compatibility with the resources of various kinds that can be mobilized by the national society as needed if it is to function and grow over the long term without breakdown". A minimum criterion for assessment of a style of development, then, "can be summed up as the extent to which the style of development enables a society to function over the long term for the well-being of all its members".[10]

The following pages will refer back to this criterion for the "development" to which "popular participation" is to be related, in full awareness that application of such a criterion to national policy is today even more problematic than it seemed ten years ago.

III
What is popular participation?

It is obvious that the unanimous endorsement of the "participation of all sectors of the society" in a United Nations resolution requires a certain measure of hypocrisy and also a tacit agreement not to seek a precise definition of the term. When the organizers of the UNRISD Programme subjected their own propositions to a truly participatory approach, the comments received demonstrated, first, that no proposition on participation can obtain general consensus; secondly, that research on participation can incur the same problem of interminable debate over goals and methods as do many practical participatory initiatives.[11] One's conception of participation can be broad or narrow, active or passive. It can be considered equivalent to political democracy; the people decide, through constitutionally codified procedures of election or referendum, what development objectives and policies they want, and what political representatives shall try to convert the objectives and policies into reality. It can be considered equivalent to involvement in the processes of societal change and growth that the term "development" suggests. In this sense, everyone participates, voluntarily or not, advantageously or disadvantageously, exploiting or exploited, with the exceptional minorities so isolated and self-sufficient that the process does not touch them —by now a minute proportion of the world's population.

The "unified approach" project singled out "participation" as one of the central areas of choice for a style of development meeting the minimum criterion of acceptability and viability. In this, it coincided with most other proposals for

[10]See *Report on a unified approach to development analysis and planning. Preliminary report of the Secretary-General* (E/CN.5/477), October 1972.

[11]See Selina Cohen (ed.), *Debaters' Comments on "Inquiry into participation: A research approach", by Andrew Pearse and Matthias Stiefel*, UNRISD, 80.5, Participation Occasional Paper, Geneva, October 1980. See also the comments on the Programme by Devaki Jain in *UNRISD: An Evaluation Report, SAREC/DANIDA*, Stockholm, August 1982.

"another development" and pointed toward the definition later adopted by the UNRISD Participation Programme, but its treatment of participation had a somewhat different emphasis. Since this treatment touches on the issues of participation from the perspective of the State, it may be worth while to quote it at some length:

"*Participation* is one of the most complex as well as basic areas of choice. It raises the questions —very hard for political leaders and planners to face frankly— of *who* is doing the choosing, *how* choices are enforced, and *whether* the style of development treats participation mainly as a means or mainly as an end, an essential component of the style. When participation is willed from above it becomes mobilization, a means of getting things done. When it arises from below it usually focusses on distribution, becoming also a means, from the standpoint of the groups able to participate, of obtaining a larger immediate share of the fruits of development.

"...'Participation', like 'planning', is sometimes treated as a mystical entity that will resolve all problems once rightly conceived and applied. It is significant that evaluations of existing political processes of participation are generally negative. They are associated with the phenomenon of the 'soft State', corruption, allocation of resources according to the strength of political pressures, inability to maintain a consistent strategic orientation, and continual promises that the system cannot honour.

"From the standpoint of many development analysts and planners, 'politics' is bad, 'participation' good. Participation is then viewed as a substitute for existing political processes, as consisting in an orderly procedure through which the competing social forces and interest groups can be educated to present more rational and manageable demands and persuaded to internalize the demands the development process will make on them.

"The following propositions are relevant:

(i) Authentic participation usually requires a redistribution of power;

(ii) Participation cannot be inserted as a 'missing ingredient' into most current real styles of development. The style itself must change, both as a result of new forms of participation and as a condition for such participation;

(iii) The functioning of mechanisms for participation (political movements, trade unions, co-operatives, community councils, youth clubs, etc.) depends on the settings in which they appear (or into which they are inserted)...;

(iv) The higher the proportion of the population in situations of poverty and marginality, the more traumatic will be the changes in the style of development requisite for their authentic participation, and the more difficult will it be for external agents —whether or not representing the State— to undertake relevant catalytic roles;

(v) The more important forms of organized participation (other than voting and political party affiliation) open to disadvantaged social groups in the past have derived from their relationship to the means of production and their clash of interests with social classes controlling the means of production: wage-earners against employers, peasants against landlords.

"Conflictive participation of this kind has obviously not lost its importance, but in many countries today the most disadvantaged social groups —and the most rapidly growing— are 'marginal', having only tenuous relations to production, and do not confront any readily identifiable target for demands other than the State itself. They identify themselves as would-be consumers (of educational and health services as well as food and shelter) more than as producers and earners of income from defined occupations. Trade unions are irrelevant to their needs, and approaches such as workers' management even more so. Their real capacities as consumers are also usually too low to allow scope for organizational forms such as co-operatives that in other settings have functioned as instruments for defence of consumer interests".[12]

The formulation in the last paragraph is vulnerable to criticism, and at best simplifies very complex and poorly-understood present trends. In conjunction with the proposition that authentic participation is incompatible with current

[12]*The Quest for a Unified Approach to Development, op. cit.*, pp. 17 to 19.

styles of development, however, it points to real perplexities for the State, for political movements aspiring to lead oppressed classes to the conquest of power, and also for the "organized efforts... of the hitherto excluded" to act upon "resources and institutions", that can exist in their present form only on condition of these groups' continued exclusion.

IV
Accumulation versus consumption

The central proposition of the original consensus on development, that capital must be accumulated and invested so as to raise future production capacity and that this requires restraint in current consumption, remains compelling, although it has undergone so many reinterpretations and amendments that its operational implications are far from clear. It has, for example, been demonstrated that in countries in which most of the population lives in extreme poverty raising of the level of consumption of basic goods and services is a requisite for raising of production; that public expenditure on education and health is investment in "human capital"; and that in economies relying for industrialization on private entrepreneurs and investors the growth of an internal market for manufactured consumer goods is an essential feature of "development".

These arguments suppose, however, that increases in consumption will flow (or be channelled by the State) in directions conducive to higher productivity and in amounts compatible with accelerated capital accumulation, and that non-essential "luxury" consumption will be concentrated as a stimulus to minorities that will also invest part of their incomes.

Ideally, organized participation by the majority of the population might be compatible with these arguments, to the extent to which the majority believes that present sacrifices are equitably distributed, that the kinds of "basic" consumption and collective services that become available correspond to its most urgent wants, and that present restraint will be rewarded by future gains.

Obviously, the majority has had no good reason to believe these things, and the cultural and political changes involved in the real processes of "development" in widely differing national societies have supported their scepticism. Almost everywhere, "development", assessed by the conventional indicator of rising per capita product, has been accompanied by widening gaps between the consumption patterns of different strata. Access to the fruits of development, in the form of services provided by the State as well as income, has been determined largely by the initial distribution of power. Neither the private sector nor the State has shown consistent ability and will to make developmental uses of the resources withheld from mass consumption.

Such patterns of distribution should be no surprise, in view of diagnoses since Marx of the functioning of capitalism, and efforts to quantify, compare and detect changes through manipulation of fragmentary statistics have become a flourishing international industry. However, the variants of capitalist development in the poorer peripheral countries have manifested additional deviations from the ideal of the original consensus on development that derive from their economic and cultural dependence on the richer central countries. The beneficiaries of such development have adopted as their right the consumption standars of the rich countries and have also diverted much of their "accumulation" to those countries for safekeeping. Even in the countries committed to non-capitalist styles of development, bureaucratic and military élites have commonly taken to styles of consumption out of keeping with the austerity expected of the rest of the population. With the nearly universal trends of dependent modernization, and in particular the penetration of modern mass communication media controlled by transnational enterprises, similar consumption aspirations have spread to much wider middle strata, and, according to recent evidence, to a surprising extent to the poor, diverting their meagre resources from food, shelter and other "basic needs".[13] As controversies over the transnational promotion of manufactured infant food formulas and proprietary drugs have shown, no group is too poor to be a valued market for some "modern" products.

Under these circumstances, it is natural that participatory struggles have focussed on distribution and, to the extent that the majority has been able to join in them, have proved incompatible with the accumulation of capital needed for economic growth —particularly within settings in which recipients of the lion's share of resources devote a high proportion to ends that are irrelevant or inhibiting to such growth. At the level of individuals, consumer credit for purchases of durable goods have prevailed over savings, and at the national level, particularly during the 1970s, borrowing from banks in the central countries has substituted for domestic accumulation.

Raúl Prebisch has singled out as the central factor in the "crisis of peripheral capitalism" the incompatibility between its combined requirements of capital accumulation and luxury consumption, on the one hand, and democratization focussed on distribution and channelled through trade unions and populist political movements, on the other. Periodically, the progress of such democratization endangers the surplus that is divided between investment and the "privileged consumption" of the wealthy. The result is hyperinflation, economic stagnation, and eventually the entry of military force to reverse democratization, depress the incomes of the majority, and restore the surplus.[14]

The real identification of organized popular participation with the struggle for redistribution, the precarious ability of the "hitherto excluded" to engage in this without encountering repression or bringing the style of development to an impasse, and the superimposition of the modern consumer society on the distributive struggle lead the argument back to several questions concerning the rights and capacity of the State.

Under what circumstances can the State control the process of accumulation and above all the developmental investment of the resources accumulated sufficiently to justify it in convincing or compelling popular organizations to restrain their struggle for a larger share? Can the State be expected to move in this direction in the absence of a prior transformation in societal values as well as in the distribution of political and economic power? Is there justification for recommending to the State a frontal attack on the internationally-transmitted consumer society, by penalizing conspicuous consumption and by controlling the mass media, in order to reduce the incompatibility between popular demands and accumulation requirements?

An UNRISD report has answered the last question in uncompromising terms: "The dethroning of imported and imitative 'consumer societies' for affluent minorities in the developing countries will also be a key component in any development strategy deserving the allegiance of the masses and capable of securing sufficient domestic capital accumulation. There is no way of achieving development goals within the constraints of present-day technological knowledge, natural resource availabilities and organizational capacities while at the same time meeting sophisticated consumer demands of the rich countries and higher income groups in the poor countries and while also encouraging their spread to wider strata". The report then quotes with approval an argument by a member of the United Nations Committee for Development

[13] See Carlos Filgueira "Consumption in the new Latin American models", CEPAL *Review*, No. 15, December 1981. Filgueira raises the question whether, in view of the consumption incitements now dominating the Latin American lower-income strata through the mass media, increments in their income would bring about improvements in their diet and in the satisfaction of other "basic needs".

[14] Raúl Prebisch, "A critique of peripheral capitalism", "Socio-economic structure and crisis of peripheral capitalism" and "Towards a theory of change", in CEPAL *Review*, Nos. 1 (1976), 6 (1978) and 10 (1980). Prebisch proposes "socialization of the surplus" and State planning of its developmental uses as the only acceptable solution for the periodic crises and resulting repression, but does not indicate how existing States can go about this or how organized popular participation can reconcile itself to the solution.

Planning to the effect that the starting-point toward self-sustaining national development may be "to remove all signs of affluence", thus freeing the national society, including the poor, from an influence that poses antidevelopmental goals and attitudes.[15]

This answer, however justifiable in itself, raises the old question of who is to bell the cat, since the forces determined to enjoy the consumer society usually dominate the State and the masses of the population are more inclined to hanker after it than reject it (except in certain cases of religiously or culturally motivated reaction against the whole pattern of dependent modernization). The principled enemies of the consumer society may be limited to circles of intellectuals, possibly having a foothold in the planning organs of the State but with little or no real power, and usually with certain contradictions between the objective and their own "modern" style of living. If the people of the rich countries must restrain their own superfluous consumption as a prerequisite to the curbing of consumerism elsewhere, the political path to the objective becomes even harder to trace.

It can, of course, be argued that only a revolutionary State representing the "hitherto excluded" and able to shield them from these influences can follow such a path. Revolutions, however, do not spring from such arguments, and the varied experiences of "really existing socialism" suggest scepticism as to the ability of revolutionary States to devise satisfactory alternatives to the lures of consumerism.

In general terms, it can be affirmed that consumerism, as it has emerged from the transnational capitalist style of development, hinders the achievement of organized popular participation with realistic priorities, but that it is dangerous or self-defeating for revolutionaries, reformers, or planners to assume that they know the real needs of the masses better than the masses themselves. Austerity is no more an end in itself than diversified consumption, and modernization introduces many goods that, on balance, raise the quality of life and can be widely distributed without undue distortion of the distribution of national and family expenditure. It must be kept in mind that among the central items of consumer demand are two of the most powerful instruments for informed participation as well as for the penetration of consumerism —the transistor radio and television. Is the family that skimps on food to have access to these means of broadening its horizon really to be blamed? Should the State try to shield it from the temptation?

V

The guidance of investment and economic growth: comprehensive planning, participatory planning, the market

The policy implications deduced by different theorists from the original consensus on development are much too diverse to be discussed here, but most of them had in common the supposition that the State must accelerate and guide economic growth through the use of rational techniques for controlling the future, in other words, by planning. A nation's political leaders carried the responsibility of deciding on development objectives, and its planners the responsibility of showing the leaders how these objectives were to be reached. This meant assuming that the political leadership would choose objectives compatible with real national capabilities and with the international consensus on de-

[15] *Social Development and the International Development Strategy*, UNRISD, 79.2, Geneva, 1979, p. 13.

velopment, so that the contribution of the planners was essential at this stage also. The application of planning might be most effective in socialist or State capitalist settings in which the State directly controlled the means of production and the sources of accumulation, but the proponents argued that planning could also be made comprehensive and effective in systems relying on private capital and entrepreneurship, through the State's regulative powers, through fiscal incentives and disincentives, through planned provision of infrastructure, and, above all, through rational demonstration to the private sector of the advantages of conforming to the plan.

Under such a conception, "participation" should ideally consist of the education of the relevant actors (investors, entrepreneurs, public functionaries, farmers, workers, etc.) on the roles they were to play in the plan and the reasons why they should conform to these roles. The interests in development of all the actors were assumed to be basically harmonious. Since there could be only one optimal path to development, to be decided on by the political leadership on advice from the planners, conflictive participation, organized self-defence against the requirements of planned development, could only be harmful to the general welfare.

Such a conception of planned development, somewhat caricatured here, could not survive the lessons of experience. The planners were never able to count on sufficient information concerning the economies and societies for which they were trying to plan; their passion for quantification forced them to invent the data with which they worked and plan for imaginary countries. Their rationalism could not cope with real political processes and the functioning of bureaucratic institutions. They could not convince the potential investors and entrepreneurs to follow their directives. Before long, the faith of governments and the public in comprehensive fixed-term plans dwindled, although, even today, planning agencies continue to produce such plans.

Planning, or more broadly the formulation of development policy, thus moved perforce toward the recognition of uncertainty, conflict, and recalcitrant institutional and individual behaviour, toward more modest hopes to rationalize dependent economic growth and societal modernization. "Participatory planning" became an attractive slogan. Some governments set up elaborate consultative mechanisms to bring about interaction between planners, representative bodies, and organized interest groups, but these generally functioned erratically.

The formulation of policy did, in a sense, become more participatory but not more unified as the groups able to make themselves heard grew more diverse and urbanization brought a larger part of the population into complex contacts with the State. The machinery of the State also became much more complex; regulating, investing, and service-providing agencies established links with different clientèles and represented their interests, bound up with the growth of the agency itself, before the central political leadership. The campaigns of international agencies for action on a series of "major problems" further complicated the machinery and extended the range of groups participating. The supposition remained that the State could promote development and had a duty to put forward some coherent image of the style of development the country should aim at, but the constraints imposed by the distribution of power and by the momentum of what had been done already became more apparent; except in revolutionary crises the State could make only marginal changes in the distribution of resources. If the system grew too costly, in terms of the size and diversity of groups able to enforce their demands on it, the outcome, as indicated above, was likely to be a reassertion of the power of minorities and a reinforced exclusion of the majority.

During the long period of sustained economic growth from the 1950s to the early 1970s, it could plausibly be argued that growth itself would, however slowly and erratically, eventually lead to styles of development more compatible with the internationally accepted development the internationally accepted development objectives. The rich would simply have to tolerate somewhat slower growth in their disposable income so as to provide resources that the State could use to eliminate critical poverty and improve the quality of life. Similar reasoning would apply to relations between rich countries and poor countries. The exploited and excluded groups would then see a hope of improving their lot by means short of violent overthrow of the system and dispossession of the rich, and would participate realistically, in productive and self-help activities as well as in consumption. The State, by experience, by training of functionaries, and by the capture of a larger share of the rising national income, would continually enhance its capacity to invest, provide infrastructure, and implement income redistribution.[16]

The recent years of faltering economies and increasing political violence have shaken this optimistic expectation and, as was stated above, forced many régimes back into short-term "crisis management" expedients with no clear developmental perspective. Two proposed ways out of the trap have been described: first, the prescriptions for radically different egalitarian and participatory styles of development; secondly, the neoliberal reversion to the market as arbiter of resource allocation. The implications of the former prescriptions, with their apparently contradictory requirements for decentralized initiative and rapid, planned transformation governed by universalistic norms, are discussed in various contexts throughout the present paper. At this point, something must be said about the implications for participation of the second alternative.

These implications are relatively simple. Legitimate participation is that of the rational individual who chooses his means of livelihood according to his perception of comparative advantages, invests his capital or sells his labour power, and by his decisions on the spending of his income determines the structure of production. Labour unions and other organizations for defence of the interests of the disadvantaged must not be permitted to accumulate power or they will overprice labour, depress investment incentives, and by restricting demand for labour bring about a lower level of employment than if wages were to remain at their market value. The State should as far as possible extricate itself from all but the most basic social services, from redistributive measures, and from subsidies to or regulation of economic activities, although it may retain an obligation to relieve extreme poverty. It follows that organized participation exerting pressure on the State to undertake such activities is undesirable. Private initiative is to be relied on to replace services previously provided by the State, to the extent that these are worth while. This implies that the disadvantaged strata may be encouraged to provide their own services through organized self-help —as long as this does not lead to their accumulation of power to press the State to finance the services.

It is evident that after an extended period during which the State has amplified its responsibilities, while a widening range of interest-groups have competed vigorously to obtain funds or services from the State and have come to depend on a framework of State regulation, the application of a non-interventionist policy of this kind will require an authoritarian régime able to resist pressures, dismantle incompatible forms of participation, and maintain the ideologists' conception of the rules of the game. It can also be expected that the interplay of interest-group pressures and State economic interventions will make its reappearance, if only to rescue the more powerful interests from the consequences of miscalculation in taking advantage of economic freedom, but that participation will take place within narrower circles and shielded from open political competition. The ideal of reliance on the market, like the ideal of comprehensive planning, will then succumb to the real complexities of economic and social change.

Once it has succumbed, within the present context of world economic crisis, the perspectives for "organized efforts to increase control over resources and regulative institutions" are very different from the outlook at the beginning of the experiment. Important groups that previously had some degree of control over their conditions of livelihood —industrial workers, public employees, landholding peasants— have become unemployed or unable to defend their previous income levels, while other groups that were only beginning to exert "organized efforts"

[16]This line of argument has been particularly prominent in documents of the Economic Commission for Latin America since the 1960s. It has been demonstrated that most Latin American countries have already achieved levels of per capita income and State administrative capacity enabling them to eliminate extreme poverty and universalize basic social services by virtue of a moderate redistribution —if the dominant forces could be convinced of the necessity. See, for example, Enrique V. Iglesias, "Development and equity. The challenge of the 1980s", in CEPAL *Review*, No. 15, December 1981. The recent arguments of Raúl Prebisch, referred to above, grapple with the reasons why this has not happened, but end with a similar reliance on the State.

have sunk into a more complete economic and political marginality. The State, under the thumb of its external creditors and representing some realignment of the forces dominant during the neoliberal authoritarian period, is in no position to rebuild social services and sources of employment, even if the dominant forces are anxious to broaden sources of support and resume democratic political processes. It remains to be seen whether the recrudescent popular movements can come up with viable tactics when previous prescriptions for reform and revolution seem equally unpromising.

VI

Participation, social classes and conceptions concerning conflict or consensus in societal change

Except possibly for self-sufficient "primitive" communities, societies are divided into classes standing in different relationships to the means of production, and these divisions are complicated or cross-cut by other sources of self-identification: language, religion, family, tribe, locality, political affiliation, etc. For present purposes, policy-oriented perceptions of these divisions can be divided into four broad categories, with very different implications for the role of participation. (At the same time, within the real processes of national policy formulation, it is commoner to find the four categories of perceptions entering into incongruous combinations. In a good many cases, régimes representing mainly a bureaucratic élite have adopted ideologies that suppose a dominant role for classes that hardly exist in the national setting, while external dependence widens the gap between ideology and policy.)

First, it can be assumed that all classes and interest-groups share an overriding common interest in "development" within which conflicts of immediate interests are shortsighted or illusory. The political leadership should formulate development objectives that are in the interest of the whole population, translate them into policies that safeguard this interest, and convince the whole population that this is the case. Participation can then become predominantly harmonious and co-operative, designed to enable each group to make an optimal contribution to the general welfare. This point of view is unlikely to tempt adherents to the UNRISD definition of participation, except possibly in the post-revolutionary variant to be summarized below, but it is permanently attractive to technobureaucrats within international organizations and national States.

Secondly, it can be assumed that the common interest in development does not preclude real conflicts in which each group or class has a right to organized defence of its perceived needs and will suffer exploitation or discrimination if it does not defend itself as best it can. Conflictive participation is thus a legitimate aspect of development, insuring against undue concentration of its fruits. The right to self-defensive participation extends not only to wage-earners and peasants but also to ethnic, cultural or tribal minorities that are otherwise likely to be disrupted or super-exploited in the course of economic growth and modernization, as well as to women striving to overcome their traditional disadvantages. Conflictive participation is compatible with the more conventional objectives of development as long as neither the one nor the other is pursued to excess. Maximization of capital accumulation and growth of national productive capacity, then, do not deserve absolute priority. The State can act and be accepted as final arbiter of most conflicts, keeping them within limits and defining the rules of the game. The State has a duty to help the weaker groups, by promoting their organization and by legal or administrative guarantees of rights. Reliance on the leading role of the State is conditional; the State can function for the general welfare only if the different classes and groups are able to call it to account and defend themselves against bureaucratic arrogance, corruption and bungling.

Variants of this conception have viewed the middle classes or strata as the main progressive and stabilizing force within developing societies, and conclude that public policies should aim, through education, protection of small enterprises, agrarian reform, etc., to increase the size and participatory capacity of the middle strata with a stake in the existing order. These strata can then keep the demands of the upper and lower classes from becoming unmanageable or incompatible with democratic political competition. The real evolution of the middle strata, of course, with their vulnerability to consumerism, their propensity to monopolize State benefits, and their rancorous self-defensiveness against threats to their privileges from the "hitherto excluded", has hardly corresponded to the hopes of political scientists.

A third possibility is to assume that the conflicts of interests between classes within a capitalist order are irreconcilable, whatever the degree of economic growth possible within this order, and that in any case the insertion of "peripheral capitalism" in an imperialist world order rules out anything more than a caricature of development benefiting only a few exploiters. The path to authentic development then lies through a revolution bringing to power a class or alliance of classes capable of transforming social relationships and using the forces of production that modern technology makes available for the benefit of all. From this viewpoint, significant participation will consist in organized struggles leading up to the transformation. The class destined to carry out the transformation has no reason to limit its struggles to what a reformed capitalist style of development might offer. Organized self-help or self-defence within such a style can be either a means of training the participants for the more significant struggle, or a means of inducing conformism with exploitation, depending on the forces taking the lead. It is unrealistic to expect the State, as the instrument of the dominant forces, to support authentic participation of the "hitherto excluded". Since the conflict of classes is both national and international in scope, the revolutionary movement must be organized at these levels. A similar conclusion can be reached without reference to Marxist theory, as it was in the "urgency" sub-debate, and this line of reasoning probably has more relevance to the real perspectives and justifications of revolutionary dictatorships in the Third World: mobilization under a coherent strategy to overcome hunger is so urgent that it cannot wait on the democratic reconciliation of conflicting interests.

After the revolutionary transformation, of course, most variants of this conception call for a reversal of the role of participation to something superficially similar to the first conception described above. Participation must be mainly positive, focussed on the raising of productivity and the defence of the new order. If the class destined to bring about authentic development is really in power, it cannot defend itself against itself. Conflictive participation remains legitimate only in relation to survivals of the old order, including the bureaucratic heritage, and against external enemies.

It hardly needs repeating that experience has been no kinder to this conception than to the others. The trajectory of "really existing socialism" has confirmed the dangers of excessive State power manipulated by a new class of functionaries and has strengthened the case for autonomous popular organizations and local self-government as indispensable safeguards; that is, for a retreat from faith in post-revolutionary consensus and infallible leadership to new forms of conflictive participation.

Fourthly, the role of participation can be judged from the neoliberal perspective described above. Conflicts deriving from class divisions may be real but are not legitimate. Participation should be "positive", directed towards higher productivity, but individual choices guided by the market can be relied on to generate it. Combinations fo self-help are desirable, but combinations for self-defence are, at best, suspect. In relation to participation, the main duty of the State is to keep combinations from accumulating enough power to hinder the functioning of the market.

VII

Participation, the "community", and other forms of group solidarity

One can envisage "plebiscitary" participation through a populist movement given shape by charismatic leadership, with the masses of the population exhorted to participate and instructed on how to do so through the mass communication media, and with localized formal organization rudimentary or absent; but when United Nations resolutions or national régimes endorse "popular participation in development" as a policy objective, "participation" implies direct, localized and organized interactions between people, however these may be articulated with organization at the national level.

At this point, conceptions of the role of participation and State strategies to "popularize" participation depend on theories and empirical observation concerning the ways in which different classes within national societies organize themselves and the implications of overall economic, cultural and political change for spontaneous or induced changes in such organizational forms.

The most widely diffused type of popular organization in pre-industrial societies is the peasant community with some degree of self-government and some degree of control over the livelihood of its members. Since the nineteenth century, market-oriented economists as well as Marxists have argued that the static traditionalism of such communities is an obstacle to "progress". Their disintegration is thus inevitable and desirable, however painful this may be to the members. Since the nineteenth century also, other currents of opinion have argued the contrary: that such communities through their traditions of co-operative work, mutual aid, and social equality, represent values preferable to capitalism, or that they point a way to socialism bypassing the traumas of capitalist development.

During the 1950s, variants on this latter view became influential as a way of modifying the consensus on economic development without challenging its basic premises. The community development movement assumed the presence of internally harmonious local communities having sufficient autonomy to be able to act collectively in pursuit of their own interests with a certain amount of technical and material aid and guidance from outside. Social theorists who saw the communities as seeds of a new society could join forces with planners who saw community development programmes as a relatively inexpensive means of raising agricultural production and rural levels of living, while the development effort concentrated on industrialization. Somewhat later, attempts were made to apply "community development" principles to urban low-income neighbourhoods, but here expectations were relatively modest; aided self-help in housing, community services and domestic industries might enable the poor to live a little better.

The achievements of the programmes fell below their initial promise for many reasons, including the substitution of bureaucratic compulsion for voluntary community initiative under pressure of national targets, the inapplicability of many of the technical solutions offered to the communities, and the inability of many of the community-level workers to transmit them effectively. The most general shortcoming, however, seems to have been failure to recognize the divisions of interests within communities and the constraints imposed on their responses by local and national power structures. Supposedly egalitarian initiatives ended by increasing the differential advantages of the richer and more "progressive" community members at the expense of the unpaid labour of the weaker members; brought into the open latent conflicts that rendered the programme inoperable; or alarmed the landlords, moneylenders or other power holders sufficiently to motivate them to sabotage the programme.

During the past three decades, the real processes of "development" and modernization have disrupted traditional community organization and sources of livelihood to such an extent that the original suppositions behind the programmes have become even less plausible, although in a good many settings peasant ways of life and local solidarity have shown considerable resilience. Social differentiation has become more complex. Peasant smallholders have survived and even grown in numbers during agricultural modernization and increasing orientation of agriculture to export markets, but under severe disadvantages and forced into changing expedients to gain a minimum livelihood. Also to be found are growing numbers of commercial farmers emerging from the better-off peasants, of skilled workers and technicians in agrobusinesses, of commercial intermediaries, and of underemployed landless labourers. Almost everywhere, much of the rural population is in movement. Migrations link newer and older zones of settlement, rural and urban areas, and even different countries. The mass media, particularly the transistor radio, the increasingly obtrusive regulatory, repressive and servicing agents of the State, and the growing dominance of national markets and manufactured consumer goods generate new attitudes and settings for organization. And, of course, invasions, civil wars, ethnic disputes, and military action against guerrillas convert millions of peasants into refugees.

In the urban agglomerations, the scale and rapidity of increases in size create unprecedented conditions, both for the State's efforts at control and for the efforts of different classes and groups to form organizational ties. In very simplified terms, one can distinguish, first, the organized workers in modern enterprises —the so-called "formal sector"; second, the more numerous families surviving by a wide range of poorly understood expedients, sometimes self-employed, sometimes working for wages, sometimes subsisting through mechanisms of mutual aid, unorganized or organized in relation to issues other than livelihood, as in neighbourhood groupings —the so-called "informal sector"; third, the "middle strata", ranging from professionals to white-collar employees and small tradesmen, with a mass of "educated unemployed" at the fringe, simultaneously a cause and effect of educational expansion and modernization of consumption. The present crises, of course, imply shocks to all of these groups, with substantial numbers of organized workers and members of the middle strata losing their sources of livelihood and thus their bases for organized action.

The current trends do not necessarily mean that anomie is triumphing in the cities and the countryside nor that organized participation is receding still farther out of reach of the "hitherto excluded", but organizational forms and tactics, along with recruitment of different groups and their awareness of common interests and alternative futures, promise to continue to change, probably in even more various ways than in the recent past. A few years ago, for example, the present importance of religious ties and organizations in transforming the consciousness of disadvantaged groups and helping them maintain self-defensive solidarity under difficult condition of political repression and mass unemployment could hardly have been expected. Neither could the prominence of women's interests as a basis for organization, nor the combativeness of cultural and ethnic minorities.

In any case, the overall trends suggest that conflict between and within groups will continue to be more in evidence than broad solidarity of the "hitherto excluded". Under conditions of scarcity, all forms of organization contain seeds of exclusion and discrimination, even if they profess egalitarian ideologies. Land-holding peasants and co-operatives associated with agrarian reforms exploit or exclude landless workers. Trade unions or self-managed industries guard their advantages against the unemployed. The educated middle strata use their differential access to public services to increase their relative advantages and through "credentialism" exclude the less-educated from preferred areas of employment. Meanwhile, population growth and spatial mobility bring different groups into increasingly conflictive contact. Tribal minorities continue to be pushed off their land, often by settlers as poor as themselves, manipulated by land speculators and agrobusinesses. Migrants competing for jobs incur the hostility of the groups previously on the scene.

By now, the State has at its disposal an imposing array of sociological studies and statistical compilations aspiring to make sense of social structural changes, along with innumerable social reports of the international organizations that warn of impeding disaster and prescribe how to avoid it. One might conclude that the State, to the extent that it chooses policy approaches incorporating participatory values, can and should base its action on a thorough understanding of the changing forms and consequences of participation in settings of scarcity and group conflict. However, this is a desideratum rather than a practical recommendation. It leads us to consideration of the agents of the State in relation to participation, and of the constraints upon their knowledge, interpretations and actions.

VIII

Participation, bureaucrats and technocrats[17]

The national societies in which the issues of development and participation have come to the forefront of attention have simultaneously been undergoing processes of bureaucratization and a somewhat later technification of parts of their bureaucracies. Bureaucratization, of course, was under way long before the deliberate drive for "development", but received a powerful impetus from the assumption by the State of continually wider responsibilities, and also from the pressures for public employment of the middle strata emerging from rapidly expanding systems of secondary and higher education. A considerable corpus of research has, since the nineteenth century, focussed on the roles of bureaucracy in the modern State, and in rich as well as poor countries a litany of complaints and accusations has accompanied the studies.

The State, to accomplish its purposes with at least a minimum of efficiency and fairness, needs detailed laws, regulations and standards. The interpretation and application of these requires a specialized body of functionaries. These functionaries are subject to the professional deformation of making the regulations ends in themselves and also to considerable temptations to favoritism or corruption in their application. Bureaucracy can be expected to exhibit its shortcomings in a particularly pronounced form where it has become over large for reasons unrelated to the tasks required of it, where power is very unequally distributed, and where the groups having a share in power have traditionally held the mass of the population in contempt.

At best, even if a bureaucracy is efficient, goal-oriented and honest, tension between bureaucracy and participation seems to be unavoidable, and it is unrealistic to expect the tension to be resolved in favour of one side or the other. If the State takes seriously its duty to promote the general welfare, it cannot help relying on uniform standards, in the quest for equity and efficiency in the distribution of its resources, and in combating arbitrary violations of human rights by local power-holders. The local group cannot help resenting and resisting the restrictions on its initiative, the time-consuming and baffling effort to cope with requirements that do not take local conditions into account. Intermediaries with their own purposes of profit, power accumulation or furtherance of an ideology are bound to take a hand, sometimes contributing to flexibility, sometimes to cost and conflict. Programmes whose main overt justification is the stimulation of local participatory initiatives are as susceptible to bureaucratization, standardization, and manipulation by intermediaries as any others, as the fate of many community development programmes has demonstrated.

One might prefer the vision of a "withering away" of the State with its bureaucrats and its replacement by autonomous community action with all members of the community (or enterprise) sharing in decision-making and

[17]This section is based on an UNRISD internal working paper, *Policies and Agents*, circulated in May 1980.

administration. In the present world of complex and interdependent societies, however, this utopia is out of reach. The vision of an anti-bureaucratic revolutionary State acting directly through and at the will of the mobilized masses has also lost credibility. It seems preferable to accept the tension and propose "creative resistance" as a framework for the conflictive interplay of bureaucracy and participation.

Technocracy, or technobureaucracy, poses somewhat different problems for participation. While the traditional bureaucrat relies on norms and precedents tending to stifle participation in red tape, the technocrat may be highly innovative but also more manipulative or coercive than the bureaucrat. For present purposes, "technocrat" is simply a convenient label for a person who advises on public policy or directs a programme, or aspires to do so, on the basis of specialized knowledge and theory; the term includes professional planners and a wide range of "experts". Technocrats have aspired to more autonomous roles in policy-making than bureaucrats have claimed, at least openly, and as far as they are able have separated their rewards and status from those of the remainder of the public administration.

Their attitudes toward "bureaucracy" are generally ambivalent. They need a strong and obedient State apparatus to accomplish their purposes, but find the real bureaucracy unresponsive, self-serving, over-large and over-expensive in some countries; and in others, rudimentary or lacking minimum levels of education and motivation. The neoliberal school of economists, which for present purposes can be included among the technocrats, is more fundamentally anti-bureaucratic, ideologically opposed to the Welfare State and to State intervention in the economy, and thus disposed to extirpate whole areas of bureaucratic activity.

The main tension between technocracy and participation lies in the confidence of the technocrat that his professional tools qualify him to find the One Right Answer to development problems. Thus, legitimate participation by other forces in the society must consist in learning the implications of the Answer and acting accordingly. Economists in technobureaucratic roles have been prone to subject their societies to rigid application of measures based on theories which can never be disproved by failure, since their proponents can argue that the prescription has not been long enough or consistently enough applied. Engineers, who probably have had a more effective influence on the allocation of public resources than economists, have insisted on large-scale technically advanced investment projects, extremely costly, dependent on external financial and technological support, and disruptive of the environment as well as of people's lifestyles and livelihood.

Moreover, as the national economies and political systems have become more intricately involved in the world order, technocrats in national public institutions interact with technocrats in international organizations of many kinds and in private transnational enterprises. There is a prospect of the major lines of development policy being determined through negotiations among technocrats from the three types of institution, influenced to varying degrees and behind the scenes by the stronger national economic interest-groups, with only limited participation and understanding by the national political leadership, let alone wider public opinion. The majority of the population would then be able to participate only through resistance to changes it perceives as disadvantageous, generally too late for more than compensatory or obstructive gestures.

Suspicion of technocratic direction of policy has been strengthened by dramatic evidence of the shortsightedness of expert calculations in such key development policy areas as nuclear power, the construction of giant dams, and the exploitation of tropical forest areas by agrobusinesses, on the engineering side; and the control of inflation or the management of external debt on the economic side. The experts best able to intervene in policy-making have proved remarkably incapable of foreseeing and prescribing for the major problems that have emerged during the 1970s.

Nevertheless, complex societies grappling with problems whose solutions must be in large part "counter-intuitive" cannot afford to dispense with experts. The ideal would be the strengthening of participatory mechanisms to call the experts to account and struggle against technocratic arrogance without resort to populist campaigns of denigration and persecution. The disorders and voluntarist delusions associated with the latter exaggeration, as various experiences indicate, usually lead to the discrediting of participation and the return of a technocratically-inclined leadership. As in the case of bureaucracy, one must envisage the tension between participation and expertise as a legitimate and permanent aspect of the evolution of development policy.

IX
Participation and culture

As was suggested above, in the more recent stages of international discourse on development, the idea of the legitimacy of different national styles gained ground against the idea of development as a uniform process whose laws all societies must follow under penalty of remaining "backward". The earlier approach assumed that "traditional" cultures and forms of social organization presented obstacles that must be swept away in the course of modernization. It went back to the intellectual attitudes accompanying the diffusion of capitalism, nationalism and imperialism from nineteenth century Europe, but the governments of most of the new nation-States that emerged during the 1940s and 1950s seemed to endorse the general principle by adopting uniform political institutions and socio-economic objectives.

The newer conception affirmed that development should be "endogenous", that somehow the choice of a style of development should emerge from the national culture. It was open to various objections: that it went too far in reversing the uniformity and ethnocentrism of the previous conception; that it evaded the inescapable organizational and motivational requirements of industrialization; that national cultures are rarely, if ever, homogeneous enough to lead to coherent choices of this kind; that certain cultural traits might be incompatible with any change deserving the name of development or with choices in line with real national capabilities; and that the real choices would continue to be made by dominant minorities interpreting the national culture to suit themselves. It could also be argued that the aspiration to endogenous styles of development represented a reaction to dominant trends of world cultural homogenization and economic integration that had already gone too far to be reversed. The application of the conception to multi-ethnic States able to survive only by refraining from imposing a coherent endogenous style of development on refractory minorities presented other awkward problems.

In any case, major ideological and political forces in a good many countries will undoubtedly continue to make the effort. One must then consider how far the known forms of organized participation —elected local governments, trade unions, co-operatives, women's associations, etc.—, which share in the uniformity of the original consensus on development, can be reconciled with the diversity of forms and values implied by endogenous development. It would be ingenuous to ignore the fact that participation, where it arises spontaneously in reaction to the shocks of imported modernization, can be xenophobic, intolerant of national minorities, hostile to women's assertion of equal rights. Spontaneous "participation" must bear part of the blame for the millions of refugees in the world today, and for millions of dead. Ideologists can interpret national cultures either to emphasize features compatible with these evils or to delegitimize them. Popular movements may or may not internalize the ideological interpretations. One can expect a continuing tension between the claims of universal values and cultural diversity, with outcomes that will be internally contradictory, continually changing, and sometimes horrifying.

X

Requirements (institutions, policies and socio-economic considerations) for popularizing people's participation in development

The above heading brings us back to the original assignment. The terms "institutions", "policies" and "popularizing" imply that one is thinking of requirements for the State, rather than for the groups "hitherto excluded" and their "organized efforts to increase control...". But what can real States do with generalized formulations of "requirements"? A remark by Dudley Seers comes to mind: "A familiar joke on the international scene today is the attempt by the 'progressive' economist, domestic or foreign, to sell land reform, or industrialization, or more effective tax collection, or wider educational opportunity, or greater independence from a foreign power to a government whose *raison d'être* is precisely the *prevention* of such developments, or at least limiting them to the greatest extent possible".[18] Obviously, a good many governments are dedicated to the prevention or limitation of people's participation, and most others are ambivalent about it or precluded by the conflictiveness of real participation from taking any consistent position. But *if* the forces controlling the State really want to call forth wider participation, in terms compatible with the UNRISD definition, can anything useful be said about the "requirements"?

To begin with, one can discard the hypothesis that the State, in the best of cases, is an ideally rational and benevolent entity that is at the same time so lacking in initiative and imagination that it is simply waiting for good advice. The State today is overwhelmed by more pressures and stimuli than it can cope with, and generalized prescriptions are unlikely to get more than a ritual hearing in the form of endorsement of declarations and plans of action. For other reasons it will probably not be useful to prescribe specific institutions, such as elected local governments, co-operatives, self-managed industries or direct representation of interest-groups in planning and policy-making. The virtues of such institutions when they find compatible environments are too well-known to require elaboration, and only a thorough grasp of the environment can support judgements as to whether they will be compatible or not.[19]

It may be somewhat more helpful to formulate requirements in terms of attitudes or predispositions to be desired in agents of the State, ideologists and intermediaries between the State and the popular movements. The following points are an experiment in this direction, made at the risk of a repellently exhortatory tone:

i) They should prepare themselves for an indeterminate future of changing crises and conflicting demands on limited public resources. They should try to explain these prospects, as they perceive them, to the people, and (a very hard saying for political leaders under conditions of open competition for power) should restrain themselves from promising more than the State can perform. Even more, they should refrain from claims that the State has performed what it promised, when such claims conflict with reality perceived by the people.

ii) They should recognize and resist temptations to suppress or manipulate participation in the interest of a technocratic One Right Way to development. They should take care that the real urgency of large-scale rapid action to overcome national poverty and weakness does not lure

[18]See Dudley Seers, "The prevalence of pseudo-planning", in Mike Faber and Dudley Seers (eds.), *The Crisis in Planning*, London, Chatto & Windus Ltd., for the Sussex University Press, 1972.

[19]The series of studies of rural co-operatives carried out and published by UNRISD exemplifies the kind of confrontation of institution with environment needed for meaningful statements on the participatory potential of an institution.

them into compulsion and manipulated mobilization to achieve targets, with a consequent degeneration of participation into ritual or popular apathy. They should keep in mind that the people may be right as against the State and the technocrats, without falling into demagogic glorification of the people's correctness or disregarding group conflicts of interests. (The latter delusion can lead to the invention of an imaginary people that is always right, so that by definition any group that deviates from rightness is excluded from the people.) This implies that they should expect and welcome creative resistance from the groups affected by the centralization, standardization and bureaucratization that are unavoidable in the activities of the State.

iii) They should seek to appreciate realistically the potentialities and limitations of present forms of group solidarity and directions of change in these forms within national and local power structures. This implies a critical but sympathetic evaluation of the consumption aspirations and cultural changes penetrating the societies, neither accepting them wholesale as attributes of modernity nor rejecting them in the name of an impracticable austerity and cultural integrity. They should try to engage the people in a debate on these questions —a debate given structure by some coherent image of the national future held by the policy-markers, but not manipulated to a predetermined set of conclusions on what is to be required of the people. Such a debate requires that the people have access to a range of sources of information and opinion, managed neither by private interests solely concerned to foster profitable consumerism nor by bureaucrats motivated to exaggerate achievements and conceal shortcomings. Probably no national society as yet has found a fully satisfactory way to resolve the contradictions behind this desideratum, and one must fall back on the evasive formula that the appropriateness of any solution depends on the setting. Transfer by the State of control of mass media to popular organizations, for example, can mean much or little, depending on the degree of autonomy of the organization and of control by the rank and file.

An assessment of prospects and priorities may justify the conclusion that radical changes, conflicting with the expectations of large sectors of the people, are necessary and that these changes cannot wait upon the achievement of consensus or even full understanding. It would be idle to advise agents of the State never to harbour this conclusion. When they act on it, however, it is particularly to be desired that they resist assumptions that they are infallible or that they have the right to exempt themselves from sacrifices they expect from others. Take the objective of "eliminating signs of affluence" proposed above as a requisite for movement toward authentic development. If this is really necessary, the policy-makers should seek as wide and informed a consensus as possible on the permissible limits of affluence and then subordinate their own lifestyles —and those of the upper bureaucracy and military— to such limits.

iv) They should keep in mind the conflicts of perceived interests within and between groups and the likely distortions and manipulations of participatory policies through interactions among local and national power-holders, political and economic intermediaries, and bureaucracies. They should remember that, while the policies may rest on the supposition that all actors can benefit and, therefore, should co-operate, the actors themselves may hold "limited good" or "zero sum game" suppositions —what one gains another loses. In educational programmes, for example, the objectives of the State, of teachers and educational functionaries, and of the students and their families may differ widely one from another, with competition for educational privileges and preferential access to jobs concealed behind the public goal of universalization of schooling. The aggregate result of the pressures on education will then differ from what any of the actors want or expect.

v) Whatever the level of resources that the State can devote to social purposes, the agents of the State should strive for equity in their distribution and should envisage vigorous popular participation as a necessary but inevitably troublesome requisite for progress toward this objective. In conditions of overall scarcity, two propensities will always be present: toward distribution of public resources in line with the political and economic power of different groups, excluding the weak; and toward distribution of token amounts, too thinly and irregularly to help the recipients. The public agencies are also subject to a permanent temptation to seize upon participatory schemes as a means by which the poor can be persuaded to provide for themselves services (such as housing and urban infrastructure) that the State provides for the better-off and more influential. A permanent and conflictive misunderstanding between disadvantaged groups and the State is then to be expected. The latter hopes to use local self-help organization as a means of divesting itself of costly reponsibilities, while the former see such organization mainly as a means of exerting pressure on the State for additional resources.

vi) The agents of the State should refrain from making mechanisms of participation into ends in themselves, converting them into rituals, and subjecting them to quantitative targets. Participation *is* an end as well as a means for any society striving to function better for the well-being of its members, or rather participation is a central element in the functioning of such a society, but committees and meetings are not legitimate ends in themselves; they are unavoidable but faulty means toward participation. All participatory movements have to contend with excessive time spent in meetings, with the resulting apathy of the majority, opportunities for manipulation by minorities temperamentally at home in meetings, and, if agents of the State or a dominant political party organize the meetings, a likelihood of ritualized conformism in discussions, inoculating the masses against spontaneous participation. Even if the State or party does not propose to enforce ideological conformity, the unavoidable standardizing and quantifying propensity makes it prone to mistake the machinery of participation for the reality. Here the contribution of agents of the State must be mainly through self-restraint; they cannot prevent organized groups from making erratic of dilatory use of their freedom, but they can refrain from imposing moulds that require them to do so.

As a corollary, they should take care not to overburden and confuse local groups by too many competing participatory initiatives from sectoral public agencies, as is likely to happen when the national policy climate spurs agencies dealing with education, health, land reform, etc., to avail themselves of participation as a tool.

vii) The present endorsement of participation at the international level as a requisite for development means that the international agencies are commissioning "experts" in policies relating to participation and governments are requesting their advisory services. It is natural that such experts should be strong believers in the virtues of participation and also in the necessity of styles of development different from those prevailing up to the present. They generally base their claim to expertise on services to participatory movements and programmes in their own country or elsewhere; over the past three decades, community development and related programmes have provided abundant opportunities for promotors of participation to gain experience. However, the reports of such experts leave one with the impression that a good many of them fall into the sort of error on which Dudley Seers passes judgement. That is, they advise national authorities to embark on participation on a scale incompatible with the government's sources of support or its capacity to create and manage complex new institutions.

Alternatively, some groups within the machinery of the State —progressive planners and specialists in social programmes— are eager to undertake bold participatory initiatives and welcome the experts' support, but are unable to mobilize decisive political backing for the initiatives once they encounter serious resistance, sabotage, or co-optation by forces having different purposes. By this time, one serious hindrance in a good many countries to new participatory initiatives sponsored by public agencies is a history of previous initiatives promoted intensively, then starved of resources, quietly abandoned, or violently reversed, often with dismissal of the functionaries involved and repression of the popular leadership called forth. Apparent apathy in the face of participatory appeals may derive from bitter experience and a more realistic appreciation of the risks than that of the international experts and their allies within the State.

viii) Exhortations and cautions such as the above, directed to the agents of the State rather than to the State itself, suppose that the former have a certain limited degree of autonomy and also a certain capacity to transform their own consciousness of their place in the web of conflictive-co-operative relationships between State and people. The following quotation sums up the perspective from which even the more progressive agents of the State have commonly viewed participation: "The planners ... tended to conceive of the 'the people' as the only proper subject both of their own interventions and of the studies related to these interventions; they did not find it comfortable to think of 'the people' and of themselves as parts of a single system which might be investigated. ... While it is probably disagreeable for most people to think of themselves as subjects of study, it is probably particularly threatening for those who, like planners, exercise power in large part on the basis of authority derived from a role as technical experts. This rationale for authority tends to be undercut if the technician is viewed as one more actor on the social scene, with his own interests, beliefs, biases."[20]

Up to the present, initiatives for participatory research have focussed on "the people", with the aim of helping them to awareness of their place on the social scene and what they can do to change it. Recommendable as a last and particularly intriguing "requirement for promoting popular participation in development" is participatory research among the promotors, the agents of the State, so as to help them view themselves as actors with their own "interests, beliefs, biases". And, of course, understanding of the agents of the State in these terms, as actors with ambivalent relationships to the State that employs them, the organized forces that make demands on them, and the social and educational backgrounds that have shaped their consciousness, is crucial to the efforts of the "hitherto excluded" to devise more effective tactics of pressure and self-defence.

XI
In conclusion

Let us try to derive from the preceding discussion a few propositions worth debating:

1. The Participation Programme is fully justified in aligning itself with the efforts of the "hitherto excluded" to "increase control over resources and regulative institutions", and in taking care not to subordinate its support of these efforts to any one conception of the requirements of "development" or to the specification of a political order within which participation can flourish. To the extent to which the Programme aligns itself with State policies to "promote" or "popularize" participation it risks becoming evasive and apologetic, of confusing its clear allegiance and unique contribution with other perspectives that serve the interests of power. These perspectives are not necessarily illegitimate, but other research and advisory programmes can be expected to represent them quite adequately.

2. This first proposition does not require identification with an ideology rejecting the State and political movements, and expecting the Good Society to emerge from the autonomous local and occupational organization of the "hitherto excluded" or from the renascence of endogenous cultural values. We come back to the idea of permanent tension and the kind of paradox pointed to by Cardoso. The organized efforts of the "hitherto excluded" will be directed toward resources that can exist and reproduce themselves in their present form only as long as the excluded remain excluded, and toward institutions that will always respond bureaucratically, manipulatively or repressively. Their attempts to accumulate countervailing power through affiliation with national movements will permanently encounter the iron law of oligarchy; the propensity of the movements to opportunism, sectarianism and delusions of infallibility; and the danger that the power-wielding enemies of the movements will strike hardest at their most vulnerable supporters. Par-

[20]Lisa R. Peattie, "The social anthropologist in planning", in *Journal of the American Institute of Planners*, July 1967.

ticipation-oriented agencies of the State as well as political movements will provide jobs and status for better-educated élites and will incur Tolstoy's taunt at those who would do anything for the people except get off their backs.

3. Ideally, activities within the Participation Programme should help the "hitherto excluded" to conduct their encounters with these ambivalent but indispensable allies-antagonists-exploiters on the basis of a better understanding of the ways in which they can make use of them, avoid being used by them, and eventually transform the settings in which the encounters take place. The activities should also help the hitherto excluded to grasp the wider implications of economic, technological, ecological and political trends for their struggles to improve their livelihood and achieve a share in power. Thus, as the *Inquiry into Participation-a Research Approach* paper asserted, the activities in question should enter into the critical study of the State, of the societies within which different categories of "hitherto included" confront different categories of "hitherto excluded", of anti-participatory structures and ideologies, and also of the international order. A consideration of this agenda, however, leads to the conclusion that our capacity to help the hitherto excluded to a usable framework of ideas for their struggles is modest and insecure.

4. The main hindrance in the way of offering a strategic orientation for these struggles is the discrediting by recent history of the mobilizing myths of development and revolution. Real transnational capitalist development, after transforming the livelihood and expectations of the greater part of the world's population at a price that has been too often deplored to need elaboration here, seems to have exhausted its dynamism and self-confidence. Its extraordinary scientific and technological innovativeness continues almost autonomously, but this impetus now seems as likely to generate more intense contradictions as to extricate it from stagnation. The only aspects of its clouded future that can be predicted with some confidence are that the costs of its crises will be transferred as far as feasible to the "hitherto excluded" as well as the "newly excluded"; and that in rich as well as poor countries the ability of the State to respond through services and subsidies to organized struggle over the terms of incorporation will shrink. Trends within societies of "really existing socialism" are in many respects different but no less symptomatic of decline in dynamism and creativity. The label of "excluded" may no longer fit the mass of their populations, but it is evident that the style of development has not satisfied consumption aspirations nor hopes for the emergence of an innovative socialist culture. Through indebtedness, technological borrowing, and agricultural lags, their difficulties have become unexpectedly dependent on the vicissitudes of the capitalist world. Their peoples face the prospect of intensified austerity and technobureaucratic dictation in order to cope with faltering economies; a prospect less alleviated than before by hope of and easier future or faith in centralized planning. The proposals for endogenous egalitarian styles of development different from both the above models remain attractive as ideals and are very likely the only alternative to catastrophe, but the international climate has become even less supportive than before. The hopes that at least a few national societies would begin to convert them into reality have been disappointed. The experiences of the few political leaderships that have tried to move in this direction have demonstrated mainly the limitations of State capacity to transform society or enter into creative interactions with an unprepared people.

5. One might go on indefinitely with a litany of contradictions and dangers, or one might explore the paradoxical ways in which present mutations in the world order simultaneously discredit and enhance the importance of theorists and technocrats of different schools. One might speculate as to whether more varied forms of participation (or anti-participation) will emerge in the Third World if the capacity of the capitalist and socialist centres to serve as development models, sources of financing, sources of technology and sources of political backing for the forces contending for control of the State continues to erode, and if socio-cultural mutations in the centres send ever more contradictory messages to the rest of the world. All this, however, does not bring us closer to a satisfying answer to the question of how activities aligned with the "hitherto excluded" can help them to a frame of reference for their relations with the State and political movements, within prospects so contradictory and indeterminate, so conducive to cynically ter-

roristic repression on the one side and to anomic submission or rebellion on the other. Possibly the major contribution will be anti-utopian, toward recognition of the permanence of tension and the imperfection of human institutions. But this conclusion immediately suggests its opposite: that the struggles of the "hitherto excluded" cannot do without utopias if they are to gain enough vigour and continuity to alter the balance of power.

Recent ECLAC publications

Statistical Yearbook for Latin America 1981 (E/CEPAL/G. 1251), Santiago, Chile, 1983, 727 pages. (Bilingual publication in Spanish and English.)

This edition of the *Yearbook* updates the series kept by the ECLAC Division of Statistics and Quantitative Analysis.

The first part comprises derived socio-economic indicators (growth rates, participations and coefficients or proportions), which represent a summarized overview of each sphere of interest and constitute background data permitting use of the information for more specific analyses. In this set of indicators are included those used in the periodic regional appraisals of the International Development Strategy.

In the second part the time series are given in absolute numbers; thus they can be utilized for a wide variety of purposes. In most of the national statistical tables the series are related to one and the same topic and arranged in such a way as to facilitate comparison between countries and between them and the regional totals or averages. The only exceptions are the balance-of-payments and national accounts tables, since they have been prepared on a country-by-country basis. Furthermore, the national accounts series at constant prices include a larger number of countries, in an effort to extend the coverage of the *Yearbook* to as many as possible of the countries members of ECLAC.

Generally speaking, the indicators in the first part of the *Yearbook* correspond to the year 1960, 1965 and 1970 and to the period 1975-1980. The social indicators are exceptions to this rule, being presented as from 1950, with the aim of showing the evolution of each over a longer term. Economic indicators are presented from 1960 onwards, since the back series can be reconstructed from earlier editions of the *Yearbook*. Some of the indicators based on census data are recorded only with respect to the years in which the corresponding censuses were taken.

The statiscal series in the second part relate, in general, to the years 1960, 1965 and 1970, and to the period from 1973 onwards. Some social statistics, which are not estimated on a systematic basis, are included exceptionally for 1960, 1965, 1970 and the last year available. Excluded from these procedures are census data, which, by their very nature, are recorded in specific years. The closing date for the incorporation of statistics in this edition of the *Yearbook* was March 1982.

La agricultura campesina y el mercado de alimentos: la dependencia externa y sus efectos en una economía abierta. "Estudios e Informes de la CEPAL" series, No. 35 (E/CEPAL/G.1272), Santiago, Chile, 1984, 201 pages.

A brief analysis of the international food market suffices to show that it is controlled by a few central countries; accordingly, when policies of great openness to international trade were applied in some Latin American countries, farmers were left defenceless in face of this powerful oligopolistic system, with the result that production capacity considerably deteriorated and dependence in respect of food increased. Other countries of the region which have not pursued the policies in question generally look to the countries that have done so as international suppliers; the latter offer them food products at prices lower than the domestic production costs, with the same consequences: a decline in production and an increase in dependence.

This study analyses the world food trade, its imperfections and its impact on the agriculture of the Latin American countries, especially on its weakest sector: that of the small-scale peasant producer. Attention is first focused on the agricultural policies of the European Economic Community and the United States, the two leading centres of world production and trade in food products, and it is shown that both are in the habit of energetically intervening in the markets, applying mechanisms which range from price-fixing to direct subsidies to farmers. These policies are directed towards very clear objectives, such as the attainment of self-sufficiency in respect of food products, stabilization of income in the agricultural sector and the conquest of a growing share in international markets.

The study devotes special consideration to agricultural protectionism, which it describes as an important instrument used by the central economies for the purpose of expanding their markets, as well as to the increase in Latin America's imports of basic food products.

The progressive deterioration of the region's self-sufficiency in food products directly injures the small peasant farmers, engaged in domestic production and supply of agricultural commodities. Not possessing more than about 18% of the total farm land and 7% of the arable land, they account for over 40% of production for the domestic market, their contribution being of special importance in the case of maize (over 50%), potatoes (more than 60%) and beans (about 80%).

The source of the sharp increase in the region's food dependence is subsequently analysed, and its internal and external causes are noted. The former include the lack of support that has affected agriculture for domestic markets, and among the latter are food aid, the adoption of strategies based on comparative advantages, food transnationalization in the region and the sale of food products subsidized by the developed countries.

The last chapter suggests some guiding principles which could be followed by the governments of the Latin American countries with a view to resolving the problems of food production and supplies in the region. They include improvement of the land tenure structure, reform of the marketing system, promotion of appropriate technologies, control of food oligopolies, support for Latin American economic coordination and integration schemes, and formulation of regional food security plans.

La economía de América Latina en 1982: evolución general, política cambiaria y renegociación de la deuda externa. "Cuadernos de la CEPAL" series, No. 47 (E/CEPAL/G.1280), Santiago, Chile, 1984, 104 pages.

In 1982 Latin America was racked by the worst economic crisis since that of the 1930s; in the great majority of the countries of the region it was reflected in a deterioration of almost all the principal macroeconomic variables. Latin America's total product decreased by almost 1% in 1982, and the per capita product fell for the second year running, and for the first time in 40 years.

The crisis in the region coincided with the culmination of the most serious recession that had beset the industrialized economies in almost half a century, which suggests that in 1981, and above all in 1982, economic trends in Latin America were powerfully conditioned by external constraints. In some countries the falling-off in economic activity was also due to internal factors linked to the mismanagement of exchange and fiscal policies or to serious socio-political conflicts. It is obvious, however, that the external constraints deriving from the international recession helped to cause a decisive and widespread slowdown of economic progress in the region. Hence this study begins by summarizing the most important changes that took place in 1982 in the world economic scenario, devoting special attention to the recession, stabilization policies and recovery in the centres, and to the external imbalance and recession in the periphery.

It later goes on to analyse the main trends in the economies of the region, as regards the economic growth rate, global supply and demand, employment and unemployment, inflation, wages, foreign trade, the balance of payments and the external debt. In the second and last part of the study, exchange policy is examined, together with the process of rescheduling the external debt.

Sobrevivencia campesina en ecosistemas de altura (E/CEPAL/G.1267), Santiago, Chile, 1984 (two volumes).

This publication assembles the papers presented at the Regional Seminar on Agrarian Policies and Peasant Survival in High-Altitude Ecosystems (Quito, March 1982), jointly organized by ECLAC, the United Nations Environment Programme (UNEP) and the Integrated Rural Development Secretariat of the Office of the President of the Republic of Ecuador.

The studies in question deal with the following topics: the complexity of peasant life in Andean high-altitude ecosystems: bases for development policies; Latin American experience and the peasant challenge; background data on agriculture in the Andean countries; the Andean community, management of resources and social differentiation; peasant economies and regional economy; economies and communities of the Ecuadorian Andes: conceptual approaches; demographic processes and the peasant economy: the case of Bolivia; fauna management and development of vicuña-breeding in the Andean ecoregions; research focused on systems of peasant agriculture in Ecuador; the development of technologies for small-scale peasant farmers; the Andean grazing ecosystem in the highlands of the central Andes; peasant policies and economies in high-altitude ecosystems: the case of Pilahuin, an inter-Andean zone; the Andean area of Chuquisaca: the peasant population viewed from the standpoint of food and nutrition; experiences of an integrated forestry and agriculture rural development programme (Programa de Desarrollo Rural Integral Silvoagropecuario de Cajamarca, Perú); and the development plan for the microregion Calca-Urubamba.

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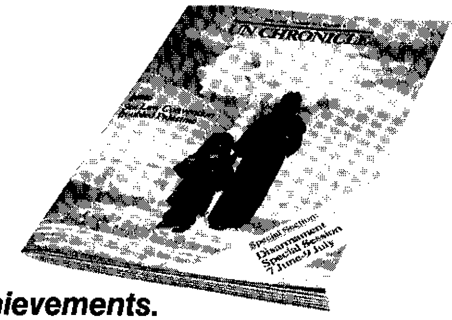

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