

CUADERNOS DE LA CEPAL

**LATIN AMERICAN AND CARIBBEAN
DEVELOPMENT: OBSTACLES
REQUIREMENTS AND OPTIONS**



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FOREWORD

The Economic Commission for Latin America and the Caribbean (ECLAC) held its twenty-first session in Mexico City from 17 to 25 April 1986. At the opening ceremony of the ministerial level of that session the President of the Mexico, Miguel de la Madrid Hurtado, invited the Commission to "once more take up its historical legacy and the great tradition of clear, independent thinking it has developed in the course of its history and provide an up-to-date conceptual framework that is appropriate to the problems of the region". The President called for such a process of "analytical renovation" in view of the "complexity, magnitude and relative novelty of the problems we are jointly facing".

He identified four specific topics which are especially relevant for the countries of the region —economic stabilization schemes, the interrelationship between the external debt and the international financial system, the adjustment of national production processes to the new circumstances, and the role of intra-regional co-operation— and concluded by saying: "as President of Mexico, I call upon and convoke ECLAC to promote an extraordinary meeting to encourage an ordered analysis of the four topics pointed out". The Commission, for its part, welcomed President de la Madrid's proposal and decided, in its resolution 487(XXI) of 25 April, to convene the special conference in question.

The Secretariat has prepared the present study in the light of the President's appeals and in fulfillment of the above mandate. The study contains the Secretariat's point of view on possible options for action on the topics identified by President de la Madrid. In addition, and on a broader level, it presents some reflections —which touch upon the very *raison d'être* of the Commission— on the development of the countries of Latin America and the Caribbean in the context of the obstacles which have hindered same in recent years, and its prospects for the future. In preparing the study, account was taken of the views of a considerable number of government authorities and academic circles of the region, brought together especially for this purpose at a series of seminars held between September and November 1986.

It should be noted that this document does not pretend to be all-embracing. Many topics of great relevance to development, such as

environmental, energy and demographic variables, are not dealt with in it in sufficient detail. This in no way means that these topics are considered of minor importance, but reflects the need to concentrate on a limited number of concerns which will make it possible to highlight some aspects considered to be crucial in the current circumstances.

Among these concerns, there are some which have been of long-standing interest to ECLAC, such as the relations between the centre and the periphery, industrialization, intra-regional co-operation, and accumulation. These problems, however, are now explored in the context of new circumstances, thus possibly giving them features which are different from those of the past.

In the final analysis, the aim is to make a contribution to the debate on how to overcome the crisis, and on development, from an action-oriented Latin American and Caribbean standpoint, and, on the basis of this, to make a synthesis of the two interrelated central topics on which the concern of nations and governments is focused: how to achieve economic development and also consolidate and expand processes aimed at furthering democracy and participation.

SUMMARY

1. This document deals with the vast and complex field of economic recovery and development in Latin America and the Caribbean. It explores some of the obstacles faced by the countries and offers guidelines on how to tackle them. Although the region is characterized by the great diversity of different situations existing in it, it is felt that there are sufficient common features to justify speaking of a distinctive style of development. However, there is no intention of offering universally applicable "recipes", but rather guidelines whose more specific features must fit in with the special conditions of each country and their changing circumstances. Despite the complexity of the topic, it is possible (as is sought in this document) to identify the essential points which form the basis for the guiding threads of the recovery and development strategies of Latin America and the Caribbean.

2. *Firstly*, emphasis must be placed on the scope of the economic crisis which is now being faced by virtually all the countries of the region. It is already a commonplace to say that the present crisis is the deepest and longest which the region has experienced in the last half century, and that the short-term problems bring out and highlight the structural obstacles which have been characteristic of Latin American and Caribbean development and further magnify them. At the same time, it is important to stress that notwithstanding the incipient recovery registered in some countries in 1986, the deterioration in the levels of well-being of broad sectors of the Latin American and Caribbean population has reached a point that could not have been imagined a few years ago (both because of its depth and the broad social spectrum affected) while the productive apparatus has deteriorated to such a degree in most countries that it jeopardizes the possibility of reactivating the economies. The well-known heterogeneity, together with the differing forms of evolution of the various national economies in the 1970s, explain to some extent the diversity of the effects produced and the different ideas with regard to future prospects in the individual countries of the region.

3. The need to reverse these recessionary trends and to recover forthwith the capacity of the economies to grow and change cannot be stressed too much. There can be no doubt that this is the most serious challenge that the countries of the region have had to face since the end of the war. The short-term expressions and constraints of the crisis, however, sometimes tend to overshadow the fact that the stock of human, natural and capital resources, as well as the creative capacity of the population and the wide range of possibilities and situations which exist, represent a potential which, if properly developed, would enable this challenge to be faced successfully.

4. *Secondly*, it must be stressed that the reversal of the trends described above is hardly likely to take place spontaneously. It is well known that the development process does not "happen" in a vacuum. On the contrary, it calls for a deliberate and systematic effort on the part of governments and civil society, within the framework of a process of a democratic opening, aimed at mobilizing all forms of social energy around a national renovation project. The features, content and scope of action strategies have sometimes been the subject of lively debate, with differing theoretical, practical and doctrinary expressions. In this respect, the proposals set forth in this document expressly recognize the plurality of approaches to action strategies, both as regards the specific order of priorities of the objectives and as regards the special features of each country and the ever-changing dynamics of circumstances themselves.

5. *Thirdly*, it should be noted that in a world of growing reciprocal influences between nations, the future evolution of the Latin American economies will not depend only on their own efforts, but also on the behaviour of the international economy as a whole. This should not be taken to mean, however, that it can be realistically expected that the development solutions will come from outside, either through the facilitation of the insertion of the region into world trade or through other forms of external co-operation. On the contrary, the profound transformations which are taking place in the industrialized economies and in their mutual relations presage a different kind of international economy which, although offering opportunities, also involves risks and uncertainty, especially for countries which have historically shown a slow capacity to adapt to changing circumstances. Likewise, everything seems to indicate that, at least in the medium term, most of the economies of the region will not have access to net external financing on a scale comparable to that of the past decade, and there may even be a continuation of the recent situation in which the region has been transferring a considerable proportion of its domestic savings abroad. For these reasons, Latin America and the Caribbean will have to meet the challenge of economic

recovery and development fundamentally through their own efforts, either on an individual basis or, better yet, in a collective, organized manner. Some of the initiatives which are underway in the latter direction are particularly encouraging.

6. *Fourthly*, the effort which the countries of the region must make should be based on four essential interdependent points which mutually influence each other. The first of these is to reconcile progress in the direction of an expansionary adjustment with the reduction of inflation or, at least, the maintenance of reasonable control over inflationary processes, since this is an essential requirement for reactivating the economies and increasing the mobilization of savings. The reduction of uncertainty (which affects the formation of the economic agents' expectations) would make it possible to create relative price structures favourable to the transformation of production. Moreover, the control of inflation would be compatible not only with the objective of achieving growth but also with that of improving the distribution of the fruits of such growth, in view of the usually regressive effect of inflation. It is quite feasible to adjust economies without incurring the excessive social costs characteristic of recent years. In other words, what is proposed is that on the one hand it is possible to achieve an expansionary or efficient adjustment, and on the other it is possible to control inflationary pressures, without necessarily remaining sunk in a prolonged recession. The experience of some countries of the region in recent years in applying heterodox solutions emphasizes the feasibility of the foregoing.

7. The second priority point in the effort that the countries of the region must make is to increase domestic savings and especially investment, while also improving the productivity of the latter. This is necessary first of all because in the near future external savings will be far smaller than they were in the past, and secondly because the modernization, diversification and expansion of the structures of production will call for growing volumes of investment. The leeway for action in this sphere is relatively limited in view of the depressed levels of private consumption at the aggregate level and the financial restrictions which typically affect the public sectors. Nevertheless, some progress can be made in this field. Among the types of action being explored, mention may be made of certain measures aimed at discouraging non-essential consumption and promoting strict austerity in public expenditure which is not associated with development (reduction of spending on armaments is perhaps the most significant item in this field); some fiscal reforms; the encouragement of institutional saving; the modernization of the systems of intermediation which procure and channel savings; and incentives for the repatriation of the capital belonging to residents of Latin America and the Caribbean which is currently invested abroad.

8. The third priority point is to recognize the unavoidable need to take thoroughgoing, sustained and systematic action to modernize and transform the structures of production. In this respect, it is necessary to take advantage of what already exists, although it is unlikely that a sustained and dynamic economic recovery can be attained on the basis of an export sector made up primarily of agricultural and mining commodities and a pattern of industrialization marked in many cases by inefficiency, technological lag and insufficient linkages. This recovery should be tackled in two distinct stages which nevertheless form part of a single ongoing process. In the short term, it is necessary to make adaptations in demand and supply and to protect existing productive facilities. This would make it possible to take full advantage —without necessarily having to invest in new productive facilities— of the available productive capacity in order to increase production, create jobs and reduce costs, especially in those branches of activity where there is only a small imported component. This is where the key to carrying forward the current adjustment programmes in such a way that they will have an expansionary nature should be found.

9. At the same time, it is essential to attain forms of organization of production which are more competitive both domestically and internationally, by eliminating the dichotomy between specialization for the domestic market on the one hand and for export on the other. This means overcoming the many types of structural and institutional inertia which have frequently impeded greater progress in the past. A good design of macroeconomic policy (and especially, within that policy, a foreign exchange strategy which consistently maintains a level of parity in keeping with the sought-for change) is important for this purpose, but is in no way sufficient of itself. It is also necessary to systematically promote new lines of activities in keeping with the resource endowment of each country, the sought-for patterns of domestic consumption, and the trends in regional and international demand. Thus, it will be necessary to improve the organic integration between research and development and the adoption of production technologies and processes; to strengthen entrepreneurial capacity; to increase efficiency; to seek greater cohesion between demand patterns and production capacity, and finally to improve transport and marketing services, especially in view of their growing interrelation.

10. In order to avoid costly and unnecessary sacrifices, the transformation of the structures of production should be approached gradually and selectively, but nevertheless firmly. A crucial aspect of the sought-for modernization lies in the strengthening or creation of intersectoral links in order to extend technical progress from the most dynamic activities to

other (primary and tertiary) activities which enter into the productive system and are considered to be of high priority in each particular country, according to its special conditions. This approach —unlike the predominantly sectoral approach which prevailed in the preceding phase of growth— helps to reduce intersectoral and intra-sectoral heterogeneity, to strengthen the autonomy of national systems of production, and to adequately value the potential of modern services which link up with and complement the goods-producing sectors.

11. The fourth priority point, which ultimately gives significance and legitimacy to the domestic efforts to achieve economic recovery and development, refers to equity, understood both in its dimension of broader access to goods and services and as the opening-up of spaces for the participation of the population in aspects influencing its conditions of life and work. The undesirability of prolonging a concentrative or exclusive style of development is obvious, because of its economic, social and political repercussions, especially if heed is paid to the growing demand for the creation and consolidation of democratic and participative processes. Since marked inequalities of income distribution persisted in the region even during a period of relatively dynamic economic growth, it is only reasonable to expect that such a situation will tend to get worse in periods of contraction or reduced growth, unless there is a definite will to apply policies designed to correct past trends. This document sets forth some of the bases for functional equity related with development, designed to create jobs —the most urgent objective in the short term—, to raise production and the productivity of the lowest-income social strata, and to avoid, by suitable economic and social policies, the reproduction of poverty, exclusion and social segmentation in the coming generations.

12. *Fifthly*, although the countries of Latin America and the Caribbean must naturally assume their responsibilities as regards reversing the trends of the past, they obviously cannot do so unless there are conditions in the international economy which facilitate renewed access to development. Outstanding among these conditions are those governing access to markets, technology and financing, all of which are interdependent.

13. The latter point is closely connected with what has perhaps already become the main obstacle to the expansionary adjustment and reactivation: the terms on which the heavy external debt of Latin America and the Caribbean must be serviced. The fact is that a considerable proportion of the foreign exchange generated by the region (between 34% and 40% at present, although with considerable differences from one country to another) and a high percentage of domestic savings (about a quarter) are

committed to the servicing of this debt. This raises a serious dilemma, since the import capacity of most of the countries has been restricted to such a point that many of them can neither grow at present nor finance the imported component of investments aimed at transforming their production capacity in order to be able to grow in the future. Expanding this import capacity is therefore the main requisite for economic recovery and development.

14. The foregoing will only be achieved in the short term if the debt servicing burden is reduced and/or greater access to net external financing is obtained. It would appear that the spontaneous forces of the market will not of themselves solve this situation, or at least will not do so quickly enough to put a rapid end to the sacrifices of the population. In the case of most countries, the recent fall in interest rates has been offset by an even greater deterioration in the terms of trade. Consequently, one of the basic external elements needed in order to supplement domestic measures is the significant lightening of the debt servicing burden. Of course, in view of the wide diversity of situations existing in the region, there can be no question of single or uniform solutions for this complex problem. In any event, the important thing would be to apply a set of measures whose actual make up could vary from one country to another but whose final result would be reflected in the retention of part of the considerable amount of resources currently transferred abroad, in order to use these to meet acceptable growth targets and satisfy the urgent needs of development. Among the measures in question, mention may be made of reduction of the principal of the debt, relief as regards interest payments, and other forms of action explored in this document.

15. Part of this solution consists of reopening access to external financing. There are enormous restrictions on this today, due to the normally procyclic behaviour of both the international private banking system and of direct foreign investment. This does not mean, however, that the countries of the region should resign themselves to continuing to transfer net resources abroad. On the contrary, efforts are called for —both on the part of the international financial community and on the part of the countries of the region— to expand the latter's access to external financing. With regard to the measures that could be taken by the international financial community, it would be desirable to strengthen the existing financial machinery, increase the resources of the multilateral agencies, facilitate the development of secondary markets for the Latin American debt, make the current systems of repeated renegotiations more flexible, and agree on formulas for opening up new sectors of the international capital markets, among many other possibilities. The countries of the region, for their part, are not totally devoid of

possibilities for taking action which could lead to the co-operative expansion of their share in international credit resources. Some specific examples of such action are the application of co-financing formulas, the issue of regional bonds expressed in foreign currency, participation in risk coverage systems, adoption of policies to modernize and increase the competitiveness of local financial systems, and others of a similar nature.

16. In the medium term, however, the only way of ensuring a permanent and growing flow of foreign exchange is to export goods and services or to substitute imports of these items within reasonable margins of efficiency. This depends not only on the transformation of the structures of production, but also on the possibility of gaining access to foreign markets. Here, the obstacles are related not only to the rapid and far-reaching changes in the structure of demand and technology in the world, which make it essential to modernize production capacity, but also to the marked trends towards protectionism and the proliferation of non-tariff barriers. In this respect, one of the bases of the development strategy proposed in this document is to seek a greater share for the economies of the region in international trade flows. This would only be feasible, however, under a more transparent system, with progressive elimination of tariff and non-tariff barriers and with the adoption of policies which favour the process of redeployment of activities to the developing countries rather than postponing it. The new round of multilateral negotiations in Punta del Este by the Contracting Parties of the General Agreement on Tariffs and Trade (GATT) could provide an opportunity for Latin America and the Caribbean to pursue these objectives through a minimum platform of international agreements. The governments of the region should therefore initiate, as soon as possible, a joint process of preparation in order to revitalize their negotiating capacity in the relevant forums and to exercise joint bargaining power. In a broader context, this power should not be limited to the field of trade, but should need be extended to the sphere of technology, since all these elements are indissolubly interlinked.

17. *Sixthly*, as a link between the responsibilities which the countries of the region should shoulder and those where the support of the international community is essential in order to promote development, emphasis should be placed on the importance of regional unity. Just as agreements on concerted action undeniably strengthen the capacity of the Latin American and Caribbean countries to influence international economic events, so the renewed impulse towards economic integration could be a decisive element in the transformation of national structures of production. It is felt that integration could be renewed in various directions: in the updating of the agenda, in the execution of joint efforts in

fields felt to be ripe for regional co-operation, in the joint defence of existing productive capacity, in the incorporation of high-technology products and research, and, in general, in taking advantage of the broad and varied potential offered by integration as a regional instrument of development. This approach, which ultimately expands the national options open to each individual country, will be favoured by the greater political backing that governments have begun to give to integration, to judge from—for example—the recent pioneering agreements signed between Argentina and Brazil, Argentina and Uruguay, and Brazil and Uruguay, to name only a few.

18. In short, the countries of Latin America and the Caribbean are faced with a vast and urgent task, and both governments and the people must assume the shared responsibility for tackling it within the framework of processes of broad participation. This responsibility includes transforming the past patterns of supply and demand, stimulating and mobilizing domestic savings, and promoting strategies to secure development with equity. This is a task in which the international community, too, should assume important responsibilities, in the context of an interdependent world where the actions of one party necessarily affect the others. An external economic environment where co-operation is the rule can be a decisive factor for the application of the policies and strategies aimed at securing the economic recovery and development of the countries of the region, while an economically vigorous Latin America could do much to promote an upswing in the world economy. Redefining and assuming the responsibilities that befall to each member in a community of nations that are highly integrated in economic matters should form the backbone of the new agenda in the field of international co-operation; joining forces within each society and promoting mutual co-operation at the regional level are essential bases for achieving development.

I. THE BACKGROUND

A. THE PRESENT DILEMMA

1. The external setting

Since this paper deals with the development of the Latin American and Caribbean countries, it is not appropriate to begin with a complete analysis of the main features of the world economy, and of the complex interaction of the diverse economies that compose it. Rather, by way of background, the main trends in the extra-regional scenario that have had, and will continue to have, particular influence on the evolution of the Latin American and Caribbean economies are highlighted. In this connection, it is already a commonplace to speak of the economic interdependence of nations. Modern communications have given rise to a system of financial intermediation of truly global scope; consumption patterns tend to be less differentiated owing to the power of the mass media, also of global coverage, and production is increasingly characterized by geographic fragmentation aimed at specialization in the making of parts or components with a view to exploiting comparative advantages in their manufacture, for subsequent integration in a final product. Likewise, since the war new actors have arisen —the transnational corporations— which function with growing independence of national legislation and controls, and which dominate increasing proportions of the world trade flows.

There are five aspects of the external setting that stand out. In the first place, the leading industrialized economies are going through a stage of transition as regards both technology and the patterns of manufacturing output and organization, and this is increasingly modifying the old international division of labour. Thus the product cycle is shortened, economies of scale become less important, and technical advances, including robotization, begin to make it feasible to reconvert activities where previously comparative advantages based on cheap labour were of paramount importance. Owing to the revolution in communications and computation systems, it is possible for the first time to centralize plan-

ning and control, while production is decentralized and subdivided geographically to take advantage of resources, costs or location.

Secondly, there is considerable concern today as to whether or not the historical trends in the international transmission of dynamic impulses from the industrialized nations to the countries of the region will continue. Particularly uncertain is the future demand for the basic commodities that constitute the bulk of the region's exports, since these are suffering the effects of various new developments in the world market. Apart from the well-known fact of the low income-elasticity of the demand for these products in the countries of the centre, many of the foodstuffs and beverages —coffee, cocoa, bananas, sugar— have been affected by a shift in consumer preferences away from products rich in calories or carbohydrates; others —cotton, meat and cereals— have had to face the competition of the frequently subsidized production of the industrialized countries themselves; and finally, there are also products affected by technological innovations tending to replace minerals such as iron, copper and bauxite, with substitutes that cost less or can be produced with less energy consumption (petroleum, of course, is a special case, which has different repercussions on the different countries of the region according to whether they are net importers or exporters of the product). It would appear, therefore, that most of these products have witnessed the end of their most dynamic cycle.

Thirdly, today more than ever before the integration of the financial markets and the adoption of floating exchange rates are inextricably interwoven with the evolution of world trade. The economic policy decisions adopted in any one of the consolidated centres —especially the United States, the European Economic Community and Japan— have an immediate effect on the others, and, at the same time, on the rest of the economies that form part of the global economy in their different ways. Hence there has arisen a complex network of financial interactions which are beginning to predominate over real transactions. Any event that affects the balance-of-payments capital account causes changes in the floating exchange rates, which, in turn, affect the domestic interest rates of the leading industrialized economies. In the cycle that follows, the alterations in the exchange rates and interest rates help to modify the balances' current account and capital account, as well as having different repercussions on the level of economic activity, public finances and even the efficacy of the trade policy of each country. Moreover, the greater or lesser co-ordination of the macroeconomic policies of the industrialized countries affects the movement of their exchange parities. In particular, the variations in the relation between the currencies of the European countries and Japan and the United States dollar have a marked effect on the countries of the region, and call for increasing flexibility and constant adjustment of the structures of production and expenditure, in order to

adapt them speedily to the changing signals emitted by the main markets for the exports of Latin America and the Caribbean.

Fourthly, the interrelationship between finance and trade has a very special significance for the countries of the region. These are faced with the burden of servicing a swollen external debt without having access to additional foreign credit on a scale comparable to that of past years. Reference will be made further on to the adverse effect that the need to generate surpluses on the balance-of-payments trade accounts has had on the terms of trade.

Finally, the very complexity that has become a feature of the international economy and the climate of intense competition to obtain access to markets and attract financial resources have contributed to a growing loss of transparency, both in trade and financial transactions. The application of tariff and especially non-tariff barriers, and the use of export subsidies, constitute a threat to orderly world trade, while the tensions that have arisen among the main industrialized economies of the world regarding the above-mentioned co-ordination of their respective monetary, exchange-rate and fiscal policies prevent the proper functioning of the monetary and financial arrangements established a generation ago through the Bretton Woods agreements.

2. The regional situation

Rather than seeking to interpret the origin, scope and consequences of the economic crisis of the 1980s in Latin America and the Caribbean —topics which have been studied in other Secretariat documents¹—it is germane to characterize the present situation of the economies of the region and to refer to the challenges faced by the countries on account of the limitations of their previous development, the economic crisis and the requirements they must fulfil if they are to attain a dynamic place in the world economy. Clarifying the nature of these challenges represents the first step in seeking alternative strategies which will enable the countries to return to the path of development.

After the end of the Second World War, within the framework of a rapidly expanding international economy, the countries of Latin America and the Caribbean achieved important, albeit varied, degrees of progress, including, in particular, and in most cases, sustained and dynamic growth rates together with significant economic and social changes. Among the latter, special mention may be made of the increasing degrees of industrialization; a vigorous process of urbanization; greater differentiation of society, with growing expansion of the intermediate social and occupational strata; the appearance of modern entrepreneurial groups; the development of increasingly complex institutions, including those in the area of financial intermediation, and quantitative and qualitative

improvements in the levels of education of the population.² It is also well known that some phenomena of a negative nature appeared during this period: the asymmetrical and dependent relationship with the industrialized economies in trade, financial and technological matters; the growing vulnerability of the balance of payments; the inadequate linkages of the structure of production and the technological lags displayed by it; the high degree of heterogeneity in production and technology, especially in primary activities, where most of the countries display a dual form of agriculture; the high levels of unemployment, and the unequal distribution of the benefits of progress among different sectors of the population and different regions of each country.³

What distinguishes the first half of the 1980s from the preceding decades is that the trend towards progress was abruptly interrupted, while the negative phenomena were magnified. The accumulated imbalances in the structures of production and export reached a state of crisis, and the insufficient external payments capacity turned indebtedness into a factor which aggravated the basic imbalances. This led to drastic economic and social deterioration whose main (and interrelated) features are present in almost all the countries of the region, although they have assumed particular characteristics in each case.

Thus, in mid-1986 —despite an incipient recovery in some cases— the levels of income of the great majority of the countries are markedly depressed. The per capita gross domestic product of the region went down by almost 9% in real terms between 1981 and 1985, and in some countries the drop was over 20%. This phenomenon was widespread: only one country registered positive growth rates, and only three more came close to maintaining their per capita product unchanged. To put it another way: the per capita product is only comparable to that registered ten years before, and in order to fulfil the goal of keeping it up so that there will not be a deterioration in income and standards of living during the present decade, enormous efforts will be necessary during the coming years (see table 1 and figure 1).

The drop in the added value has many economic, social and political repercussions on the well-being of the majority of the population. Some social groups —especially the wage earners in a large number of countries— have lost up to a third of their previous income, which has given rise to serious reductions in consumption even of the most basic items (see table 2 and figure 2). A matter of special concern is the rapid expansion in unemployment and especially underemployment, reflecting the growing economically active population in contrast with the stagnation or very sluggish growth of new opportunities for productive employment (a state of affairs which has many complex consequences, especially for young people) (see table 3 and figure 3). Similarly, budgetary allocations for the provision of basic services such as education and

health have suffered considerable declines which could lead to a dangerous weakening of the process of forming human capital. All this deterioration in economic and social conditions also reflect a deeper underlying fact: the persistence of structures which make up an inequitable system of social relations.

Through the force of circumstances, all the countries have been obliged to adopt adjustment programmes and many have also had to put into effect stabilization programmes. The speed with which it has been necessary to act and the procyclical behaviour of international private bank credit (in the sense that the supply of resources was excessively large when the countries of the region needed it less, but went down considerably when it was most necessary) have meant that the adjustment has been inefficient and —since it has had to be achieved almost exclusively through the trade account— has been extremely recessionary. Thus, although improvements are to be observed in the trade accounts of the various countries' balance of payments these have been achieved, especially in 1982-1983, through a sharp contraction in imports and a drop in domestic economic activity rather than through a recovery of exports (see table 4).

At the same time, some novel attempts have been made to reduce inflationary pressures in some countries, with positive initial results (see figure 4). Nevertheless, inflation persists in other countries and has even got worse in some of them (see table 5). In other words, adjustment and stabilization are processes which have not yet concluded and have been characterized so far by an excessive social cost.

Despite the contraction in global income, most of the countries —by making great efforts— have managed to keep up levels of domestic savings comparable with those of previous years. Much of this saving is used to finance net external factor payments, however, while inflows of external savings have gone down drastically. Consequently, average ratios of investment to GDP have fallen from 24% to 16% (see figure 5 and table 6). This circumstance raises new and difficult dilemmas. The weakening in the capital formation process will necessarily affect the capacity of the economies to adapt to the necessary structural changes and will even unfavourably affect the efforts at industrial conversion and the replacement of existing fixed assets. In other words, the contraction in capital formation jeopardizes the very possibility of building up a structure of production which is more competitive on international markets, and also makes it much more difficult to protect the incomes of the economically weakest strata of the population.

A phenomenon closely linked to the aspects dealt with above is the large expansion in the indebtedness of the region as a result of the rapid increase in loans registered up to mid-1982, combined with the high interest rates prevailing since the beginning of the present decade. The

total debt has risen from less than US\$ 100 billion at the end of 1976 to over US\$ 330 billion at the end of 1982, and a growing share of it is accounted for by private creditors whose financing has been characterized by floating interest rates and relatively short maturities (see table 7). All this has resulted in an explosive increase in debt servicing costs.⁴ Thus, the payment of interest alone, which absorbed around 15% of the foreign exchange generated by the region's exports of goods and services in 1978, has come to represent between 35% and 40% of this income between 1982 and 1985⁵ (see table 8). Almost all the debtor countries have been repeatedly obliged to negotiate the partial restructuring of their debt maturities, which has meant that the principal of the debt has continued to grow despite the negative net transfer of resources taking place at present.

Furthermore, although nominal interest rates on the international capital markets have gone down in recent months, the beneficial effect of this has been offset by the steady deterioration in the terms of trade. Moreover, interest rates are still higher than their historical levels in real terms. Even if the downward trend in interest rates is consolidated, it is estimated that for the region as a whole —albeit with considerable differences from one country to another— around 35% of the foreign exchange generated in the coming years by exports of goods and services will have to be used to pay interest commitments unless there are appreciable changes in the terms of financing or in trends affecting international trade.⁶ In other words, the debt servicing commitments seriously limit the capacity to import and to finance the transformation of productive structures.

What makes the situation described above particularly serious is that the inflow of external financing to the countries of the region has been almost completely interrupted since the second half of 1982. It may be recalled that between 1978 and 1980 there was a net inflow of capital of nearly US\$ 30 billion per year. In 1985, in contrast, this figure was below US\$ 6 billion. In the 1970s, when the countries of the region were receiving net transfers of real resources from abroad, they received funds equivalent to around 1% of their gross domestic product, whereas in recent years they have transferred around 4% of their gross domestic product each year to the rest of the world (see table 9 and figure 6). This phenomenon reflects the fear of the international banking system that the countries cannot service new financial commitments under the conditions currently prevailing on the capital market. Moreover, in the processes of restructuring the external debt the international banking system has acted virtually as a cartel, which has further magnified the asymmetrical relationship between creditors and debtors.

At the same time, the multilateral financial organizations are suffering from financial and operational restrictions. In general, the terms

of their loans have become more onerous, at least as regards the establishment of cross conditionality between short-term financing for the stabilization programmes and medium- and long-term financing for development.

The above gives grounds for considering that, in contrast with what happened during the three decades of economic expansion after the end of the war, the countries of Latin America and the Caribbean will have to face unpromising prospects in the coming years as regards the possibility of supplementing domestic savings with net external financing.

Furthermore, the economic crisis has contributed to the weakening of domestic financial systems in most of the countries. The drop in external financing has been compounded by a constant drain on foreign exchange attributable on the one hand to the flight of capital (encouraged by the progressive integration of the international financial markets) and on the other to the increasing difficulty experienced by the countries of the region in offering attractive yields to savers and at the same time protecting the real value of their assets. Similarly, the demand for funds to finance loans, which was previously satisfied with domestic and external credits, has now been channelled to the national financial systems, which are generally weak and lack sufficient capacity to supply resources. This is reflected, *inter alia*, in imbalances between the need for and availability of resources and increased competition for these scarce resources between the public and private sectors or between different parts of the private sector.

The deterioration in the public finances in many countries is closely related with the foregoing phenomenon (see table 10). Factors in this have been the stagnation or contraction of income, attributable to the depressed level of economic activity, the growing commitments in respect of servicing the external and internal debt, and the drop in imports. These public finance restrictions have in their turn led to growing constraints tending to compress domestic demand, to reduce the supply of basic social services and to weaken the capital formation process. Indeed, a recent feature which is common to the great majority of the countries is the incapacity of the State to satisfy social demands and promote development, which has had serious economic, political and social repercussions.

The long-standing asymmetrical relations between the Latin American and Caribbean countries and the industrialized countries have been further accentuated during the last five years. Thus, whereas since 1983 the countries of the centre have experienced an economic recovery, those of the region have almost all continued in the opposite direction; in the case of the former countries, inflationary pressures slackened, whereas in the others they got worse, at least up to 1985. The industrialized countries are applying advanced technologies and even promoting industrial

conversion —instead of the pretended redeployment to the periphery— whereas the overall performance of most of the countries of the region continues to depend to a greater or lesser extent on the fate of basic commodities, for which demand in international markets is either stagnant or actually declining. This explains the drop in the relative share of the region in world trade and also the virtual stagnation of the value of its exports. Notwithstanding successful cases of diversification and expansion of certain exports, the total external sales of the region as a whole in 1985 were only 4% greater in value than those registered in 1980. Thus, for the first time since the end of the war, most of the Latin American and Caribbean economies, with very few exceptions, have ceased to share in international recovery and have remained sunk in a prolonged crisis.

The export promotion policies adopted in almost all countries in recent years and the pressing need to generate foreign exchange have been reflected, at least in the short term, in a glut of traditional products offered on the international markets. This is partly due to the fact that the terms of trade have in recent years reached their lowest levels since 1930, despite the recent gradual devaluation of the dollar —the currency in which most of these products are quoted— with respect to the currencies of the other industrialized economies (see table 11 and figure 7).

Another of the consequences of the crisis has been the weakening of the economic interdependence which had been attained in previous decades among many of the countries of the region. Mutual trade, as measured through intra-regional exports, has slumped even more intensely than overall trade. Reciprocal trade had come to account for 16% of the total external sales of Latin America in the period 1975-1981, but from the latter year onwards it fell steadily until it came to only 11% in 1985 (see table 12). This phenomenon, which reflects the depressed levels of demand and the crisis in the reciprocal payments systems, affected all the subregional integration processes. Likewise, since a high proportion of this mutual trade was made up of manufactures, this setback has helped to increase the amount of idle industrial capacity, precisely at a time when it is most necessary to make use of the available installed capacity.

The problems of the first half of the 1980s have been clearly reflected in the way economic policy has been conducted. This policy has had to operate within narrow margins imposed by the acute shortage of foreign exchange and the need to adapt to a situation of limited opportunities or multiple restrictions. The pressing financial problems have made it extremely urgent to apply short-term measures, thus creating difficulties for the rational selection of policy instruments. Thus, in spite of their wishes, governments have been forced to make radical cuts in their investment expenditure, which has traditionally been more flexible

than current expenditure. Likewise, the circumstances have forced those responsible for formulating economic policies to concentrate their attention on immediate problems, to the detriment of longer term development strategies and policies. Economic policy and the behaviour of those responsible for designing and implementing it has therefore changed a great deal in the 1980s compared with previous periods. In most countries, emphasis has clearly been placed on measures for overcoming an adverse current situation, rather than fulfilling development objectives.

Finally, although it is difficult to establish clear causal links between the phenomena which have been taking place in the economic sphere and those in the political and social arena, during the period under analysis there were significant interactions between them. In some countries, different types of tensions could no longer be contained and sometimes only found their outlet in situations of violence, although in others —the majority— a process of democratic opening-up was observed.⁷ This latter phenomenon, which is undoubtedly of a positive nature, is extremely important because it will condition future economic policy in the context of participatory processes in which it may be expected that both sacrifices and benefits will be shared more equitably. This has perhaps facilitated a gradual adaptation of expectations —which today are perhaps more realistic than they previously were— on the part of the population of the region as regards the results that are attainable in development matters. The discipline with which organized groups of the most varied types have agreed to share responsibilities and sacrifices in the adjustment process has helped to prevent even deeper cracks from appearing in the normal functioning of society in Latin America and the Caribbean.

In short, the countries of the region have suffered from a profound maladjustment during the last few years. An international recession of a cyclical nature has been superimposed on a structural phenomenon, and the consequences of that recession, which has very complex features, will have a decisive effect on the future capacity to attain development. If the countries of the region fail to adapt to these changes in their circumstances, they run the risk of deepening and prolonging the economic recession, with all its consequences; if they adapt to them incompletely, they run the risk of worsening the profound inequalities that still persist in most of the societies of the region. Thus, conjunctural problems further offset and magnify the long-standing shortcomings, lags and imbalances of the economies of Latin America and the Caribbean and raise important challenges which demand urgent new responses.

B. REFLECTIONS ON THE CONCEPTUAL FRAMEWORK

1. The priority agenda

The foregoing pages suggest a priority agenda of development actions to be taken by the countries of Latin America and the Caribbean. Although the relative importance of each of the items making up this agenda may vary from one country to another, and the strategies of which they will form part must undoubtedly be different, all of them are relevant for each one of the countries of the region. Together, they seek the reactivation of the economies within a context of increasing equity and democratic and participative societies. These items, which are all closely interrelated, are: firstly, advancing towards adjustment and stabilization, but within a context of growth; secondly, raising the levels of domestic saving and channelling it towards productive investments; thirdly, promoting the modernization of the structures of production; fourthly, improving the capacity of the countries to adapt to the changing circumstances of the international economy and improving their insertion in same, and finally, bringing increasing equity into development strategies.

a) *Advancing towards an expansionary adjustment with stabilization*

After several years of efforts and sacrifices aimed at reducing the serious external and internal financial imbalances of most of the countries of the region, this objective has still not been reached. Effective action in this respect is not only a prerequisite for the transformation of the structure of production, but also forms an essential part of reactivation itself. Promoting an expansionary adjustment while at the same time advancing towards the stabilization of the economies without setting off a recession therefore constitutes the first item in this priority agenda.

Viewing adjustment and stabilization as part of an expanded development agenda means modifying the very high priority which has been given (sometimes to the detriment of other longer-term concerns) to short-term economic policy and inviting the economic agents to take up once again the important and complex issues of long-term development.

b) *Increasing domestic saving and channelling it towards productive investments*

Both the transformation and expansion of the productive structure and the fulfilment of income distribution objectives call for investments, either at the productive level or in the infrastructure and the develop-

ment of human resources. The burden of the external debt service, however, and the scanty contribution that can be expected from external savings in the coming years raise queries about possible formulas for financing such expenditure. The response to these queries constitutes another item in the priority agenda.

c) *Transforming the structures of production*

So far, the countries of Latin America and the Caribbean have been virtually passive subjects of the changes which have taken place in the global economy. Moreover, in most of the countries of the region there has been a weakening of the impulse behind the prevailing pattern of industrialization, while the lags and shortcomings characteristic of many branches of manufacturing and the deficient inter- and intra-sectoral linkages continue to persist. There is likewise a long way to go in the strengthening of agriculture, and especially peasant agriculture.

It is therefore doubly necessary, in each country, to trace out the broad lines of the production structure on which the new patterns of economic development are to be based: on the one hand, because of the urgent need to change the forms of insertion in world trade; on the other, because it is essential to enter the mainstream of the technological change which is gathering speed in the world, on pain of witnessing the beginning of an even more intensive cycle of marginalization from the fruits of world progress.

d) *Improving the countries' capacity to adapt to the changing circumstances of the international economy*

Reference has already been made to the important transformations and alterations which the international economy is currently undergoing as a result of changes in patterns of technology, in consumption habits, and in the relations among the main countries or groups of countries which take part in trade and financial flows at the global level. These changes and alterations are taking place at a rapid rate, which brings in a factor of uncertainty regarding the future evolution of international economic relations and demands an ever greater capacity for adaptation on the part of the countries.

This state of affairs holds out many perils for the countries of Latin America and the Caribbean, but also some opportunities. In the short term, however, the former would appear to exceed the latter, especially in view of the crushing burden of servicing the external debt and the way in which it affects the possibility of renewed access by the countries of the region to fresh net external financing. Briefly, this means that the region must prepare itself to cope with an international economy of a much more complex nature than in the past. This involves adapting the

economies to the changing external conditions and, as far as possible, influencing those conditions through the application of joint negotiations.

e) *Promoting development in a context of growing equity*

One of the great challenges of future development consists of trying to reduce the inequalities of income distribution inherited from the past,⁸ against a background of growth rates which are expected to be more modest than those of recent decades, but in an increasingly participatory political context. It should be noted in this respect that, according to historical patterns of behaviour of the economies of the region, the vast majority of the countries will not be able to create sufficient productive jobs for the economically active population emerging in the next decade, even assuming an optimistic growth hypothesis.⁹

With regard to equitable income distribution, this is justified not only by social considerations but also by economic and especially political ones. The dynamic expansion of domestic markets will undoubtedly stimulate demand for certain types of goods, which could eventually lead to greater supply capacity. Furthermore, the fulfilment of the great social goals will strengthen and consolidate democratic processes. Concern for equity, especially in adverse economic circumstances, therefore assumes a significance which justifiably makes it an essential topic on the working agenda of Latin America and the Caribbean.

2. Reflections on the conceptual framework

More than thirty-five years have passed since the ECLAC Secretariat published what one author somewhat exaggeratedly called the "ECLAC manifesto",¹⁰ subsequently enriched in the course of time with what the President of Mexico called the "historical legacy" of the Commission.¹¹ Its interpretation of Latin American underdevelopment centred on the asymmetrical relation between the countries of the centre and those of the periphery, due mainly to the way in which the international division of labour assigned to the countries of the region the production of raw materials or primary commodities whose capacity to generate foreign exchange was not compatible with high rates of accumulation and sustained growth. Prominence was also given to the unequal spread of technical progress, the structural heterogeneity characteristic of Latin American production, the concentrative nature of the free functioning of the market mechanism, and the shortcomings and lags typical of developing societies.

In order to provide responses to the problems thus diagnosed, a well-known set of "idéas-forces" was formulated. Among these were industrialization, an active role by the State (both to correct faults in the

market mechanism and to supplement the action of private agents), the elimination of various structural obstacles to development, and the mobilization of resources to increase production capacity.¹²

In dealing with these and many other topics, ECLAC and its Secretariat did not pretend to offer a paradigm; on the contrary, they repeatedly stressed the need to adapt the "idéés-forces" to the changing circumstances and special situations of each country.¹³ In response to the President of Mexico's request to "provide an up-to-date conceptual framework that is appropriate to the problems of the region",¹⁴ it is therefore appropriate to try to clarify the relation between those "idéés-forces" and the present changing circumstances, both domestic and external.

This is a delicate issue, not only because of its inherent complexity, but also because it takes place within the context of the re-thinking which is taking place in the developed countries along lines which are not necessarily in keeping with the realities of Latin America and the Caribbean. This type of debate has sometimes helped to create dichotomies—import substitution versus export-oriented strategies, planning versus the market, structuralism versus monetarism—which, far from helping to clarify ideas, make the discussion more difficult. In this respect, it might be useful to set forth the Secretariat's viewpoint with regard to four central aspects of the debate: the concept of economic development itself, the fulfilment of multiple and sometimes competing objectives, the degree of "economic openness" which is desirable, and the mutual relations between the role of the State and that of the other economic agents in the development process.

This analysis is presented in a context of a pragmatic application of a strategy designed to fulfil irrenunciabile development objectives. Although emphasis is placed on the need to adapt to changing circumstances, this does not mean unwavering acceptance of new lines of thought which place possibly exaggerated confidence in the virtues of the market, the rationality of private economic agents and the blessings of an unbridled integration in the world economy. It is felt, rather, that patterns or styles of development cannot be drastically altered at will without causing even worse effects than the ills it was desired to correct. The above suggest that it is necessary to adapt to the new circumstances gradually, progressively and selectively, seeking to systematically achieve a complex set of economic, political and social objectives.

a) *The concept of economic development*

It would not seem necessary to resume the discussion on the nature of economic development, which has been dealt with on so many previous occasions by ECLAC.¹⁵ It is worth stressing, however, that in the view of the Secretariat, economic development does not take place spontaneously but is the result of a deliberate and systematic effort on the

part of governments and societies. The experience of the last forty years shows that development does not usually follow predetermined paths, and even less linear paths, nor is it exactly like the transition (equally heterogeneous) undergone by the societies which are today industrialized. On the contrary, the process is intrinsically uneven and full of tensions, maladjustments and imperfections.

This assertion, superfluous though it may seem, has important consequences as regards the manner of tackling the question of future Latin American development. As a starting point, it should be accepted that there is no single path towards progress (think, for example, of the contrasting experiences of Great Britain, the United States and Japan); furthermore, it should be recognized that the situation of the developing countries is qualitatively different from that of the developed nations (this is the very base of the theory of development as a sub-discipline of economics), and it is necessary to acknowledge expressly the great complexity of the process of modernization of economic structures, especially as regards their interaction with other social and political variables.

Following this line of thinking, the assumption that economic development does not take place spontaneously means —setting aside ideological and doctrinary considerations— that a fundamental role must be played by the State. Likewise, according to this viewpoint, development is not just a matter of coherent economic policies, "proper prices", and macroeconomic equilibria. Still more important are the "intangible" elements, such as entrepreneurial capacity (private and public), innovation, organization, the overcoming of obstacles of an institutional nature, popular participation, political leadership and other factors which unite the population behind a development project and stimulate the creative capacity and actions of economic agents.

Finally, development is not exclusively related with technical and economic practice and knowledge, but also involves political management. At present, solutions depend to a decisive extent on the possibility of uniting the State and civil society behind a project in which the government and the people share the power and responsibilities. Only thus does it seem possible to turn all sectors of the population into agents of change, to defuse social conflicts, and to facilitate the orderly achievement of the objectives of development.

b) *The objectives of development*

ECLAC has in the past insisted that the central objectives of development are growth, transformation of the structure of production, improvement of the distribution of the benefits of growth, achievement of a higher degree of autonomy and reduction of external vulnerability, and progress towards participative and democratic societies.

It must be admitted that the simultaneous achievement of all these objectives involves trade-offs that would sometimes be difficult to reconcile, especially in the short term. While the achievement of one of the objectives is not necessarily incompatible with that of the others, there is always a need to establish orders of priority appropriate to the context in which a particular development strategy is being applied. In fact, the decision to seek the partial attainment, above a certain level of fulfilment, of all or some of the objectives listed, determines both the content of the various development strategies and the scope of the different combinations of economic policies.

In the course of the last few decades, rewarding experience has been accumulated which indicates certain ways of reconciling the objectives of development with each other. In this respect, there are many theoretical and practical studies and essays which show that it is conceptually possible to harmonize, at least partially, the objectives of growth and equity.¹⁶ Thus, there are a number of dissimilar experiences which illustrate different ways of seeking growth without losing sight of equity considerations. In some cases, redistributive measures were taken before the emphasis was placed on growth (the agrarian reform in Korea); in others (Spain), greater trust was placed on the dynamic distribution of income. Each situation called for different combinations of economic policies and actions, all qualitatively different from those which would be needed if all efforts were concentrated solely on growth.

Likewise, it is feasible to promote a type of growth which is at once dynamic and capable of reducing the external vulnerability of the countries. Thus, the diversification and expansion of exports, an increase in domestic saving and improvements in the country's capacity to develop and apply technological and organizational innovations (all goals proposed in this document) would help to reconcile growth with the objective of improving the degree of self-determination of domestic economic policies.

Finally, although it is not strictly appropriate to speak of trade-offs in reconciling the economic objective of growth and the political objective of achieving a democratic and participative society, since these are different categories with their own sets of values, it may be noted that in the present conditions both these goals are compatible with and even functional to each other. There can be no doubt that it is desirable that development should open up leeway for action in a way which neither divides nor polarizes society, and also that the application of formulas of social concertation should bring with it the unity of efforts necessary for overcoming the current economic impasse. This latter task presupposes the democratization of economic policy: i.e., clear and open sharing of benefits, sacrifices and responsibilities between the State and private agents.

In short, although five years of economic stagnation and even retrogression have given rise to a tendency to make growth the dominant objective, it would be a mistake to ignore the other objectives of development mentioned above. On the contrary, achieving at least a minimum level of fulfilment of all these objectives is one of the indispensable features of the approach within which the proposals contained in the following chapters fit. It is for this reason that a number of principles on which the effort to reconstruct national development strategies can be based are put forward and emphasized. Equity is important because it is a decisive element in long-term social stability and in making it possible to amalgamate and unite the energies of societies in order to overcome the development crisis. Greater autonomy in the formulation and implementation of economic policies has intrinsic value in view of the pressing need for collective capacity to solve national and regional dilemmas. There are also political considerations which must legitimately and explicitly be taken into account in formulating and implementing economic actions. All this calls for the establishment of priorities and for decided efforts to harmonize and smooth down the trade-offs between the different objectives. However, this makes it much more complex to design development strategies and there must necessarily be variations in the way in which each society makes up its mix of specific policies.

c) *The desirable degree of economic openness*

Those who advocate transforming the non-traditional export sector of Latin America and the Caribbean into the "engine" of development usually point to the success achieved by a group of South-East Asian economies. For their part, those who resist opening the economies up to a greater international competition, point to the risks involved in such a decision, and argue that import substitution strategies gave satisfactory results for the three decades following the war and that their capacity for continuing to do so is far from being exhausted.

One part of the debate —that concerned with the macroeconomic framework— centres on the advantages and disadvantages of altering the relative prices of tradeables (both exports and imports) and non-tradeables and on the relation which should exist between the price structure of a country and international prices. It is well known that the most suitable economic policy instruments for acting on relative prices are the exchange rate (which affects the relation between the prices of tradeable and non-tradeable goods); import duties (which affect the prices of imports and import substitutes); export subsidies (which influence the formation of the prices of exportable goods), and various combinations of such instruments with each other and with others of an administrative nature (licenses, quotas and prohibitions, exchange controls, dual or multiple exchange rates, etc.).

The blend of instruments determines the "pro" or "anti" export or "pro" or "anti" import substitution bias of the economic policy. Thus, an extreme case would consist of a combination of a régime of high differentiated tariffs and a low exchange rate, which would tend to favour import substitution but would discourage sales abroad. The other extreme would be a situation with a high exchange rate, low uniform tariffs and special export incentives, which would tend (in relative terms) to favour export activities over import substitution. An intermediate position would be that tending, through various mechanisms, to balance incentives to activities that save foreign exchange with incentives to those which generate it.

It is indispensable for the countries of the region to evolve towards a more efficient and competitive industrial sector, whether it be for import substitution or for export. It is worth noting, in this respect, that a region where the cost of labour in the manufacturing sector is only a fraction of that of the developed countries, whose tax burden is lower, whose levels of productivity are not less than 50% of those in the developed countries, and which also has access to comparable technologies can hardly passively accept the prospect of maintaining high and indiscriminate protectionism. It is therefore fully in keeping with the present and future needs of the region's development to correct excesses of overprotection of manufacturing activities of dubious social profitability and to make a direct attack on the shortage of foreign exchange by promoting exports, especially bearing in mind that all this is not incompatible with full use of domestic and regional markets and import substitution effected within reasonable levels of protection.

Four reservations need to be made with regard to this proposal, however. Firstly, a macroeconomic policy which favours the production of tradeable goods is a necessary but by no means a sufficient condition for increasing exports: just as important, or even more so, are institutional factors (organization, entrepreneurial capacity, channels of marketing) and other factors. It should not therefore be expected that the mere alteration of relative prices will be enough to achieve the expected results; in practice, other actions will also be needed to assist in the adaptation of the structures of production.

Secondly, gaining access to international markets is a complex and lengthy process which involves both advances and setbacks, due to the necessity for a trial and error approach and the need to react to external circumstances. The most successful international experiences in this regard show that it is not a matter of seeking drastic opening of the economies, but rather of defining on a sectoral and temporal basis a domestic learning process which will lead to a solid form of insertion in the international market. Consequently, it is necessary to proceed in a *gradual* and *selective* manner, so that the changes can be assimilable and

the adaptation of the structure of production can be achieved at the lowest possible cost in terms of external imbalances, increased unemployment or the dismantling of costly installations.

Thirdly, the important thing is not so much to export for its own sake as to transform the structure of production with a view to attaining more efficient and more functional patterns of output in terms of domestic economic objectives, the use of the available resources, and trends in international demand. It may be recalled in this respect that both the industrial powers of today and the majority of the South-East Asian countries which are exporting manufactures gained access to the international market after having consolidated and integrated their production capacity and having generated the necessary domestic competitive efficiency. This indicates that there is no single route for exporting or attaining excellence in production in particular branches of economic activity, nor is there a single way for promoting efficient import substitution. Indeed, an objective appraisal of the lessons of history tends to strengthen the theory that these two processes, when they are successfully achieved, tend to be inseparable.

Fourthly and lastly, it may be noted that the "opening up" of the economy requires, as its counterpart, access to external markets. In many cases, however, the countries of the region face external circumstances which are so adverse that, despite their considerable efforts, they are unable to generate sufficient foreign exchange to sustain the growth of their economies. In these circumstances, exposing their economies still further to international competition would not only involve serious risks but would cease to be a real option *vis-à-vis* the less desirable but safer strategy of containing imports.

Furthermore, some conceptions which advocate "opening-up" strategies inspired by variants of the *laissez faire* of the last century closely combine the idea of converting the export sector into the "engine" of growth with that of making the market mechanism alone responsible for effecting the necessary changes in structures of production. These doctrinaire proposals have an implied bias against State intervention in the economy. The experience of the South-East Asian countries, however, shows that the adoption of an export strategy calls for considerable State action. Government intervention is necessary not only for the design of the macroeconomic policies (sometimes even running counter to the market signals, which are always of a short-term nature) but also for creating the conditions to complement structural change. The foregoing, as will be shown below, does not mean passing any judgment as to whether those called upon to make the changes will be public or private enterprises.

Finally, at the root of the debate on the degree of economic "openness" there is a topic which is frequently overlooked or at least relegated

to a secondary level: i.e., the structure of production which is sought in each country. In this respect, the balancing of the incentives to save foreign exchange and those designed to generate it will affect all tradeable goods and services. What is really sought for, however, is to improve the international competitiveness of the products of the region, especially in the case of non-traditional goods, in order to stimulate efficient import substitution and the export of new products which can fit in with the dynamic comparative advantages available under a new pattern of international trade. This calls for the modernization and diversification of agricultural production, and especially for industrialization, although on different and renewed bases.

d) *The role of the State and of private agents*

The topic of the activity of the State in the development process has contributed to the polarization and ideologization of the debate on the different approaches to development. One extreme invokes the supposed qualities and virtues of the private agents (efficiency, optimum resource allocation, capacity of adaptation and innovation), which are presented in contrast to the supposed shortcomings of the public agents (inefficiency, poor resource allocation, bureaucratism), all of which results in the assignment of intrinsic value to the reduction of the government's presence in the economy at all levels. At the other extreme, there is a tendency to assign similar attributes and virtues to the public agents (rationality, coherence, action for "the public good", tendency to take a broad overall view), which leads to the State being given a dominant role in the development process, sometimes even at the expense of the activities of private agents. Thus, at both extremes, value judgements are issued which favour one of the agents over the other, rather than admitting that neither the public nor the private agents always have the qualities attributed to them and that, in the process of development in mixed economies, State action and the functioning of the market are not opposing and even antagonistic options, but complementary mechanisms.

Naturally, the debate cannot take place or be resolved in the abstract. The functions and objectives of the State go beyond those of the sum or the combination of the rest of the social forces; its actions take place within a certain institutional, social and political framework which defines a complex guidance function in its various dimensions. Nobody can doubt that one of the basic functions of any State is to look after the well-being of the population. However, the scope and concrete content of the actions taken by the State in order to fulfil this function are not only connected with the organizational, technical and financial capacity of the machinery of government, the coherence of its actions, the features of the political leadership of the country and its capacity to unite wills and

achieve a social compact, but are also linked with the way in which the State and the rest of the actors in society interact and influence each other. In any case, in the great majority of the Latin American countries public and private agents exist side by side in a situation of creative and dynamic tension whose forms and concrete expression vary with time and from one country to another.

One part of the controversy concerns the question of administrative action or planning as complements to or substitutes for the market signals in the allocation of resources, while another part concerns the ownership of the means of production. Both aspects are of course closely interrelated. Thus, for example, the arguments to the effect that the market mechanism —the so-called "hidden hand"— is the most appropriate instrument for achieving optimum allocation of resources are extremely well-known. Equally well-known are the arguments in favour of direct action to alter the results of the market, to overcome the imperfections typical of a developing economy, to respond rapidly to price signals, or to achieve certain economic policy goals, especially as regards equity. It only needs to be recalled that, in relatively disarticulated economies, market prices usually differ very considerably from the respective social values, due (*inter alia*) to the imperfections limiting competition and the existence of important negative and positive externalities in the various processes of investment and production.

In this sense, although the existence of prices which reflect relative scarcity or social opportunity costs favour the process of the optimum allocation of resources, there is recent experience which demonstrates that "correct prices" are not sufficient to achieve development. It may be noted, by way of illustration, that exceptionally high real interest rates do not necessarily increase financial savings; high exchange rates are not always sufficient to increase exports rapidly, and depressed real wages do not inevitably bring about the displacement of investment to activities which make more intensive use of labour.

Moreover, the "correctness" of a particular price is a relative, not an absolute matter. Thus, certain "incorrect" prices may be justified in the short term if they are in keeping with broader objectives of the development policy. As noted in a recent article, "...achieving correct policies involves more than just achieving correct prices. Realigning production properly may require incentives which exaggerate the market signals. Efficiency is often the result of successful distortions".¹⁷ In other words, the imperfections which are typical of developing economies justify and even demand a pragmatic and realistic combination of the market instruments and direct action by the State.

As regards the subject of the ownership of the means of production, in Latin America (as in other developing regions) there is a long tradition legitimizing certain government actions designed to achieve the general

objectives of development more rapidly. Indeed, one of the lessons provided by the history of the countries now considered as industrialized is the very special significance which the attributions and responsibilities of the State had in the development process.¹⁸ In mixed economies, the public enterprises support and complement the activities of the private agents instead of competing with them. Generally speaking, the expansion or reduction of the scope of State activity should not be postulated as a function of doctrinaire objectives (the "socialization" of economies) but rather in terms of concrete results which are functional with respect to the development objectives. The same pragmatic approach should be applied to the tendency to "privatization" observed in some countries: rather than discussing the question of the size of the public sector in the abstract, what should be sought is the redefinition, in view of changing circumstances, of the relation between State and private enterprises. The factor which has been of most influence in making essential a revision of the role of State enterprises in the economy is very closely connected with the problem of absorbing the losses of income caused by the economic crisis prevailing in the region.

The symbiotic relationship implicit in the foregoing paragraphs is also to be found in the area of public expenditure and the way in which this affects the spending of the other economic agents. In this respect, the experience of a number of countries of the region shows that public expenditure has not only had a direct effect on the expansion of the production capacity of the economies but has also had an important spillover effect on private investment in subsidiary or complementary activities.

Some reference to the rest of the agents of development is called for. During the forty years since the war, most of the societies of Latin America and the Caribbean witnessed the emergence of new actors and a growing differentiation between the different strata of society, to such an extent that, as some authors have pointed out, it is difficult to place the different agents of development in clear categories.¹⁹ Quite apart from the criteria of social stratification or the functional typologies used, the diversity and heterogeneity displayed today by the societies of Latin America are noteworthy. An illustration of this is to be found in the pronounced contrasts between traditional and modern forms of production which coexist in the region, both in the big cities and in rural areas; in the multiple forms of organization (trade associations, co-operatives, associations of the most diverse nature), and in the way in which the various agents seek to influence the decisions of the State. This diversity and heterogeneity has enriched the way in which the State and the rest of the economic agents are interrelated in the creative and dynamic tension referred to earlier.

In short, neither the deliberate expansion of State activity nor the reduction of its actions in all spheres of social life should in themselves be the objectives of the new development strategy. The decisions should be in keeping with the precise circumstances of each country, and they should correspond to equally specific development objectives and be the result of the permanent dynamic interaction between the State and the rest of the societal actors. However, some requisites should be laid down for all the agents, both public and private, as a function of the objectives of development. Thus, efficiency, originality, capacity for adaptation, innovation and flexibility are qualities which should characterize both the actions of the State and those of the private agents.

With regard to public sector enterprises, for example, it would be desirable to change the traditional way they are run in various respects. On the one hand, in many cases their objectives should be simplified, or at least made more explicit. In this respect, it would be desirable in general to free their finances from the burden of providing subsidized goods or services and lighten the load of acting as leaders in wage levels and job creation, to centre more attention instead on such matters as costs, the generation of surpluses and increased productivity. Furthermore, greater emphasis should be placed on making big State enterprises the fulcrum of technological change, applied research, the development of activities which can form part of inter-industry linkages, or the establishment of regional complementation agreements.

Finally, independently of the institutional, social and political framework in which the State operates, finding a solution to the Latin American crisis demands the strengthening of the capacity to govern, expressed in the technical and administrative efficiency and effectiveness of the State machinery for running the country, the political capacity to unite wills around a national development project, and the economic and financial capacity to promote, stimulate and orient such a project. Thus, for example, it will be necessary to achieve the greatest possible coherence between objectives and actions; the greatest possible rationality in the allocation of public resources to particular activities, and (in the framework of a democratic and participative process) the greatest community of interests between the government and civil society as regards the general thrust of the development project.

In short, in the process of creative interaction between private agents and the State, both sides will quite legitimately try to formulate certain mutual demands. Thus, the private agents will demand at least that the State must not hinder the execution of their activities through controls and requirements which raise risks and costs. The State, for its part, will orient economic policy in such a way as to induce the private agents to follow a pattern of behaviour consistent with the fulfilment of the development objectives. Thus, in mixed economies both the public

and private agents have roles to play. In view of the great heterogeneity of the situations existing in the region, it is neither possible nor desirable to offer preconceived images as regards the content and scope of these roles nor as regards the way in which the two parties should interact and complement each other. This will depend on the circumstances, the capacity for initiative of the State, and the objectives pursued. With regard to this latter aspect, there are common objectives which neither the State nor the private agents can reach alone, and this is why concertation is so important.

e) *Recapitulation*

In conclusion, the following leading features of the conceptual framework set forth in broad lines in the preceding pages may be listed:

Firstly, recognition that growth is a fundamental but not of itself a sufficient element for achieving stable and balanced development. It might be appropriate to sacrifice maximum levels of economic expansion in the interest of achieving at least a minimum level of fulfillment of objectives which are of the same order of importance, such as improving income distribution, attaining greater autonomy *vis-à-vis* the world economy, and progressing to more participative and democratic societies.

Secondly, awareness that although the macroeconomic framework in which the development strategies fit is an important element, especially in the allocation of resources and the ordering of priority objectives, equal attention is merited by sectoral actions, organizational and institutional changes, or the correction of certain bottlenecks.

Thirdly, development is not something that "happens" spontaneously in a "suitable" macroeconomic framework, but something which, on the contrary, requires deliberate, systematic and decided action by governments and private agents to mobilize and build up all the resources of the country. This lends force to the idea that what is needed is a State playing an active role in economic matters, whose action complements that of the private agents.

Fourthly, recognition of the unavoidable need to increase the capacity to adapt to new circumstances while accepting at the same time that any effort to adapt needs time, so that, in order to consolidate true processes of structural change, policies must be gradually and selectively modified. This therefore introduces the notion of a certain element of "trial and error" in walking the crooked path which leads to the fulfillment of the desired goals.

Fifthly, importance is assigned to the view that Latin American and Caribbean development is a process different from that of other areas and countries. There is no valid historical basis for the theory that the development of the countries of the region will take place in the image and likeness of the process undergone—either earlier or at present—by

the industrialized countries. It would be more appropriate to accept as plausible —and desirable— the idea that there should be a variety of approaches and strategies in the light of the different weighting of the changing objectives and circumstances of the Latin American and Caribbean countries. Only thus will it be possible to take due account of the special features of each nation, to liberate their creative potential, and to achieve full identity between the aims of the governments and of civil societies around a common development project.

Sixthly, acceptance of the fact that development strategies do not take place in a vacuum but must fit in with a given political and institutional framework. There can therefore be no preconceived formulas for development. This highlights the need to take a pragmatic approach and also explains why more detailed expressions of the implementation of such strategies can only be achieved after an analysis carried out at the level of specific cases.

In the following chapters, these general ideas are developed around the various issues under analysis.

II. THE DOMESTIC EFFORT

A. STABILIZATION AND ADJUSTMENT POLICIES

1. Recent stabilization and adjustment policies

External maladjustments and inflation are phenomena that have been well known in Latin America for a very long time. However, in the 1980s, they have come to wield predominant influence on the economies of many countries, both because of the force with which they affect them and the considerable impact that the stabilization and adjustment programmes have on economic policy. Thus, since 1981 the countries of the region have had to embark on a painful adjustment process to reduce the deficit on current account in the balance of payments, which had reached the equivalent of 35% of their total exports in 1981-1982. The policies applied quickly brought this imbalance down to an amount equivalent to around 5% of the value of exports, but at the cost of a sharp drop in the level of economic activity, employment and investment.

Furthermore, the external disequilibria usually co-existed and were interrelated with internal financial disequilibria: between 1982 and 1985, for example, the inflation rates trebled. Notwithstanding the significant progress recorded in 1986, inflation still persists in some countries and has even worsened in others. In short, in most countries both the adjustment and stabilization processes are still incomplete and cannot be considered without also examining their impact on economic recovery and development. The crisis thus makes it imperative to deal simultaneously with short-term and longer-term policies: with stabilization and with economic recovery. Achieving an expansionary adjustment and price stabilization without triggering off a recession must not only be an objective on the agenda of priority goals for Latin America and the Caribbean but also constitutes an essential starting point for defining economic policies and strategies for the coming years.

a) *General considerations*

The original cause of the disequilibria differed from one country to another in the region, but the commonly applied stabilization and adjust-

ment programmes, which greatly influenced the economic policies of many countries during the period 1981-1985, assumed as their fundamental premise that the disequilibria were caused by excessive demand, which in turn caused a deficit on the current account of the balance of payments, an acceleration of inflation, and a distortion in the relative prices of tradeable and non-tradeable goods.²⁰ Little attention was paid, however, to the other factors which can to a greater or lesser extent affect the achievement of stabilization or adjustment. The efforts made under these programmes were therefore focused mainly on adjusting relative prices (usually through devaluation) and on attacking the supposed root cause of the disequilibrium —excessive aggregate demand—by reducing the fiscal deficit, restricting credit and controlling wages.

Not only were the same measures urgently recommended from outside for the different countries, regardless of their special characteristics and features, but the results of their application were also similar. In the vast majority of countries, the result was a recession whose size and extent varied from country to country. Similarly, there was usually more obvious success in reducing the external disequilibrium than in tackling inflation, which in fact accelerated sharply in some countries.

The adjustment programmes commonly applied were ineffective and recessionary, firstly because undue emphasis was placed on reducing domestic demand; secondly, because of the very large size of the deficit that needed to be adjusted in many countries of the region and finally, because of the uncommon speed with which they had to be implemented.

With respect to the first aspect, the stabilization and adjustment programmes were based mainly on measures for reducing demand. Indeed, both the expenditure cuts and the relative price adjustments had a contracting effect. Because of the short time available for adjusting the external accounts, the main initial impact of the devaluations was to reduce domestic expenditure even further.

In addition to being recessionary, the adjustment programmes were inflationary in the short term, thus creating one of the many links between internal and external disequilibria. The main tool that was used for shifting the direction of demand was devaluation, which had the initial effect of increasing the relative prices of tradeable goods. This, plus the inflexibility of the prices of non-tradeable goods, and above all because of the mechanisms of indexation and the creation of expectations, helped to accelerate inflation.

In the second place, the size of the disequilibria further increased from 1982 onwards with the sharp decline in external financing. In previous years, the net capital inflows into the region not only covered all payments of interest and profits, but also enabled the importation of 20% more than the value of exports. From that year onwards, however, this net transfer of resources became increasingly negative, as already

noted. Hence, in practice the countries not only had to make adjustments to meet the deficit on their current accounts caused by permanent factors but also had to meet the deficit caused by temporary changes (such as the increase in international interest rates and the pro-cyclical capital movements). Thus, a further compulsory adjustment had to be made.

Finally, the excessive speed of the adjustment helped to make it recessionary and ineffective. The fact is that, for an adjustment to be effective, there must not only be a reduction in domestic expenditure but also a reallocation of resources from the production of non-tradeable goods to exports and the production of import-substitutes: a process which is necessarily slow. Strictly speaking, for an adjustment to be effective there must be real changes in the structure of production and expenditure, and it is consequently difficult to see how a very drastic adjustment can be efficacious.²¹

b) *Recent experiences*

Several lessons can be drawn from recent experiences and, if heeded, can help to minimize the risks of recession posed by stabilization and adjustment policies.

In the first place, there are fundamental differences between a price stabilization policy and an adjustment policy, so that often it is advisable to separate them in time, especially when inflation has become persistent.²² Thus:

i) a stabilization policy is not necessarily accompanied by a reduction in the availability of goods and services whereas an adjustment policy is;

ii) in cases of moderate inflation, the stabilization of price levels can be postponed, since the social costs of inflation can be reduced to tolerable levels through indexation, whereas once the reserves are exhausted or external credit ceases, the adjustment process becomes inevitable and cannot be delayed;

iii) a drastic (shock) policy can be effective in the case of stabilization and it is even doubtful whether it is possible to reduce three or four-digit inflation by means of programmes which take effect gradually; in contrast, if an adjustment process is to be socially efficient, it must necessarily be gradual,²³ and

iv) although some of the components of an adjustment programme (as for example the reduction of expenditure) do help to reduce both the external disequilibrium and inflation, devaluation and increases in public service tariffs help the adjustment but tend to cause a short-term increase in prices, although in the long term their effect could be different.

In the second place, the traditional approach, for both adjustment and stabilization, has a recessionary bias since it places too much emphasis on controlling aggregate demand, although in many cases this demand

is a combination of excessive demand in some sectors and weak demand in others. Strictly speaking, if an adjustment process is to work, it is necessary to increase the production of both import substitutes and exports and not simply reduce imports. Whereas the contraction of imports can be achieved by merely holding down demand and investment, in order to expand the production of tradeable goods there must be a redirection of demand (towards non-tradeable goods), together with the maturity of investments (for the production of tradeable goods). Consequently, if an adjustment process is to succeed, investment should not be reduced indiscriminately, as was frequently done in the recent experience of the region. Similarly, it is usually necessary to apply demand control policies to bring inflation down. However, when such policies are not accompanied by measures to adjust supply (for example, exchange rate and price policies) they tend to have a recessionary impact on economic activity instead of providing more permanent solutions.

In the third place, the stabilization and adjustment policies that are customarily applied are usually defined in much too global terms. For stabilization and adjustment processes to be less costly and more lasting, more specific and selective policies must be applied. For example, although it may be necessary to slow down the growth of aggregate demand and reduce the fiscal deficit, the effects will differ depending on whether this objective is achieved by reducing investment or consumption; by reducing luxury or essential consumption; by reducing the salaries of public employees; by raising taxes or reducing expenditure; or by globally or selectively reducing credit. Equally, instead of merely correcting relative prices by means of blanket mechanisms such as devaluation, it might be more effective, especially in the short term, to utilize selective mechanisms such as subsidies for certain exports or tariff surcharges on certain imports, which make allowance for the specific situations of the various activities in terms, for example, of the degree of utilization of their installed capacity. These differences, in turn, affect the speed with which the activities can themselves respond to the incentives created by the economic policy.

It may be noted that the multilateral financial organizations have recently begun to adopt some of the approaches described above, judging from the pioneer agreement reached between Mexico and the International Monetary Fund in mid-1986. Under the terms of that agreement, the Mexican Government decided to embark on an adjustment programme with special characteristics which includes important innovations compared with previous programmes, since it is designed as a function of an economic growth target to which external financing must conform and not in terms of a given supply of external financing to which economic growth must conform. In fact, both the actual amount of external resources that the country will receive and the criteria for their

use and the economic policy commitments included in the agreement with the Fund are subject to the movement of the price of petroleum and the extent to which the objectives set forth for the revival of economic activity are fulfilled.²⁴

2. Towards expansionary adjustment

a) *General considerations*

The aim of an expansionary adjustment policy is to restore the equilibrium of the external accounts in a context of growth, and not merely by means of a recession which decreases imports. In order to do this, it is necessary to increase exports and substitute imports, rather than to cut down drastically on them. The smaller the initial amount of the disequilibrium, the greater the unused capacity in the tradeable goods production sector, and the longer the time available to implement the process, the greater is the likelihood that the adjustment will be expansionary.

In its simplest formulation, this policy assumes that the country must make an adjustment if the deficit is caused by permanent changes, since in that case the negative balance will tend to perpetuate itself, and a deficit on current account cannot be maintained indefinitely above a certain threshold unless the country is also receiving permanent financing above that threshold. In contrast, a deficit attributable to temporary factors should be financed by using the international reserves or by resorting to borrowing.

It is not always easy, however, to put these principles into practice; the difficulty lies above all in determining what part of a deficit on current account is permanent and what part is temporary. For example, knowing whether the recent slump in the price of petroleum is temporary or permanent is of vital importance both for the countries that are net exporters of hydrocarbons (who would have to make a greater adjustment if the slump were permanent) and for the net importing countries (who would only have to make a smaller adjustment in that case).

This distinction is crucial, since the region has been compelled to make adjustments in recent years as if the entire deficit had in fact been caused by permanent changes. By way of illustration, if it is assumed that the higher interest payments caused by real international interest rates that are $2\frac{1}{2}$ percentage points above the historical rate (2% per year) are temporary, then the average annual adjustment that the region should have made since 1982 would have been US\$ 7 billion per year less. In that case, the adjustment would have already been completed in 1983. Another example relates to how the recent drop in commodity prices is viewed. Between 1980 and 1986, these prices have declined by more than 17% in the case of the non-petroleum-exporting countries, which means

an average loss of almost US\$ 10 billion per year since 1982. As already noted, a part of this decline is due to permanent changes attributable to structural factors; however, it would be an exaggeration to presume that temporary factors are not responsible for at least a part of the decline. Nevertheless, in practice this has been the assumption behind the adjustment process, since the region has been compelled to eliminate virtually all of its deficit on current account. It is estimated that if the increase in interest rates and the drop in commodity prices had been considered as temporary, and if, as a result, the corresponding financing had been available, the region would have been able to increase its imports by as much as 30% (US\$ 17 billion). Basically, the reason why the region had to pay off virtually all of its deficit on current account and not merely adjust the part attributable to permanent changes was that, as already noted, since 1982 it has not received any additional external financing even for the temporary component of the deficit.

Another key element in an efficient adjustment is the speed with which it is carried out, since time is needed to make real changes in the structure of production by shifting from non-tradeable to tradeable goods. Thus, an essential requirement of non-recessionary adjustment is that it should be of a gradual nature. The case of Brazil is a good example. From the beginning of the external debt crisis in 1982 up to 1985, its output grew by 11%, whereas the output of the rest of the region fell by 2%. The Brazilian adjustment was not very recessionary because that country's imports decreased not only on account of a drop in domestic expenditure but also because part of those imports were replaced by domestically produced goods. Both the expansion of the production of import substitutes and the notable increase in exports were the result of the large investments made in previous years.

Naturally, the effectiveness and the cost of policies designed to change the structure of domestic supply also depend to a certain extent on external circumstances. Thus, the growth and diversification of exports will be easier or more difficult, depending on whether international trade is expanding rapidly or slowly and on whether the downward trend in commodity export prices is being reversed or is persisting.

b) *Policies*

Although the possibilities of achieving an expansionary adjustment are very much determined by decisions in which the countries of the region have no say—such as, for example, the renegotiation of the debt and the rate of growth in the industrialized countries—national policies are nonetheless important, as evidenced by the considerable differences in the costs and success of the adjustment efforts made by the different countries. But precisely because the adjustment carried out has been recessionary, in many countries of Latin America and the Caribbean the

process is still incomplete and high levels of idle installed capacity, unemployment and underemployment of labour exist side by side.²⁵ It would therefore be possible to attain significant increases in production—even of tradeable goods—in the short term without any need for any significant prior increase in investment in fixed capital. The use of this idle capacity therefore constitutes a first ingredient in an efficient adjustment policy.

In the second place, it will be indispensable to reassign a substantial part of the additional output derived from the more intensive use of the idle capacity to exports as soon as possible, for in the present situation, where there is a scarcity of foreign exchange, idle capacity cannot be reduced merely by resorting to measures which increase domestic demand, since the stumbling-block of the shortage of foreign exchange for the purchase of intermediate goods would soon be encountered. The lower capacity to import inputs thus constitutes both the main determinant of the level of global production in the region and the fundamental constraint on its growth.²⁶

In order to induce these changes, the usual adjustment policies should be applied—reduction and reallocation of expenditure, rectification of relative prices and reallocation of investment—but they should be oriented in line with the priorities already referred to and supplemented by direct support measures for specific activities. In particular, and on the basis of recent experience, there are three fundamental requisites for minimizing the cost of an adjustment based on more efficient use of idle capacity in the short term and on an increase in investment in the medium term.

The first requisite concerns policies for resource reallocation and for expenditure reduction. Precisely because it is likely that expenditure reduction policies will work more quickly than reallocation policies, there is justification for using "over-reallocation" policies on a temporary basis. Indeed, in making their adjustment the countries of the region have used both reallocation policies and policies for the reduction of domestic demand. However, because of the short period of time available to them to correct the external accounts the main effect—of both the reallocation and devaluation policies—has been to reduce expenditure.²⁷

With respect to reallocation, in the present situation—where there are considerable but different margins of idle capacity in the various sectors—the exchange policy should be supplemented by the temporary and selective use of additional incentives. It would therefore be useful to establish tariff surcharges on imports and to subsidize and stimulate exports to assist those activities with the greatest idle capacity, the greatest price elasticity in the short term, and the best potential to compete internationally in the medium and long term. The selective temporary use of these instruments would make it possible to stimulate

those export-oriented or import substitution activities which have the highest potential for responding immediately. Furthermore, selective increases in tariffs and subsidies have the advantage at not exerting such a widespread upward pressure on costs as devaluation, while they also have less of a tendency to trigger off or heighten inflationary expectations.

With respect to expenditure reduction policies, a selective policy would also have to be followed, so as to cause the least possible damage to the demand which sustains the use of the existing productive capacity, especially that geared to generating foreign exchange or to meeting the basic needs of the population.

The second requirement is recognition of the fact that in many cases, in the short term, the policies geared to export promotion will yield more foreign exchange, bearing in mind the sharp contraction in the volume of imports and the equally important structural changes that have occurred in almost all the countries of Latin America and the Caribbean since 1982. It can be deduced from this that the chances of rapidly replacing a considerable amount of foreign exchange are relatively small.²⁸

The third requirement is that in order to overcome the external bottleneck situation once and for all, there must be changes in the productive structure to increase the absolute size and relative share of export-oriented and import substitution activities. Although in the short term this increased production must basically be achieved by more intensive use of the existing installed capacity, in the medium term it can only be achieved by expanding the productive capacity of the sectors producing tradeable goods. Because of this, and because of the contraction in investment in the majority of countries during the crisis, it will be indispensable in the years to come to accelerate the pace of the global accumulation of capital, to increase its efficiency, and to change its structure and orientation.

Thus, in future it will be necessary to reduce the external imbalance (or at least keep it under control) and to steadily boost the levels of production and employment. Priority will therefore have to be given systematically to investments aimed at expanding production capacity of exportable and import substituting goods, as well as of labour-intensive goods which require relatively few imported inputs. This latter criterion means that investment in machinery and equipment should grow rather less than expenditure on construction, which has a low import content and directly or indirectly generates a great deal of employment. Accordingly, the abrupt curtailment of public works and housing programmes yields precious few benefits from the standpoint of adjustment—since it hardly reduces imports at all—while on the other hand it has a high economic and social cost, since it throws out of work many workers who

will have difficulty in finding employment in export-oriented or import substitution activities.

However, if expenditure on construction is to contribute to structural adjustment and not only to maintaining employment its allocation will have to be changed. Thus, in the selection of public works preference will have to be given systematically to those which increase or promote the production of exports and import substitutes (such as, for example, irrigation and drainage works or the construction, maintenance and improvement of roads in agricultural and mining areas), with less importance being given to those which only improve the living conditions of certain groups resident in the larger cities.

Construction policy should also obey the principle of redistribution and seek to satisfy some of the basic needs of the poorest groups. In this sense, the building of low-cost housing, construction of piped water and sewerage networks, the execution of small works to assist agriculture, and environmental sanitation have manifold advantages, since they can be carried out with a minimum of imported inputs and capital goods, they employ a great deal of labour, and they bring about an immediate and lasting improvement in the living conditions of the poorest groups.

Furthermore, priority will have to be given to investment projects which have a shorter maturity or which supplement existing installed capacity. In fact, as long as the net capital inflows are not resumed it will be necessary to apply a restrictive monetary policy in order to facilitate stabilization and adjustment. Interest rates will tend to be high, and there will consequently be a bias against investment projects involving longer gestation periods. This bias will only be rectified after the external sector crisis has been overcome.

Finally, the structure of incentives (both tariffs and export promotion measures) must be reorganized so that new investment will be geared towards the sectors with dynamic advantages. Like the short-term incentives, however, they must be selective and temporary. Indeed, both because of the inevitable limitation of the available resources and because of the need to make optimum use of them, protection must —instead of being general and indiscriminate— be concentrated on a few activities which have clear prospects of becoming internationally competitive and can therefore help to attain external equilibrium both through import substitution and export expansion.

At the same time, activities which have already matured must receive incentives only during the period when they are entering the external market.²⁹ Consequently, at all times there would be industries receiving protection for import substitution and others receiving support for exports, but in both cases the incentives would be temporary and would be reduced according to a pre-established timetable. Such planned reduction is essential both to promote efficiency and to free resources in

order to make it possible to embark upon a similar intensive cycle of initial support and subsequent gradual withdrawal in other activities with dynamic comparative advantages.

3. Price stabilization without recession

a) *General considerations*

The factors which sparked off the crisis, and the adjustment which followed, caused inflation to rise to an average of nearly 300% for the region as a whole in 1985. If reducing inflation necessarily meant provoking a recession of proportionate size, correction of these extremely high levels would bring on an unprecedented depression. However, there are well-founded reasons for asserting that this would not be the inevitable result of a stabilization programme.

From an analytical point of view, bringing inflation down calls for no more and no less than slowing down, in the most balanced way possible, the growth of the nominal values of the principal variables of the economies such as the exchange rate, the money supply, wages, etc. Systematic changes in the real variables such as production and employment are not required, nor does such action imply systematic redistributions of income. While examples of stabilization policies that have led to the slowing down of economic activity and employment abound, there have also been stabilization programmes that were not recessionary, or were even expansionary.³⁰

If an anti-inflation policy does not necessarily have to generate recession, one naturally asks oneself why recession has characteristically been one of the results of stabilization policies. There seem to be two answers to this question: the first is that there may be errors of diagnosis or conceptualization which mean that the secondary causes or symptoms of inflation are attacked instead of the root causes; the second is that there may be errors in implementation, for however well conceived a programme may be, the measures adopted for its implementation may or may not be the most suitable.

Experience indicates, in the first place, that generally speaking all inflation has two components: one, a sudden or disequilibrium component which causes the outbreak of inflation; the other, an expected or equilibrium component which causes the upward movement of prices to be persistent. Strictly speaking, those theories which attribute inflation to demand pressures, to an increase in costs, or to structural factors can explain the outbreak of inflation, but not the persistence of the inflationary process. This persistence is attributable to factors of propagation which, in turn, are linked to inflationary expectations and indexation mechanisms.

An assessment of the relative importance of these two components of the inflationary process is fundamental to the proper design of a stabilization programme. The lower or more occasional inflation is, the lower will be the inertial component and consequently, the greater will be the need to design policies to modify the basic elements which gave rise to the disequilibrium.³¹ Conversely, the more intensive and more protracted inflation is, the less point there will be in attacking the mechanisms which caused the disequilibrium and the more crucial it will be to control the factors of propagation.

There has been a lengthy debate on the imbalances which gave rise to inflation in Latin America. According to the traditional approach to the analysis of inflationary processes, structural factors provide the fundamental explanation for this phenomenon. Although this approach continues to be valid, however, the appearance in the 1980s of extremely intense inflation of three or four digits makes it advisable to go more deeply, as is done in the following paragraphs, into the factors responsible for the propagation of inflation. At all events, in the design of stabilization programmes it will be necessary to take both types of factors into account, and their relative importance will be decisive in deciding the nature of the anti-inflation policies adopted. Once there is a factor which triggers off inflation (regardless of whether it is structural or not) the rate of price increases can reach a level quite out of proportion to the initial inflationary pressure, depending on whether an inflationary spiral has been started which will cause the upward movement of prices to generate successively wage increases, a higher fiscal deficit, greater monetary expansion, and further price increases in a constantly repeating cycle.

Furthermore, if a high rate of inflation persists for a prolonged period, it will create expectations that the phenomenon must continue. Frequently, these expectations become institutionalized in the form of ever-expanding indexation mechanisms, which are used to determine exchange rates, interest rates, rents, wages and taxes. Thus, it may occur that after a certain time price levels continue to rise by their own momentum, even though the factors which caused the initial outbreak of inflation have disappeared. In such an event, there will be inflation with its attendant monetary expansion, fiscal deficit and increasing costs (because ultimately inflation cannot take place if the means of payment do not also rise), but these factors will not be its cause: this will be rather in the inflationary expectations and the indexation mechanisms to which they gave rise.

Again, even where inflation is not due solely to inertia or to equilibrium factors, inertia may be the dominant component. In that case, the stabilization programme would have to be centered around altering the inertia affecting the upward movement of prices. Whether the initial

components that caused the imbalance should be corrected simultaneously is another matter. However, as the drastic stabilization programmes recently applied in Argentina, Bolivia, Brazil and Peru have demonstrated, it is possible to achieve significant reductions in inflation (although not to eliminate it entirely) without necessarily seeking full and simultaneous correction of the basic factors that caused it.

A second lesson that can be learned from this experience is that a slowdown in the inflation rate is usually accompanied by a contraction in the growth rate of aggregate demand, but this does not necessarily mean that excessive aggregate demand is the root cause. Unfortunately, not all slowing down of demand acts solely in the direction of reducing inflation: it often also induces a recession or causes serious upsets in the distributive structure. Determining why sometimes a slowdown in the nominal aggregate demand reduces only the rate of price increases without having a negative impact on economic activity, whereas on other occasions it also reduces production, is a central problem of macroeconomic theory and policy.

The formation of inflationary expectations greatly hinders the rapid reduction of the rate of price increases. As in the case of other rigidities, overcoming the effects of these expectations calls for a comprehensive and co-ordinated policy.

There are two main interpretations of the phenomenon of expectations, which need to be distinguished here. According to the first, the problem of the rigidity of expectations is centered in the labour market and arises particularly through the application of "backward-looking" indexation mechanisms. These mechanisms cause labour contracts to incorporate inflationary expectations which exceed the inflation targeted in the stabilization programmes. The result is that if the indexation mechanisms are not changed, the reduction of the inflationary process will trigger off an increase in real wages which, in turn, will cause unemployment and recession. According to the second, the most serious problem lies in the rigidity of the expectations in the merchandise market. Producers fix their prices according to expected inflation and not only according to cost pressures. If this level of prices (or inflation rate) is above what is compatible with the stabilization programme, the demand will not be enough to buy all the goods which the system is capable of producing, causing recession and layoffs. In this case, the unemployment would not have been caused by higher wages —these might even be declining because of unemployment— but would have been caused by the very high inflation induced by the rigidity of the inflationary expectations of the producers. According to this interpretation, the recovery of the levels of production and employment would require speedier adjustment of prices in the merchandise market —perhaps through price controls— in order thus to avoid the recession which would reduce wages even further.

In short, the drop or slackening in production (recession) as well as in prices (inflation) are to be explained by the existence of rigidities. Especially in the case of persistent inflation, these rigidities may not only be institutional in origin (trade-union power, indexation mechanisms), but may also be non-institutional (expectations, expectations regarding the expectations of others, credibility, etc.). These latter causes of rigidity are vaguer and more difficult to identify or check.

The region's experience in inflation shows, furthermore, that there are many more types of inflation than are indicated in traditional theory, with different policy implications. Here, it is useful to distinguish at least three types of inflation: occasional inflation, high and persistent inflation and acute inflation leading to hyperinflation.

Rather than its intensity, what distinguishes occasional inflation from persistent inflation is that in its case the expectations that it will continue have not become generalized, whereas in the case of persistent inflation the belief in its persistence is so widespread that indexation mechanisms which perpetuate the upward movement of prices are set up. When wages, the exchange rate and interest rates are indexed, there is a tendency to prevent a drop in wages, an increase in the balance-of-payments deficit or the contraction of savings, all of which are usually associated with inflation. If the economy is extensively indexed, the costs of persistent and high, but relatively stable, inflation will be lower than those of occasional inflation, since the difference between expected (indexed) inflation and actual inflation will be slight. Hence, persistent and relatively high inflation may be compatible with satisfactory economic growth and the maintenance of an acceptable external balance.

If inflation begins to climb so fast that it excessively shortens the adjustment periods of contracts, however, this does increase costs. If the frequency of price reviews is increased from annually to semi-annually or even monthly, all economic calculations become extremely difficult. The process leads to hyperinflation, and both macroeconomic and microeconomic planning becomes increasingly complex. Furthermore, the process becomes very sensitive to outside disturbances, since changes in relative prices can only be achieved by extremely high inflationary acceleration. Furthermore, as inflation speeds up, the demand for money declines and the speed of money circulation increases, causing a shift towards goods or foreign exchange and leading to a regression to barter, which impedes even further the operation of the economic system.

The costs of inflation, which are difficult to measure, usually take on a sinusoidal form: during the first phase, when inflation is recent and unexpected, they are usually proportionate to the rate of price increases; in the second phase the costs are relatively lower, as the inflation becomes expected and predictable and indexation expands; but they begin to rise and continue to do so when inflation passes the critical

threshold to shorter readjustment periods and an accentuated trend towards hyperinflation. Likewise, when inflation has taken place simultaneously with periods of recession, as has occurred in recent years in the majority of countries of the region, it has clearly tended to be redistributive, since it has been the main mechanism for differentially sharing out the losses in the real income of the different economic agents, to the detriment of those less able to adapt to the changing expectations.

Not only do the costs of inflation vary according to its nature and intensity but so also do the risks that a stabilization policy will prove to be recessionary. Experience suggests that those risks are greater when inflation is persistent. In fact, the very expectations and indexation mechanisms which render high, persistent and relatively expected inflation tolerable make it more difficult to correct it, since they restrict the system's capacity to respond to the slackening of aggregate demand, causing a decline in the product instead of merely slowing down the rate of price increases. This is why it is important to manage inflationary expectations and indexation mechanisms in accordance with the inflation target set (and not with past inflation) in order to avoid recession.

The risk that a stabilization policy will be recessionary is lower both with occasional inflation and with hyperinflation. In the first case, precisely because there has been no previous long-standing inflationary experience, there are no indexation mechanisms and the majority of the economic agents act on the premise that a normal situation is one of stability and not a continued rise in price levels. In the second case, the inflationary expectations have not yet become consolidated at the new pace, and indeed cannot do so, because of the inherent instability of such high rates of increase. Consequently, the different social groups and economic agents are prepared to place greater belief in the anti-inflationary programme and give it more support. The risks that a stabilization programme will cause a recession therefore tend to follow a path similar to an inverted U.

The implications of the preceding analysis for economic policy are clear. Because the cost of fighting the pressures of occasional inflation is not only high but also increases with the intensity of the inflationary outbreak, and also because of the fact that in the latter case the risk of the stabilization programme prompting a drop in economic activity is lower, the decision to reduce inflation must be taken quickly. Thus, efforts should be made to prevent the creation of indexation mechanisms and inflationary expectations which would later make it much more difficult to reduce the rate of price increases. The enormous economic costs of hyperinflation and the threat it represents to the political and institutional stability of a country also make it clear why there can be no delay in applying a stabilization programme in such a situation. An anti-inflationary policy is of lower priority and the stabilization programmes

are less urgent, however, when inflation (although high and persistent) is stable.

b) Policies

The elimination of the disequilibrium component in an inflationary process calls for policies that remove the root cause of the outbreak of inflation, whereas the elimination of the inertial component requires a series of policies which reduce the inflationary spiral (such as de-indexing and control of expectations) and make it possible to slow down the increase in the nominal values of the main variables as simultaneously and as evenly as possible. This is why it is so important that there should be a good diagnosis which distinguishes between the components of inflation in order to put together the best possible combination of the policies which make up a stabilization programme and which usually include controlling aggregate demand, correcting relative prices and guiding expectations.

Generally speaking, the more intensive the inflation, the less important it will be to correct the relative prices, since in such a case it is the guidance of expectations and control of total demand which is of fundamental importance. In the case of occasional inflation in contrast, it would be vital to correct relative prices and rapidly control aggregate demand to prevent the rise of inflationary expectations or the establishment of indexation mechanisms. Finally, in the case of high and persistent but relatively stable inflation, elimination of the inertial component would be fundamental, and for this it would be indispensable to reconcile the reduction of the growth rate of aggregate demand with a simultaneous and relatively even deceleration of the various cost components.

As a rule, there can be no effective stabilization programme if there is no control of aggregate demand. This does not mean acceptance of the theory that all inflation is fundamentally the result of excessive demand. It simply means that monetary and fiscal expansion (whether autonomous or induced) usually accompanies every inflationary process and that, therefore, in order to stabilize prices it is necessary to control the growth of nominal aggregate demand.

Whether a slowing down of aggregate demand leads to recession or not depends not only on the other components of the stabilization programme but also on the mechanisms used to reduce government expenditure and raise government revenue (or reduce private expenditure). Because inflation has identical characteristics to those of a tax, its elimination would mean that it must be replaced by another tax, so as not to affect the overall tax burden. Tax neutrality would mean favouring an increase in incomes over a reduction in expenditures (unless the original inflation was due to an increase in expenditure in relation to output). Moreover, an increase in tax revenues usually affects all activities in a

more even-handed way than a cutback in expenditure, so that the adjustment would probably take place more because of a reduction in prices than in output. In contrast, if the contraction of expenditure is centered on a few items or affects investment more than current outlays (without much distinction being made between the reduction of the purchase of imported or national equipment, wages or employment), the slowdown in aggregate demand would tend to curtail economic activity as well as inflation.

With regard to the control of expectations, the relative rigidity which they usually display means that when a slowdown in the nominal aggregate demand is not accompanied by a policy of guiding expectations towards a targeted rate of inflation, the rate of increase in prices will decline more slowly than planned, thus creating a recession. In such a situation, stabilization programmes must include a temporary policy on incomes and key prices which will temper or control the movement of the nominal values of the decisive variables —wages, exchange rate, interest rate, prices of widely used goods, etc.— so that these values can be slowed down simultaneously and evenly, in keeping with the targeted rate of inflation.

Thus, in contrast with the proposals put forward in orthodox stabilization programmes, initially prices should not be decontrolled but, rather, controlled. In contrast with the traditional price control systems, however, the purpose of doing so would not be to hold down inflation but rather to bring the key variables to what are considered to be their final equilibrium levels as soon as possible. Equally, unlike traditional price control—which is oriented primarily to setting the prices of agricultural products, because these weigh heavily in the basket of consumer goods—control should be centered on industrial prices, since the aim is to control expectations and not to curb inflation. It is the industrial prices which usually have greater leeway and are consequently the most affected by inflationary expectations. The fundamental purpose of this policy would be to ensure as far as possible that each economic agent, in adjusting his prices to meet the targeted rate of inflation, would not suffer a relatively systematic loss because the other economic agents would also be compelled to adjust their prices to meet the same target. It would therefore appear to be counterproductive to decontrol prices and interest rates abruptly (as is usually done in orthodox stabilization programmes) right at the beginning of a stabilization programme whose success depends, to a very great extent, on the behaviour of inflationary expectations.

On the other hand, not just any arbitrary target for the slowing down of inflation will suffice, for it must be compatible with the monetary and fiscal controls which can actually be applied. Otherwise, the programme will lack consistency and credibility and expectations will push prices above the programmed level. Moreover, a bigger decelera-

tion of key prices would not be consistent with the monetary and fiscal programme and would therefore run the risk of ending in failure. This is why, in the unorthodox stabilization programmes applied in Argentina, Bolivia, Brazil and Peru, the authorities have announced not only a price freeze but also measures to reduce the fiscal deficit and, in at least one case (Argentina), the total elimination of financing of the deficit by the Central Bank.

Finally, with respect to the correction of relative prices, a real additional difficulty faced by stabilization programmes is that in the majority of the inflationary processes —except in the extreme and improbable case of an inflationary process due solely to inertia— the increase in prices, although widespread, is not even. The lags (and consequently also the excessive advances) in relative prices are caused by sudden and unexpected changes in supply (for example, a drought), in demand (for example, sharp changes in export prices), or in economic policy (adjustment programmes). Consequently, among the prices which are usually lagging for a time behind the other prices are the exchange rate (which adversely affects the balance of payments); public service tariffs (which push up the fiscal deficit); agricultural prices (which curb the growth of the production of basic foodstuffs); interest rates (which renders it difficult to make an efficient allocation of investment and gives rise to heavy redistribution of income from savers to debtors); and real wages (which redistributes income regressively and tends to generate a contraction of the productive sectors that supply the domestic market).

As a result, if the stabilization programme is not to serve merely to reduce inflation temporarily but is to be lasting and effective, these disequilibria in relative prices must be corrected. The readjustment of lagging or repressed prices may be considered by economic agents as an indicator of probable future inflation, however, and in that case the inflationary expectations may well exceed the targeted rate of inflation implicit in the monetary and fiscal policy. Consequently, the number and the amount of the corrective adjustments must be kept down to the absolute minimum.³²

B. THE ENCOURAGEMENT OF DOMESTIC SAVING

1. The nature and extent of the problem

Changing the structures of production and expanding the product call for the investment of human and physical resources as well as an increase in productivity. This second factor, which is as important as it is complex, is linked with the process of gross capital formation but also involves such aspects as the resource endowment, the orientation of the development strategy, technological progress, education, labour training and market size.

Historically, most of the countries of the region have registered coefficients of saving and investment higher than those of other developing regions. Even during the last five years —when overall the economies stagnated or even suffered setbacks— the coefficient of saving remained more or less constant. As noted in previous chapters, however, an important part of this domestic saving was transferred —and continues to be transferred— to the exterior, both through the payment of interest and, in the case of many countries, through flights of capital, so that there has been a marked weakening of the processes of capital formation. The quantitative impact of recent trends on development financing may be illustrated by noting that on average approximately 20% of the gross domestic product of the region is saved. Of this coefficient, around two-fifths goes to restore the stock of capital, while between a quarter and a fifth goes to service the external debt; consequently, only 7 to 8% of the product is left for financing the expansion of production capacity.

The urgent need to increase investment and the problem of how to finance it make necessary an analysis of the many and complex interrelationships between domestic and external saving; two aspects which should strictly speaking be tackled simultaneously. In view of the importance which the topic of the external debt has assumed in the present circumstances, however, it has been decided to analyse domestic saving separately in the present study. It should nevertheless be emphasized that external constraints have prevented a higher level of capital formation: through the constraint on the overall expansion of the economies, on the one hand, and through the net transfer of domestic saving to the exterior, which has already been mentioned on a number of occasions, on the other. In order to change these trends it is necessary to recover the capacity to grow and to reduce or reverse the net transfer of resources. These measures must be supplemented with others designed to generate, procure, mobilize and retain domestic saving, to channel it towards productive investments, and to raise the productivity of investment.

2. Factors governing domestic saving

The analysis made and the experience of the developing countries in general and Latin American and Caribbean in particular show that in addition to factors of an institutional nature (such as, for example, a predictable macroeconomic policy, clear rules regarding the relation between the State and private agents, and stability in the political and social field) there are a number of variables which govern domestic saving. In the first place, there is income and its rate of growth.³³ Generally speaking, it is observed that public and private saving display a form of behaviour which is procyclical with these variables and which also correlates positively with the transitory component of income and with an improvement in the terms of trade.

A second variable is the dynamics of income distribution. Generally speaking, it has been held that the highest-income sectors of the population tend to save proportionately more, despite their proclivity to copy consumption patterns typical of the advanced societies. As these sectors are also those with the greatest proclivity to send their savings abroad, however, experience seems to suggest that in practice an increase in saving—apart from that generated through increases in income—can be achieved most easily by compressing the consumption of the weakest or most underprivileged groups. This phenomenon means that there is little room left to promote increased saving while at the same time pursuing the objective of improving income distribution.³⁴ It has also been observed that domestic saving increases after redistributive changes due to a relative increase in the prices of internationally tradeable goods (typically, after a devaluation), with a consequent deterioration in real wages.³⁵

A third determinant is connected with the profitability of saving. It is generally observed that "financial saving" provides positive profitability on the instruments involved. In contrast, private saving and national saving as a whole do not display any significant correlation with the real interest rate.³⁶ It would appear that in the determinants of saving the income effect prevails over the substitution effect. Similarly, the real interest rates lead to the growth or reduction of financial saving at the expense of other forms of saving, generally linked with the hoarding or acquisition of tangible assets, or even consumption.

A fourth determinant, which is of importance in financial liberalization experiments, is the perceived value of wealth. This is strongly influenced by the expectations of future income and drastic changes in the prices of assets, both of which elements often depend on speculative considerations or financial or tax reforms themselves. Sudden substantial increases in this value of wealth may mean that even if there are high interest rates the "wealth" effect may predominate, thus ultimately encouraging consumption instead of saving.

Finally, mechanisms for the forced generation of saving have been of importance in the region. They have been connected with a (direct or indirect) active role by the State as a regulator of the process of saving and investment; in such cases, the State has acted through taxation or programmes making it obligatory to pay certain contributions in exchange for certain rights, or to take out insurance or set aside funds for certain eventualities.

3. The capital markets and systems of intermediation

The lack of correlation between the mobilization of financial saving and levels of real saving, and even more so between financial saving and investment, does not mean that the existence of efficient intermediation

systems and capital markets is not important in efforts to raise saving and channel it towards productive investments. In this respect, since the late 1960s (with few exceptions) some marked shortcomings in national financial systems have shown themselves, particularly as regards the domestic capacity to mobilize financial saving and the relative weakness of such financial systems *vis-à-vis* the international financial centres. In many countries, there are forms of organization which tend to increase costs, restrict the procurement of funds, break up and deteriorate services, and, in short, hinder the expansion of financial intermediation. In these circumstances, the foreign banking system has gradually but persistently begun to fill the vacuum left by the Latin American and Caribbean financial systems. Thus, in the present decade it has been precisely the systems most heavily indebted to the exterior which have had to face the greatest difficulties as a result of the recessionary situation and the economic adjustment policies adopted by governments. Furthermore, investment banks, stock exchanges, insurance institutions and other entities that procure long-term resources are usually weak, not to mention the almost total absence of future markets, arbitration services and foreign exchange cover. Similarly, the variety of national fixed or variable income securities that are suitable for inclusion in investment or treasury management portfolios of enterprises and savers is rather rudimentary, or at least very limited compared to the instruments and services offered by foreign institutions.

The absence of an adequate volume of long-term financing has limited the potential for capital formation. The productive sector has reacted to this situation by restricting the distribution of profits, by repeatedly renewing short-term bank loans and, in the case of the larger enterprises, by going directly to external sources of financing.

This type of solution has a number of consequences, both at the microeconomic and the macroeconomic levels. Thus, only already existing enterprises can limit the distribution of profits. The absence of a well-developed financial system indirectly promotes the creation of economic conglomerates with direct links between productive and financial activities, with the attendant effects on the allocation of resources and the distribution of income and wealth. The renewal of short-term loans increases the risk to the debtor, both because of possible changes in interest rates and the chance of a limit being placed on the amount of money that is loaned, without adequate prior notice. External indebtedness, for its part, not only increases the impact of exchange risk on the liquidity and solvency of businesses but can also affect the way monetary policy is managed. The absence of a suitable level of long-term financing spurs short-term investment, quick and easy profits and even speculation, all of which militate against the necessary quantity and quality of capital accumulation.

Today, the traditional inadequacy of domestic resources is compounded by the accentuated imbalance in the functioning of the financial circuits with foreign connections. In many countries, savings continue to flow abroad, both as factor payments and through the flight of capital, whereas credit flows towards the countries have been abruptly halted. With the collapse of the external credit supply, the entire demand for funds for loans was suddenly redirected to the weak national financial systems. The consequences are evident in the great imbalances between the needs for and the supply of resources, which have been temporarily resolved through the creation of means of payment or through the displacement of entire sectors of credit users. This has caused keen competition for credit between the public and private sectors, between small or medium sized enterprises and larger enterprises, and between the various branches of economic activity. The excess of demand for funds, in view of the domestic and external financial constraints, has put pressure on the credit and exchange markets and on the balance of payments, making it necessary to impose severe limitations on credit expansion.

The experiences described make it imperative to reformulate some questions concerning the role and potential of the financial intermediaries in the process of procuring savings, in the light of the general criterion—not always followed in the intermediation systems (especially the private ones)—that the capital thus procured should be assigned to productive investment or to improving the quality of the labour force. One of these questions is that of defining the characteristics that reforms to the national financial systems might have.

4. Policy measures

There are four main issues that must be resolved with regard to the region's saving. Firstly, it is essential to achieve an expansionary adjustment process which will make it possible to generate economic surpluses. Secondly, this adjustment must be achieved without promoting greater concentration of income. This aim should be pursued by furthering social formulas for the generation of savings and encouraging a reduction of consumption by the most privileged strata of the population. Thirdly, it will be necessary to promote financial saving and make it more efficient as regards its mobilization to support priority investment activities. For this purpose, it will be necessary to modernize the national financial systems, rebuild the financial circuits destroyed by the debt crisis, and take domestic measures to limit the flight of capital. Finally, it will be necessary to reach agreements with creditor countries and the international banking system in order to reduce or reverse the net outflow of domestic savings, without which the possibility of reactivating the economies of the region would be merely an idle dream.

Starting from these bases, the following paragraphs explore some priority areas of action to promote, retain and improve the mobilization of national savings, namely, the design of macroeconomic policy; expansion of public sector saving; promotion of institutional saving; repatriation of capital, and the modernization and rebuilding of the intermediation system. The topic of external financing will be dealt with later, in chapter IV.

a) *Macroeconomic policy*

The importance of macroeconomic policy in this matter is obvious. In the present economic circumstances, both saving and investment are of a procyclical nature and this brings out the urgent need to reactivate the economy. Macroeconomic policy should be characterized by a general leaning towards austerity, with encouragement of saving and discouragement of certain types of consumption. This topic is explored in the next section. It is generally felt that proper design of the main macroeconomic policies could help considerably to attain the goal of freeing resources to back up an expansionary adjustment. To this end, it is necessary to harmonize monetary, fiscal, exchange and credit policies so that the main key variables, such as wages, the exchange rate, interest rates, the public sector budget, the monetary base and the domestic credit of the monetary system evolve in a manner that fits in with a coherent programme geared to the reactivation and transformation of economic activity and to reducing the levels and variability of inflation.

A subject of particular importance is that of interest rates. On the one hand, it is obvious that real positive rates which are reasonably competitive with international levels must be achieved; on the other hand, however, the increase in interest rates has a number of secondary effects which are not always positive. Suffice it to say for example, that when these rates exceed certain critical levels linked with the yield on capital or the economic growth rate, even the soundest and most solvent borrowers are pushed out of the market, thus increasing the average risk of the loan portfolio of the financial system. The portfolio is thus weakened, along with the liquidity situation, and in some cases, even the solvency of the financial system as a whole. Moreover, as already noted, experience shows that there is no clear nor close correlation between interest rate policy and saving. Financial saving is not necessarily transformed into investments, and the resources procured by the financial system may instead be channelled towards consumption expenditure. Global saving, for its part, may not increase if, due to other macroeconomic policies, external saving is stimulated to the detriment of domestic saving or encouragement is given to consumption.

Some countries have attempted to establish flexible interest rate policies, with the dual purpose of attracting capital to cover external

deficits and retaining domestic savings which could shift to foreign financial circuits. Here, the interest rate becomes an instrument of the balance of payments and thereby, at least partially, ceases to form part of active monetary policy. External increases in interest rates or speculative exchange movements make it necessary to raise domestic rates and thus restrict economic activity or investment. This policy system is now partly outdated, since with the onset of the regional debt crisis the external supply of loans has become extremely inelastic. Hence, giving greater flexibility to interest rates almost exclusively plays the role of increasing the competitive capacity of the national financial systems for procuring resources from domestic savings.

In short, the question of interest rate policies must be approached with the same pragmatism recommended in other parts of this document, and as an integral part of a broader set of macroeconomic policies. In principle, in view of the growing internationalization of financial systems, it is desirable that deposit interest rates should be positive in real terms and should be at levels comparable to those prevailing on international markets, so as to try to retain domestic financial savings and at least have a chance to orient them towards development-linked aims. At the same time, however, this does not mean that interest rates should be left entirely to find their equilibrium level through the play of international market forces. Instead, an active monetary policy aimed at reducing some of the adverse effects mentioned in previous paragraphs should be pursued.

b) *Increasing public saving*

It is essential that, through monetary and credit policies, the public sector should help to improve the financial system's effectiveness in the intermediation and mobilization of domestic resources. In this connection, it can be deduced from recent experiences that the tax and financial policies and reforms should act on the investment and saving flows and be geared to stimulating the creation and expansion of new productive assets rather than to holding and increasing the value of existing assets. This is an obvious area of complementation between the credit policy and fiscal policy in general and tax policy in particular.

In this sphere, it is clear that, in the present economic situation, the State has a dual role to play: on the one hand, it must prevent a disproportionate share of the sacrifices from falling on the weakest sectors of society, and on the other it must take active responsibility for promoting domestic saving. In order to fulfil this dual role, it is necessary to increase tax collection and selectivity³⁷ —the latter being aimed at discouraging the consumption of non-essential goods— and it must take care to keep down current expenditure (except for social expenditure, much of which —strictly speaking— closely resembles expenditure

on investment). Furthermore, in view of the urgent need to improve the productivity of investments and to achieve maximum efficiency in the use of savings, it is very important to secure a considerable improvement in the efficiency (in the broad sense) of the way the public sector operates. To this end, it is necessary to improve the management and running of the State and to apply very demanding criteria as regards minimizing the cost of collecting State revenue and evaluating from a social viewpoint investment projects which depend directly or indirectly on the State.

As regards capital expenditure, this has gone down abruptly in the great majority of the countries in recent years. In view of the great importance which it had in the past as a factor of dynamism, because of both its direct effects and its effect of inducing private investment, it is essential to reverse its downward trend and to channel the resources towards projects which further the transformation of the structure of production and more equitable distribution of the fruits of development.

Efforts to improve the public finances, on both the expenditure and the income sides, must be complemented with special arrangements to finance the deficit produced. Here, there are two main considerations. Firstly, in view of the cessation of the flow of external credits, the public financing measures must not push private enterprise out of the domestic credit market, nor cause excessive competition for the few existing resources, since this would raise real interest rates to inadvisably high levels. Such an attitude would militate directly against any possibility of combining the adjustment with structural adaptations on the supply side. It is also necessary to ration credit temporarily in favour of priority activities and even to finance part of the public deficit with resources which have not been generated by true saving.

Furthermore, when calculating the size of the public deficit—whether for the purpose of macroeconomic management or for agreeing on conditionality targets with international finance agencies—it is necessary to use the concept of the operational deficit, which excludes that part of the interest payments representing (because of the effect of inflation) the advance amortization of the principal or exchange adjustments which do not have any net repercussions as regards expansion of the money supply.

At all events, putting the public finances on a sound basis in a situation of prolonged recession and inflationary pressures demands time for making the necessary reforms and adjustments. Applying shock treatments usually creates more economic—and political—problems than it solves, bearing in mind the primary objective of maintaining positive rates of evolution of national income.

c) *The encouragement of institutional saving*

Recent experience suggests that it would be desirable to complement public saving with institutional saving mechanisms in order to augment domestic saving by encouraging programmes connected with housing finance for workers, social security, benefit programmes for years of service, work accident insurances, etc., all of which by their very nature are connected quite directly with long-term investment.

As regards the social security system and specifically the pension system, their contribution to aggregate saving depends on the difference between the income and expenditure of the system and on the smaller personal or family saving which such a system may induce.³⁸ One of the considerations that promoted the implementation of the system was, in fact, the sparse voluntary personal saving intended to cover the retirement needs of the work force, which seems to indicate that the net effect of the social security system on aggregate saving is a positive one.

The effects of the other programmes on global saving depend very directly on the beneficiary workers individual propensity to save and also on how the various programmes are financed. In any event, experience suggests that this type of programme, together with others of a more voluntary nature, although also institutional in character —such as housing finance and general and life insurance systems— have a considerable impact on the decision to save and represent an important potential source of resources for the saving and investment process. They also have the added advantage of linking saving with capital accumulation more directly, thus minimizing the diversion towards consumption of funds destined for loans.

Finally, consideration should be given to establishing national workers' funds, with contributions from both workers and employers, to finance activities of high social productivity. Not only would this help to finance long-term investment projects, but the ownership of these new sources of wealth could also be extended to the poorest and most vulnerable social groups, which usually find it difficult to gain access to the financial system.

d) *Potential repatriation of capital*

The so-called flight of capital has assumed considerable magnitude in recent years.³⁹ This phenomenon was attributable not only to the different levels of capital remuneration but also to exchange rate risks, factors of uncertainty and, in some cases, phenomena of a non-economic origin. However, the countries of the region today have the potential represented by the deposits and investments abroad. In this sense, whereas the external debt generates an obligation to pay interest, much of the capital deposited abroad generates a flow of income which is not

entered in the accounts of the debtor countries as external factor payments. Consequently, although there is an indisputable need to increase savings, it might well be that they are somewhat higher than indicated by the figures. Therefore, policy guidelines should appraise the options available for trying to reverse or at least halt the unilateral process whereby national savings are transferred abroad.

In the face of the many motives implicitly behind these flights of capital, it is not easy to suggest real content for these options. A number of parameters are quite clear, however. As regards the management of macroeconomic policy, for example, this means maintaining positive real deposit interest rates in the countries of the region, combined, in some cases, with controls over the movement of capital. These measures could be supplemented with insurance of deposits and the possible issue of securities with exchange guarantees or at least safeguards against losses due to inflation.

At the very least, care should be taken to ensure that the macroeconomic policies are consistent, so as not to encourage expectations that will contribute to a permanent flight of capital. In actual fact, the feasibility of maintaining a given exchange strategy or interest rate depends not just on its effects on external trade and domestic prices but also on the way the economic agents perceive those effects. In a situation such as this, with unrestricted access to the exchange markets, the lack of consistency in the policies means that the activities of speculators can create a climate of distorted expectations which is capable of frustrating even the best-conceived policies.

Halting the flight of capital or encouraging its repatriation is not, however, a subject which concerns exclusively the countries of the region. Thought must also be given to instruments which may require co-operation by the industrial countries. It is worth noting, for example, that many of the incentives to capital flight stem from the policies of the developed countries, especially the United States, which encourage such flight by offering high real interest rates, by the tax treatment accorded foreign deposits, by State insurance of deposits and secrecy in banking.

e) *Modernization and restructuring of the intermediation system*

Although, as already noted, procurement of resources by the financial system does not guarantee either that investment will increase or that it will be directed towards sectors with a high social return, there is no doubt as to the importance of strengthening the financial intermediation circuit, at both the national and regional levels, as a complement to efforts to increase public and institutional saving and to the concentration of joint efforts to negotiate the resumption of net flows of credit from abroad.

In this connection, the most immediate task would appear to be to restore the liquidity and solvency of the domestic financial systems. In particular, the normalization of the conditions of domestic indebtedness is one of the main prerequisites for economic reactivation and for enabling the banks to contribute to mobilizing resources for economic development.

At the same time, the problem of the debtors of the banking system needs to be faced, in order to stimulate private investment and facilitate a selective credit policy geared to assisting the dynamic sectors with a real ability to pay. The qualitative and quantitative improvement of the supervision and regulation of domestic financial systems is one of the main professional challenges to be faced in the future, because although what is needed is to establish control, and where possible, preventive mechanisms, designed to give stability, security and solvency as well as efficiency to a modern financial system, this is an area where acquired theoretical and practical knowledge is perceived as being inadequate to face the magnitude and urgency of the task at hand.

The above-mentioned measures should be supported by policies aimed at diversifying and modernizing the domestic instruments for procuring resources *vis-à-vis* the services offered by the international banks. The new as well as the old instruments for procuring resources would have to be oriented primarily to providing assurances that the purchasing power of savings will be protected. Furthermore, as already noted, it is necessary in principle, to achieve returns generally comparable to those prevailing in the international financial markets. It is also necessary to offer a variety of instruments that would allow for some diversification in the portfolios of savers and treasuries, both to reduce risks and to meet the various liquidity or profitability requirements.⁴⁰

In addition, it would be necessary to adapt the procurement of financial savings to the need to channel resources towards productive investments, which suggests that it is necessary not only to pay more attention to the question of interest rates on loans —so that these are compatible with the normal levels of profitability of productive activities— but also to ensure some selectivity in the allocation of credit from the financial system. At the same time, it would be advisable to review the criteria regarding the sectoral coverage of development institutions providing medium- and long-term financing, in line with the concept of systems of production set forth in the next section. In many countries of the region, the money and capital markets are not presently able to fulfil the functions indicated above. It therefore also appears necessary to refashion the direct instruments and indirect services connected with the systems for procuring and mobilizing resources; to modernize the banking systems, and to strengthen the institutions of the capital markets and financial intermediation in general. This would be a

move towards improving the ability of the domestic banking activities to overcome their disadvantages *vis-à-vis* the international banks by offering savers diversified, profitable, liquid and relatively risk-free portfolios. This could also be a suitable field of action for co-operative efforts, both regionally and subregionally, to increase the financial support for payments systems, with the attendant saving of foreign exchange in intra-regional trade and investment and, on the basis of the already established regional or subregional banks, to establish or improve joint systems of export financing and commercial and financial risk insurance.⁴¹

Changes in the financial system cannot be confined to remodelling the direct instruments and indirect services connected with the systems for procuring and mobilizing resources. Many other tasks would have to be undertaken with a view to modernizing the banking systems and strengthening the institutions of the capital markets and financial intermediation in general. With respect to the institutional aspects, it would be desirable to stimulate longer-term loans by the commercial banks. The problem lies in the risk that it would represent for the banks to convert short-term liabilities into long-term assets, since there is a tendency, especially in inflationary situations, towards the predominance of floating interest rates which, in practice, reduce the effective term of loans.

In addition to greater attention to interest rates, it appears indispensable to make credit more selective because of the heterogeneous, fragmented and uneven access typical of the credit market. This selectivity should be complemented by giving those bodies which supervise, regulate or control the financial system a more preventive and effective role in order to keep the risks of that system within acceptable margins, to ensure the stability and soundness of its institutions, to direct financial saving towards uses of high social returns, and if necessary, to separate the banking system from the economic conglomerates.

Finally, in view of the expected limitations on fresh external financing, there seems to be little justification and many risks in liberalizing domestic financial systems. Indeed, it should be noted that as long as there is no reciprocity in sharing out the burdens deriving from the adjustment and the external debt, and as long as the circuits for the return of credit remain closed, many countries of the region will have no option but to reduce their degree of openness and integration to international financial markets, through controls on capital movements. On the other hand, however, it does not seem realistic to seek virtual isolation from those markets, in view of the interdependence of the financial systems at the world level.

The way this question should be tackled will obviously vary from one country to another. An eclectic solution which has been tried out in recent years in order to keep domestic savings within the financial circuits and possibly also to attract external financing, however, consists

of combining: i) an active monetary policy; ii) an interest rate on deposits which is positive in real terms and is adjusted in accordance with exchange rate variation; iii) control over private capital flows, and iv) external indebtedness policies designed to channel the scarce foreign exchange thus mobilized towards applications compatible with development and, when appropriate, with centralized external financing management by the Central Bank.

C. TRANSFORMATION OF THE STRUCTURE OF PRODUCTION

1. The need to adapt the structures of production

In view of the gradual loss of some of the dynamic properties of the earlier industrialization model, the fall in demand for the traditional export products and in their prices, and the fact that some forms of the structure of production contributed to increasing social differentiation in the past, the countries of the region cannot be expected to return to the path of development through an extension in time of the supply patterns of the past and the economic policies that sustained them. Hence it becomes necessary to diversify the export structure, improve efficiency and productivity, and in general reduce or eliminate the relative lags in the structures of production and participate fully in the intense technological changes taking place in the world. At the same time a set of direct measures must be formulated to benefit the low-income sectors most affected by the adjustment policies.

This calls for a profound, systematic and persistent effort to eliminate, or at least to reduce, the relative lags in the production structures, in order to revive the capacity for growth, increase autonomy, safeguard the supply of essential mass consumption goods, and create employment opportunities. Although this will be a difficult and complex undertaking, the region has sufficient resources (natural and human) and capacities to respond to the challenge it presents.

In proposing the articulation of the industrial sector with the natural resources sectors (agriculture, mining, energy) and with the services sector, the conception of production structure (or in specific branches production complexes) is preferred to the idea of manufacturing, agricultural or services sectors, for the spread of technical progress, with the consequent reduction in the diversities within productive activity, tends to blur intersectoral boundaries. In this order of ideas, there is an explicit need to intensify, modify or create various types of links between the agricultural, industrial and services sectors, with the general aim of exploiting to the full the domestic effects (direct and indirect) of

their reciprocal demands and gradually reducing the contrasts between countryside and city.

It is not our purpose here to offer detailed proposals on the particular way to overcome the structural lags alluded to in each case, given the great diversity of situations encountered in the region and the enormous complexity of the problems. It is feasible, however, to propose some general guidelines on the sort of approach the strategies and programmes designed to stimulate simultaneously the processes of reactivation and structural change should take. More specific proposals would have to take into account the particular circumstances of each country, including its resource endowment, and the new patterns of national, subregional and regional demand, as well as the trends of international demand.

The need to mitigate the more obvious effects of the economic crisis makes it essential to give a practical content to the measures for the management of supply on the assumption that a better balance should be achieved between specialized production for export and that primarily destined for the domestic market. This statement is valid both for the readjustment and protection of existing productive capacities (in order to tackle at less cost and with more chance of success the dislocations caused by a prolonged economic recession), and for the solution of the long-standing structural problems. Ultimately, what is needed is to prepare the countries for a period of intense changes, in which adaptive flexibility will be a basic requisite for the achievement of sustained development.

The adaptation of the production structure of the countries of the region should be analysed in the broader context of the concern of the advanced countries to introduce changes in their respective supply patterns with a view to recovering or consolidating their international position, both in the industrial and the agricultural field. The outlook and traditions of each of these countries are radically different,⁴² but even so, the advanced countries share certain basic traits which characterize their industrial restructuring. Such restructuring is taking place in societies which are economically and socially articulated (with relative equity in income distribution, high educational coverage, relatively low productivity differentials between sectors and enterprises, and varied forms of social and political participation and representation), whose pattern of consumption and production is generated endogenously and whose insertion in the international economy (irrespective of the degree of competitiveness) reflects high levels of specialization in the trade in manufactures. It is thus a case of industrial restructuring directed towards a common and limited objective: to increase or consolidate international competitiveness, within the framework of internally articulated societies.

Thus, the industrialized countries are turning their eyes inward upon themselves in a process of industrial restructuring characterized by

a certain fact: the United States, the country which historically served as yardstick for consumption, production and technological progress, has lost competitiveness in certain branches of the manufacturing sector, has become a net debtor, and absorbs both the resources generated by countries with a surplus (mainly Japan and Germany) and those that come from the less-developed countries for economic and extra-economic reasons (such as debt servicing and capital flight). The official policy, based on an analytical framework primarily concerned with macroeconomic dimensions, stresses the need for industrial restructuring to adjust to technological change and maintain international competitiveness. In practice, however, an analysis of the policies applied by the OECD countries shows that these include various elements of interventionism at the sectoral and even the microeconomic level: priorities are defined for certain sectors, research and development subsidies are channelled to certain activities, non-tariff barriers are raised in various specific branches, public-sector purchasing power is explicitly used as a promotion instrument, a varied range of fiscal incentives is offered, and enterprises in financial straits are rescued from their fate. All the foregoing has obvious implications for the future evolution of the countries of the region and poses new demands as regards the transformation of the structures of production in Latin America and the Caribbean.

2. Broad outlines

a) *General considerations*

In line with the development objectives set out in the preceding chapter, the desired transformation of production seeks to achieve high rates of economic expansion based on increasing equity, greater autonomy and more power on the part of the population to influence the decisions that affect their living and working conditions. In this formulation, equity —understood in the double sense of permitting universal access to basic goods and services and of halting economic and social polarization— provides support for growth and a dynamic insertion in international trade, which in their turn give it reciprocal support.

The achievement of the announced objectives entails the reversal or surmounting of a number of trends characteristic of several forms of development in the past, and the adoption of measures designed to: i) modify the asymmetrical insertion in international trade, which at present is based on natural resources (agriculture, mining and energy sources); ii) improve the articulation between the productive sectors and between these and the services sector; iii) halt the deterioration of natural resources;⁴³ iv) reorient the patterns of consumption, and v) correct the underestimation of the entrepreneurial role and the defects which there have been in the creation and propagation of this capacity.

The starting point of the transformation strategy may vary from country to country; what is important, however, is a systematic and long-term commitment. In most cases it would be a question of combining different options, which would include: increasing the productivity of the existing industrial plant, preferably directed towards the domestic and regional market, and thus expanding this market and creating conditions for entering the external market; strengthening specialization based on initial comparative advantages (natural resources, endowment with factors, climate, geographical position); identifying loopholes in the consumption, production or technological structures of the industrialized countries; creating and consolidating dynamic advantages through the choice of solid and expanding markets (especially in the case of certain capital goods and a number of non-durable consumer lines, in which design and not only cost may be the deciding factor); and, finally, taking advantage, in a wide range of branches, of stable opportunities for Latin American and subregional complementation. These medium-term lines of development should be inserted in a long-term strategy for the creation and consolidation of comparative advantages around lines of specialization for which there is a dynamic demand in world markets and which involve the development and exploitation of resources (natural resources, labour, entrepreneurial skills and scientific and technical infrastructure) associated with higher levels of technological development.

This places the development of technological capacities at the hub of the development strategy and makes it necessary to reiterate that all this calls for something more than just the proper price signals: there must be development and consolidation of technological capacities in key activities, through selective policies that will progressively safeguard the acquisition of technological knowledge and the co-ordination of public and private investment so as to take advantage of the externalities implicit in these processes and generate a decisive volume of the resources which are indispensable, in many cases, for the consolidation of significant comparative advantages.

The changes that can be expected to result from the current transition in production and technology, together with the need to overcome the present conditions of insertion of the countries of the region in the world market, call for an immediate start in each country on the shaping of the structure of production that will enable the goals of this transition to be achieved. For this it is necessary: i) to identify the direction of the changes; ii) to establish the forms of articulation between the sectors of industry, natural resources and modern services; iii) to define the links between the pattern of insertion in the external markets and the strengthening and expansion of the domestic market; iv) to formulate guidelines regarding the expected role of the different social agents as well as

the respective sectoral responsibilities within the enlarged framework of the production systems; v) to identify the requirements for technological support infrastructure, together with manpower training and the formation and propagation of entrepreneurial capacity; and vi) to set up institutional mechanisms that subject the functioning of the financial intermediation sectors to the priority needs of the tasks outlined above.

The formulation and application of a strategy covering the aforesaid aspects will ensure that the form assumed by the production structure is not merely the result of a series of contingent responses to short-term problems or a sum of initiatives adopted in a casuistic fashion which, when they involve large projects in small countries and have not been conceived within the framework indicated, may condition their future development.

b) *Selectivity*

As already noted, an adequate macroeconomic framework is a decisive factor in facilitating the transformation of the structures of production. For instance, an exchange-rate strategy compatible with competitiveness in the international market, and coherent policies in the credit, fiscal, price and wages fields, can contribute to the main objectives of generating new and sustained dynamic impulses on the basis of the utilization of the natural resources of the region. Concurrently, it would be desirable to overcome two types of bias that have characterized their use in most of the countries in the past: the development of urban industry to the detriment of agriculture, and the development of large enterprises in preference to small and medium-sized industry.

Nevertheless, it was also noted that the macroeconomic framework *per se* would not suffice to promote the transformation desired. It must also be complemented with specific policy instruments of a high degree of selectivity, both as regards the broad lines of production that each country wishes to develop —by stimulating the trends towards specific specializations and respecting the restrictions as to market size, investment and technology— and in relation to the economic agents regarded as central subjects of the economic policy.

This selectivity is justified, among other reasons, by the shortage of resources and the need to reduce risks, which entails a very careful selection of the activities that are to constitute the new nuclei of dynamism and specialization in each of the Latin American economies. It should be noted, besides, that the selection of these pivotal activities will necessarily absorb the main efforts of the countries during the long lead times required to reach levels of competitive excellence in new lines of production.

For this reason, particularly in the case of exports, the position of the projected activities in the industrial cycle and the product cycle should

be a matter for the most rigorous scrutiny. After losing nearly 50% of its share in world exports between 1950 and 1980, Latin America would find it difficult to survive the consequences of once again specializing in lines of production for which international demand is saturated or declining. This implies more radical promotional efforts than have been usual in the past. To achieve productive excellence, an institutional climate must be created which will absorb, adapt and accelerate technological change, expand the support infrastructure in its various dimensions, set up auxiliary services for production, create technical and entrepreneurial cadres and strive to open up international markets. The aim to be pursued is gradually to achieve productive excellence in an increasingly wide and diversified range of products, both for export and for efficient import substitution.

It would be necessary to sponsor formal programmes of industrial reconversion in a selected range of activities where there is a risk of technological backwardness or unsustainable costs. Although the situation differs from country to country, in several of them there are sectors such as the textile, iron and steel and motor-vehicle industries which would require immediate attention. Investment in branches that have peaked or are declining at the international level might be justified for domestic reasons or in order to utilize the spaces continually being created by the fragmented process of industrial redeployment between advanced economies and developing countries, but there will always be disadvantages related to the oversaturation of the external markets and the continuation of forms of production in which technical progress has begun to flag. It is also justifiable to undertake programmes to heighten the value of natural resources —especially those linked with traditional agricultural and mining export sectors— by increasing the values-added, diversifying and differentiating production, and promoting backward and forward integration in their inter-industry relations. Particularly worthy of mention is the application of measures expressly designed to protect small and medium-sized industry, as well as peasant agriculture, because of their capacity to absorb unemployment, increase the supply of basic consumer goods and use a high proportion of inputs of national origin.

Again, it would be useful to adopt measures aimed at creating a climate of internal competition among producers. In those activities which, because of their peculiar features or scales of production, only a limited number of enterprises is needed, it would be necessary to resort to regional or subregional co-ordination, which, from another standpoint, would also serve as a point of support for efficient import substitution schemes.

The foregoing comments are not confined to manufactures. In agriculture, for instance, there is a wide range of opportunities both on

the export side and in import substitution. The attainment of minimum levels of self-sufficiency in food supply constitutes a guarantee which the countries could hardly overlook, not only for the obvious reason of security of supply, but also for considerations of the employment and development of segments of the economically active population which are still marginated. Food supplies, employment and the combating of extreme poverty are interrelated questions which are closely linked with the policies applicable to the Latin American rural areas, which nowadays, through the effects of the crisis, are becoming once again the refuge of manpower displaced from the modern sectors of the economies.

Furthermore, agriculture and the exploitation of natural resources are activities in which considerable experience has been built up as regards linkages with the exterior and in which the lead times of new projects are relatively short. Thus there are opportunities both to diversify exportable products and to increase the value-added of those which are already sold abroad and which might be able to help relieve the maladjustments on the balance of payments. In the same way, improvement of the inter-industry linkages in the cases of agriculture and the exploitation of natural resources could offer considerable opportunities for efficient import substitution of inputs and producer goods, as well as gaining access to modern technologies such as the Latin American countries can easily absorb.

The impetus given to various non-traditional agricultural products for which there is more active demand in the world markets and hence a possibility of expanding the local value-added may come to have considerable overall importance, however small the individual contribution of each. As regards imports, aside from the obvious measures to reduce or eliminate purchases of certain types of non-essential foods and the efficient substitution of food imports in general (a topic of particular relevance for some of the Caribbean islands), increased efforts must be made to replace certain agricultural inputs (which will obviously call for the creation and adaptation of technology), above all in lines for which there has been a rapid increase in demand and in which there are no technical obstacles too complex to be overcome. The fall in the prices of hydrocarbons in the international markets, for example, is making it once more feasible to produce nitrogenous fertilizers. The foregoing considerations point once more to the need for great selectivity in the light of the proposed objectives.

However, selectivity is not confined to focusing economic policy on the development of a certain number of activities, but also includes in some cases the design of policies differentiated by type of economic agent. In this sense, there would need to be coherence between the types of behaviour induced by the economic policy and the potential of the different agents to be bearers of the changes required by the development

objectives of each society. Thus, for instance, the fostering and support of small and medium-sized industry should be one of the sectoral priorities in a new form of industrialization. International experience, both in areas of high technological content and in the traditional sectors, is conclusive in regard to its flexibility, its ability to generate and absorb technical progress and to employ and train manpower, and its capacity to contribute to better international insertion, to intersectoral articulation and to greater complementarity with large public and private enterprises. The trends of technological change, as regards the reduction in scale of industrial plants and the increase in flexibility, would tend to reinforce these positive attributes.

The differentiation of policies by type of agent is still more evident in the rural sector. In the case of the modern enterprises, the policy should be directed to sustaining their dynamism (perhaps correcting the trends towards over-mechanization and thereby raising their capacity to intensify the use of labour) and to stimulating the replacement of imported inputs by those produced locally. These agents are particularly susceptible to the impact of macroeconomic policy (exchange rate, interest rates, tax policy, price/wage policy). Peasant agriculture, for its part, represents a form of social organization particularly adapted to the fulfillment of the objectives of equity and greater autonomy, since it is part of a form of productive organization whose "internal logic" prompts more intensive use of labour and less consumption of imported inputs and commercial energy per unit of production. Moreover, peasant agriculture is a specialized and important source of basic consumption foods, and could thus also help to achieve the aims of food security. It should be noted, however, that this type of agriculture is highly differentiated, so that *ad hoc* policies would have to be designed. As well as considering the special features of this particular form of organization of production, the existing degree of heterogeneity must be taken into account and rural development policies must be formulated in line with the existing types of family units.⁴⁴

c) *Intra- and intersectoral articulation*

Another way of dealing with the important task of reducing intra- and intersectoral disarticulation is to approach the structure of production through various *production systems*, which tend to link up in large productive chains activities of a primary, secondary and tertiary nature which usually remain fragmented from the standpoint of economic policy conception, formulation and instrumentation. It is necessary to improve the linkages between industry, agriculture and services, just as it is important to articulate small and large-scale industry or the manufacture of capital goods with the investment process, or again, domestic technological research and development with the problems and special

needs of the nation. Thus, for example, the analysis of the new or old lines of production that it is intended to develop or strengthen should cover the whole process, from the primary resources used, which constitute the initial step, to the services needed for the final stage of marketing. This would be the modern approach applied in the planning of complexes such as electronics and informatics, the metal-working industries or the manufacture of paper and pulp for export. This would tend to raise economic autonomy, multiply the dynamic capacity of the development pattern and create conditions for fostering the creative potential of the countries.

In the same order of ideas, together with the improvement of "vertical" integration, the rapid "horizontal" incorporation of technologies should be promoted in the information field (computation, telecommunications, microelectronics), in the manufacture of goods and provision of services, and even in the exploration and use of natural resources. Emphasis should be laid here on the importance of modernizing domestic marketing systems, which are normally oversized and in need of rationalization, and international marketing facilities, which are insufficiently developed in most of the countries of the region.

Again, there must be an advance from the present type of international insertion, based on natural resources, towards and increasing participation in trade in manufactured goods. As already noted, an initial line of action would be to foster the processing of natural resources, through activities ranging from their prospection to research on new uses, including all the intermediate phases. To some extent there should be increased replacement of exports of natural resources with manufactured items that make intensive use of these same resources (foodstuffs, and manufactures of wood, chemicals and iron and steel). The static comparative advantages associated with the direct exploitation of natural resources become dynamic when expanded through new forms of exploitation, design of new equipment and processes, alternative uses and products composed of different natural and synthetic materials.

The capacity to add intellectual value to natural resources and unskilled labour is directly linked with the development of productive activities involving technical progress. Outstanding among these is the production of capital goods. Apart from using a high degree of skilled labour, this type of production requires a capital investment per worker which, in an increasing number of lines, is not particularly high, and, because it calls for deeper knowledge of the different user sectors (agricultural machinery, mining, energy, forestry, fishing, and specific industrial sectors) it also favours the articulation of the productive apparatus. To a large extent, the capacity to take advantage of the natural resources available in the region is directly associated with the development of a stock of basic and applied knowledge that finds its most practical expres-

sion in the manufacturing equipment and processes needed for their subsequent processing and finishing.

One of the many practical repercussions of the articulation of the industrial sector with the natural resources and services sectors is the need to re-examine the criteria regarding the sectoral coverage of the development institutions that grant medium- and long-term credit. For example, the necessary credit to "industrialize" natural resources might come from development banks with experience in the industrial field, even though in most of the countries their previous experience had been mainly concentrated in sectors manufacturing widely-used intermediate goods and consumer durables. The same applies to the governmental agencies which define policies and assign the corresponding budgets. Preference should be given to those forms of institutional co-ordination that can foster the tightening of intersectoral links. The scanty machinery and support for technological development has been basically conceived for industrial sector enterprises, and this situation should therefore be changed. At the same time, the demand for technology on the part of producers should be encouraged. In this phase incentives must be offered to the new users and training programmes must be made available at the management and technical level.

The intra- and intersectoral articulation referred to above should be as compatible as possible with the aim of achieving greater equity in development. For this purpose, the contrasts between country and city should be reduced through the creation of new links and the redefinition or strengthening of existing ones between agriculture, industry and services. This implies the need, among other measures: i) to stimulate the production of inputs and means of production for the agricultural sector (fertilizers, pesticides, plastics for farm use, implements and, in some cases, machinery) as well as to ensure the growing industrial processing of raw materials of agricultural origin; ii) to promote the ruralization of agroindustry and other industrial branches, with a view to making the former a nucleus for the creation of superior forms of productive organization of small and medium-sized farmers⁴⁵ and turning the latter into a mechanism for absorbing the underemployment and seasonal unemployment typical of this sector; as the experience of many developed countries shows, the combination of partial employment in agriculture with local industrial employment has been a major factor in reducing differences in income and living standards between the country and city; iii) to stimulate the development of para-agricultural services to permit large-scale access to technical assistance, the mechanization of some tasks, experimentation with alternative forms of soil management and analysis, and iv) to increase, or, if resources do not permit this, to reallocate public investment in the agricultural production infrastructure (transport, storage, refrigeration, etc.) and rural social infrastructure

(schools, polyclinics, etc.) so that, complementing the measures mentioned earlier, it will help to retain the rural population and thus avoid its migration to the cities and the consequent increase in urban poverty.

Finally, as regards intra-sectoral articulation, some special comments are called for on the subject of services. This seems desirable in view of the fact that there is an increasing impression that tertiary activities may play a highly dynamic role in the future evolution of the economies of the region. Although this impression is justified within the framework of an integrated system of activities, it is unlikely that services *per se* can contribute decisively to the goals of growth and job creation, except in the case of some small Caribbean economies in which certain services, especially tourism, might help in the development of primary and secondary activities. Usually, the opposite is the case; that is to say, the increase in a high proportion of services —particularly those of greatest productivity per person employed— is due to the transformations occurring in directly productive activities, especially industry. Thus, transformations in the industrial sector are reflected in the expansion of traditional services, such as commerce, transport and finance; likewise in the wide range of information services, and indirectly, in the multiplicity of recreational activities.

Again, the productivity of many of the tertiary activities in Latin America and the Caribbean is quite low, and it would only be feasible to stimulate their growth by articulating them to primary and secondary activities. It is not our intention to go into these aspects more deeply here, but merely to stress the need to regard services as part of the systems of production whose structure it is planned to modify, and to insist that the services sector can only be modernized as a whole by increasing and improving its articulation with primary and secondary activities.

3. Food security

Among the topics mentioned, particular stress must be laid on food security, which, in more than one sense, goes beyond the narrow considerations of economic rationality. The aim is to make real progress in the field of food security, in which action is required in its two dimensions: that relating to supply and that which concerns the insecurity and difficulties of access affecting an appreciable number of urban and rural families.

As regards the first dimension, the objective of achieving reasonable degrees of national or regional self-sufficiency remains valid, above all in those countries in which this can be achieved by strengthening small-scale agriculture. In this connection, the fact that at present and in the foreseeable medium term there are considerable surpluses of grains in the world markets creates a buyers' market for these items. Nonethe-

less it would not be wise, as was done in the past, to accept on the basis of short-term criteria a growing dependence on food imports to satisfy local needs. This is because it would not only discourage efforts to attain a minimum of self-sufficiency, but would also have an adverse effect on the very sector of small producers that needs to be strengthened.

The quest for food security implies progress in the setting up of food systems characterized by: i) greater sufficiency, understood as the availability of aggregate national supply (domestic production plus imports, minus exports) in order to meet not only the effective demand but also the nutritional needs of those who lack the purchasing power to express them in effective demand; ii) greater stability, both in the flows and in the prices at which this supply is offered and acquired; iii) greater autonomy in respect of external dependence on foodstuffs and inputs employed in the food system; iv) greater sustainability in the long term, in the sense that the aforesaid conditions must not be achieved at the expense of a deterioration in the production potential of renewable and non-renewable resources; and, above all, v) greater equity which ensures universal access to the minimum nutritional levels, as well as austerity in the exercise of the effective demand.

4. The structure of production and consumption patterns

The subject analysed thus far has definite links with the historical trends of domestic and regional demand. The imitation of the consumption patterns of more advanced societies inevitably accompanies the international integration of markets, magnified by the revolution in the mass communication media. These are inevitable influences which in general it would be useless to try to reverse. Nonetheless, it is possible to exert some influence in this sphere in order to achieve greater consistency between supply and demand, in accordance with the resource endowment and development potential of each country.

One goal that could be attained, for instance, is greater austerity in the consumption patterns of the middle and upper urban sectors, particularly as regards items that make intensive use of foreign exchange. This can be achieved by raising the price of these goods and services through import restrictions or duties, selective taxes on consumption, tariffs chargeable on their use or greater costs for their financing. Restrictions on credit for the consumption of these goods and services would have the same effect.

At the other extreme, an increase in the supply of basic goods and a reduction in their relative cost, with innovative features as regards product differentiation, is an objective consistent with technological development and an increase in competitiveness in the production of these goods. The interactions of industry with agriculture and with

housing construction and home furnishing hold a key position in these processes.

At the same time, it would help to modify consumption patterns if action were also taken on the production of certain branches and activities in order to rationalize the supply. It would be desirable, for instance, to avoid the current processes of premature diversification and differentiation, which are not always compatible with the needs of development. Thus, in the more industrialized countries there is a need to rationalize the supply structure of certain consumer durables (such as the products of the motor-vehicle and domestic appliances industries), intermediate goods (products of the iron and steel and petrochemical industries) and, in some countries, non-durable consumer goods (textiles, clothing and footwear).

5. Scientific and technological development

There are examples in the region of serious malfunctioning owing to the lack of organic integration between research, development and assimilation of new technologies, on the one hand, and the productive processes on the other. The subject is extremely important and should receive increasing attention, it is an intrinsic part of the transformation of the productive processes, and tackling it calls for an effort sustained and systematic enough to allow for the maturation and putting into practice of the initiatives adopted. An outline of some general considerations on the subject is given below.

In the first place, it is important to strengthen the infrastructure in the area of both science (research and postgraduate studies) and technology (standardization, metrology, quality control, information, training and research). What is really important, however, is to establish organic links between the research centres and national production problems. In the past, the academic and scientific circles of the region have been on the sidelines of the economic life of the countries, while Latin American enterprises, far from undertaking systematic work on research and development, simply copy foreign solutions which are not always well adapted to local circumstances.

This highlights the need not only to use the indirect instruments of the State (subsidies, exemptions, preferential interest rates) to foster technological development, but also to undertake programmes of national scope covering all the technological aspects of the basic lines of structural transformation that each country selects for the renewal of its development pattern. Here the active participation of entrepreneurs is needed, along with the application of State mechanisms of development and planning. This entails subregional and regional co-operation and, in particular, the sharing of the services existing in the larger countries of

the region. The external constraints on payments tend to favour the articulation of the demands of the productive systems with the potential of the existing technological infrastructure and may help to reorient the expansion of the latter towards the satisfaction of the need for changes in production. In this context, the various economic agents that are facing technological problems accentuated by the shortage of foreign exchange should be encouraged to have recourse to solutions available within the region which cost less and are better adapted to the special characteristics of Latin America.

In the second place, the educational systems must be made into the means for raising the value of the efforts and results in the area of domestic technological innovation and at the same time amplifying and disseminating information regarding world scientific and technological progress. The quest for functional solutions to local needs and potential should become one of the guiding criteria of social communication.

Thirdly, there should be a reduction in the cost to enterprises of technological research and development by means of credit instruments, fiscal incentives, and the dissemination of scientific and technological knowledge. In this area, attention should be given to the linkages and co-ordination between development banks, technical assistance institutions, information services and the bodies that grant fiscal incentives. Many of the instruments that favoured regional industrialization in the past could be used now, not so much to displace the absorption of foreign technologies as to seek adaptations which would provide autonomously created competitive advantages.

Finally, it would be expedient to diminish the inherent risks and inject resources into technological research and the development of prototypes, as well as their subsequent sale in national and international markets. Serious consideration should be given to the creation of special financing funds within development banks; direct and indirect support for enterprises capable of promoting technological research within their plants; stimulation of co-operative projects among national enterprises; temporary selective protection from foreign competition for products incorporating locally created innovations; and support for the placing of locally developed products, processes and manufacturing techniques in international markets. On the other hand measures should be taken to discourage the excessive importation of integral technologies (covering the whole of a process) which frequently involve the laying-off of labour or the needless displacement of national raw materials and inputs.

Two lines of recent spearhead technology —biotechnology and informatics— deserve special mention because of the radical transformations that may derive from their future evolution. Everything indicates that the potential advances in biotechnology (specifically cellular and molecular biology) will modify the existing structure of comparative

advantages in general and those of the agro-nutritional field in particular. Hence it would be wrong to adopt a passive attitude to their development, in the hope of being able to cash in on the results obtained in the developed countries. The reason for this warning is obvious, since that waiting period might mean the sudden loss of comparative advantages in lines which are vital for the foreign trade of many Latin American and Caribbean countries.⁴⁶ Thus there is not merely a danger of increasing technological dependence in certain fields of economic activity, but also of risking the loss of positive linkages with the international economy which have developed over decades. Moreover, experience shows that the main obstacle—at least in the initial stage—in biotechnological research programmes is not a shortage of financial resources but the lack of an adequate supply of scientific and technical personnel. Once again, regional co-operation and the strengthening of regional-scope institutions might be the best formula for overcoming this obstacle.

Informatics is another field of special importance. In the decades to come the capacity to raise productivity and diversify supply will be to some extent associated with the diffusion and utilization of the "information technologies" (tele-communications, computation, microelectronics). These play a crucial role in the transformation of production and technology in the advanced countries, where they contribute to the greater efficiency of already articulated economic and social systems, thus raising the challenges so often mentioned for the production structures of the countries of the region.

Again, in the advanced countries, owing to the intensification of international competition, efforts have been mainly concentrated on production for final consumption and on their needs for intermediate and capital goods. This could inevitably lead to a new wave of "consumerism", while many basic needs still unsatisfied in the region are relegated to second place. Even so, deliberate efforts should be made to adopt technologies in accordance with the particular resources and problems of the region and of each of its members, rather than merely to increase the consumption of the higher-income strata of the population.

As regards economic, social, sectoral and regional articulation, certain priority areas might be suggested: the sectors aimed at remedying the backwardness in major social areas (education, health, food systems); increased efficiency in public administration (regional decentralization, debureaucratization, and improved administration of justice); and the support and development of small and medium-sized enterprises. In the external sphere, special attention should be given to the contribution of information technologies to the rationalization of the existing structure of production to the increasing of efficiency in the export sectors, particularly at the marketing stage (including here the issue of services and their linkage with goods production); and to import substitution, especially as

regards the decisive importance of learning to design systems and products.

6. Other instruments

There is a wide variety of policy instruments in the region, coupled with a great diversity of objectives. These instruments include tariff and exchange-rate policy, special export incentives and exemptions from export duties, fiscal benefits, direct State participation in investments, credits on preferential terms, the utilization of State purchasing power, public investments, public scientific and technological development programmes, and manpower training programmes. It is not our aim to go into these instruments here. We would only point out that the policy instruments needed to carry out the transformation are already known; what remains to be done is to rationalize them and adapt them to the lines of action set out in the previous section. Some reflections are called for, however, on certain topics which are particularly relevant but were insufficiently considered in the practical application of the earlier industrialization pattern, such as training, the promotion of new enterprises and entrepreneurs and the strengthening of the trade and services infrastructure.

a) *Training*

The transformation of the structures of production requires, among many other factors, a broad base of skilled manpower with permanent possibilities of updating. As is emphasized in the following section, this necessarily means that priority must be given to the educational system at its different levels and in various forms. The need for commitment and participation on the part of society in the different fields of decision-making is to some extent conditioned by the ease, symmetry and transparency of communication, for which once again the factor of education and training becomes crucially important.

The reformulation and extension of the educational systems and of training at its different levels is an indispensable component of the transformation of the production structure. In this field, too, the possibilities offered by the development of informatics must be exploited, since this permits the low-cost mass dissemination of various types of educational material as well as the enlargement of the radius of action of the scarce highly-qualified human resources and the permanent updating of the various types of trainees. The possibility of absorbing and disseminating the technical progress available at the international level is directly linked with the development of systems or networks of education and training of this nature.

b) *Entrepreneurial development*

The transformation of the structures of production calls for a climate favourable to the development of entrepreneurial activities. Rather than seeking to define appropriate forms of ownership in specific areas, sectors and enterprises (which is powerfully conditioned by national features and ideological preferences), we are concerned here with the need to extend, strengthen and give a higher value to the entrepreneurial function, as it relates to capacity for management and organization of productive resources on different scales, both in the public and the private spheres and in the different sectors of economic activity. This capacity is a scarce resource, but it is decisive for the achievement of objectives and for adequate complementation between planning and the market. Moreover, modern entrepreneurial management is not only concerned with the traditional figure of the individual entrepreneur. New forms of economic organization such as co-operatives involve management and organizational functions of a collective type. Similarly, different organized actors in the economic process, trade unions or other organizations can play important roles in entrepreneurial activities.

The starting point for the correction of this state of affairs is the recognition of the financial fragility that currently besets the national entrepreneurial sector (public and private) in most of the countries of the region, and the need to find formulas to overcome it. A solution to the foreign debt problem (on the terms indicated in this document), more flexible fiscal policies and the rehabilitation of the national financial intermediation systems would create the necessary framework for strengthening the entrepreneurial cadres in Latin America and the Caribbean.

As regards the large enterprises, both public and private, the essential requisites are a framework which will secure a certain degree of autonomy in their management, mechanisms to guarantee a high level of commitment by the workers to the aims of the enterprise, and the existence of procedures for the supervision and public scrutiny of the activities of these enterprises. The experience of various countries in the region during recent years has revealed the serious risks involved in allowing large enterprises (both public and private) to seal themselves off from public opinion and even from the Executive itself, since this meant that management errors only became public when there were massive bankruptcies, requests for State support or, in the case of public enterprises, when the subsidies required for their operations exceeded the possibilities of domestic or external finance.

The strengthening and development of small and medium-sized enterprises, in the industrial and agricultural sphere as well as in services, would be benefited by arrangements for the training and upgrading of

the personnel responsible for their management. Similarly, the strengthening of relations of complementation with the large enterprises would provide a mechanism of high potential for the development of this capacity.

Innovations in the field of public action are perhaps more urgent in the sector of peasant agriculture, particularly in those countries where peasants constitute the majority of the economically active population. This is a sector which, because of the criteria governing its decisions on production and the use of resources, is less inclined to use imported inputs and more disposed to intensify the use of labour. Furthermore, measures which strengthen its capacity to produce have a direct and immediate effect on the reduction of rural poverty.

c) *Strengthening and development of the trade and services infrastructure*

The development of the trade infrastructure has been only slight, even though it is often crucial for comparative advantages in international trade as well as for the strengthening of inter- and intra-sectoral articulation. In many cases both natural advantages and those derived from lower costs or higher productivity levels are neutralized by the lack of an adequate system of domestic and international logistics for marketing (understood as the integration of activities including transport, informatics, the management of storage systems and the administrative organization of the chain that goes from producer to purchaser).

This aspect is particularly decisive in the domestic and external marketing of agricultural products. On this depends the possibility of incorporating, without excessive loss of income, many small dispersed producers into the networks that converge on the centres of great demand, and likewise the possibility of diversifying exports through a wide range of products.⁴⁷ Needless to say, one of the means of obtaining prices which both stimulate production and are accessible to low-income consumers (or are competitive in international markets) is undoubtedly the achievement of increased efficiency in the complex of activities connected with the marketing and distribution of goods.

D. BASES FOR A POLICY OF DEVELOPMENT WITH EQUITY

1. General considerations

The concern for equity is manifest throughout the whole of this document, and that for several reasons.

In the first place, as already stated, the concept of development must needs include the broad dissemination among the different strata of the

population of the improvements in the levels of welfare. In the experience of the three postwar decades, although some progress was made towards achieving this objective, the results were not on a par with the expectations of the various societies. On the one hand, the concentration of income limited the share in development benefits of the poorest strata, especially those that continued in the traditional agricultural sector and those in the urban informal sector. On the other hand, the considerable growth rate of the population of active age posed a problem of job creation difficult to satisfy unless the economy grew much faster than in the past. This problem was aggravated in the cities by internal migrations and the simultaneous increase in the supply of female labour; all this taken together caused the highest growth rate of urban labour in the history of the region.⁴⁸ To the problem of the magnitude of the active population was added the inadequacy of the educational and labour qualifications of the current labour supply in relation to the demands of the posts created in the modern production and services sectors. A large part of the population displaced from the rural sector by the current type of transformation of production lacked the basic education that would have enabled it to be incorporated into productive jobs in the cities.

Secondly, the concept of equity is once again topical because the chronic lags are aggravated by the cumulative effect of the prolonged economic recession suffered by the region since the beginning of the present decade. This effect further accentuates the typical privations of broad strata of the Latin American and Caribbean people. Finally, the evolution towards more participative and democratic political systems will necessarily be accompanied by new demands from organized groups, and will call for new ways of distributing the sacrifices of adjustment and the benefits of economic expansion. From this standpoint, growth, democracy and equity are interrelated aspects and *sine qua non* conditions for development, understood in the terms set out in earlier chapters.

Although extreme poverty is not a new phenomenon in most of the countries of the region, two circumstances are manifest in the present crisis which represent unprecedented challenges for a strategy of development with equity. First, as was said above, the crisis of the 1980s undoubtedly intensified the earlier situation, as a result of the adverse trends in employment, real wages and public expenditure on social services.⁴⁹ Secondly, the financial capacity of the governments of the region to combat poverty has been considerably weakened, owing to the heavy burden of servicing the foreign debt and the other priority demands associated with the transformation of the structures of production. From the point of view of public action to further development in a context of greater equity, therefore it is necessary to satisfy ever-increasing demands with a steadily dwindling supply of resources.

There are three broad categories of action associated with this issue. First, there is the set of measures to reactivate the economies and achieve sustained growth. It is now a commonplace to affirm that a distributive policy is only viable in a context of growth; however, it would be a mistake to think that this dynamism is sufficient in itself to achieve an equitable distribution of the fruits of growth. The orientations for economic reactivation contained in other chapters of this paper would undoubtedly help to set afoot a strategy of development with equity, but of themselves they would certainly not be a sufficient condition for this. A second category of measures is therefore necessary, consisting in the analysis of the existing options for introducing a distributive bias into economic policy. Finally, the third category relates to the general orientations that might be given to social policy in the broader context of development policies.

2. The concept of functional equity

Reference has already been made in previous pages to the long-standing debate on the possibility of stimulating dynamic economic expansion and at the same time achieving progressive improvements in the distribution of the benefits derived from that expansion. The past experience of the region shows that it is not enough to rely on the forces of inertia—or the so-called “spill-over”—to achieve the simultaneous fulfilment of the two objectives. There are, however, ample indications that growth and equity are not necessarily antagonistic aims. The possible conflicts that can arise between the two could be partially overcome if social policies and measures perform their function within a set of measures forming an integral development strategy. In other words, the idea is that social policies fostering greater equity have a dimension which goes beyond the normative framework of distributive justice, so that they can often be regarded as essential “inputs” for the modernization and democratization of a society, for an economic adjustment that will be both dynamic and lasting, and for the promotion of economies which are at once productive and capable of competing internationally.

At all events, it has been argued in this document that it would be perfectly legitimate to sacrifice “optimal” growth rates in favour of specific distributive objectives, especially in the new circumstances created by increasingly participative political processes. Put another way, there is no theoretical or practical basis for maintaining that all public measures must concentrate on obtaining optimal growth rates as an initial step to achieving automatic improvements in the living standards of all the strata of the population. The challenge consists, therefore, in minimizing possible conflicts between growth and equity, so as to advance towards the simultaneous achievement of both objectives.

We have repeatedly insisted on the integral nature of the development process. The transformation of the structure of production should be accompanied by changes in social stratification, in the relationship between countryside and city, and even in the dynamics of political interaction. To some extent the division between "economic policies" and "social policies" is artificial, since both give each other reciprocal support and are indissolubly interrelated. Hence, just as job creation based on an expansionary economic policy might be more effective than any programme of transfers for raising the living standards of the lower-income groups, so the orientation of public resources towards those strata to improve their productivity might have more positive effects on the economic growth rate than any overall incentive measure in the field of monetary, credit or fiscal policy.

What we wish to stress is that measures aimed at raising the living standards of the lower-income strata of society perform a function in a strategy of development with equity if their primary purpose is to raise the production and productivity of these strata, in contrast with simple transfers, which merely allow them to maintain a barely acceptable living standard but do not affect their capacity to increase supply.⁵⁰ In the former case, not only is the present and future welfare of the poorer strata improved, but the productivity of the economy as a whole is increased. In the second case, the improvement in welfare may be only transitory, and far from helping to raise the productivity of the economy as a whole it may become a burden for other productive activities, owing to the transfer of resources entailed.

A rise in the income level of the poorer strata is a necessary condition for the expansion of domestic markets, and in turn performs a function in expanding the supply to meet the demand. Past experience indicates that the marginal consumption propensity of the poorer strata would be concentrated on goods and services —foodstuffs, clothing, furniture, recreation— which do not necessarily require large volumes of imported inputs, and which in addition make intensive use of labour. This would give rise to greater linkages between production, employment, growth and equity, in a sort of "virtuous circle".

The range of instruments and options to stimulate policies that foster equity and at the same time perform a function in sustaining growth need not be detailed here, since they are well known and moreover have been dealt with to some extent in other chapters of this paper. Some of these instruments aim at redistribution of assets —agrarian reform might be a classic example— and others at a dynamic distribution of income. The use of one or another type of instrument will of course have to vary from one situation to another, according to the circumstances of each country in the economic, political and social fields. We mention below, simply by way of recapitulation, some of the mea-

asures that will have to be taken into account in the formulation of equity policies which are also functional as regards fostering growth and the transformation of the economies and societies of the region.

First, as remarked in earlier pages, the economic policy of most of the countries of the region in the past was characterized by two biases: one was the promotion of industrial urban development to the detriment of the rural (agricultural) sector; and the other was that it favoured the development of large enterprise over that of small and medium-sized concerns. The correction of these biases, which is essential for the transformation of the production structure, is equally relevant for the equity objective. The configuration of the macroeconomic policy itself, and particularly of those policies that influence the structure of relative prices, provides opportunities for eliminating biases towards income concentration, and even for introducing biases favourable to development with equity.

The main instrument used in most of the countries of the region to act on the distribution structure has traditionally been fiscal policy. On the income side, an effort was made (not always successfully) to introduce a progressive character into the taxation systems; on the expenditure side, the provision of social services, subsidies for the prices of goods and services regarded as basic (and also for the inputs for producing these goods, such as fertilizers for subsistence farmers), and the creation of jobs through State investment helped to mitigate the concentrative or exclusive effect of the dominant development style, although with serious deficiencies and generally without benefiting the lowest deciles of the income pyramid. Even so, fiscal policy still offers ample opportunities for contributing to the fulfilment of a strategy of development with equity. Indeed, in other parts of this paper, we have insisted on the importance of modernizing taxation structures, among other reasons because of the effectiveness of such action in relation to the central aims of economic policy: the progressiveness of the taxation systems is clearly linked with the objective of equity. Since the following section contains some reflections on expenditure for certain social services, it will suffice here to point out an obvious fact: that fiscal policy continues to be a decisive instrument for introducing into macroeconomic management an element that influences the structure of distribution.

Another influence in the same direction is wages policy. It is well known that in most of the countries the relative share of the wage component in national income has dwindled in recent years, and in some cases a fall in real wages has been observed. Generally speaking, a wages policy to reverse these trends should contemplate three simultaneous objectives: i) to regain the earlier level of real wages and ensure that these evolve at least at the same rate as labour productivity; ii) to reduce disparity in wages; and iii) to reconcile the wages policy with the need to

raise the levels of saving and investment. This latter aim might be facilitated if wage adjustments depended on an increase in the average productivity of the economy and if any surplus of the adjustment over this increase were linked with a savings scheme such as those briefly mentioned in earlier pages (see section B above).

However, selective application of the economic policy is perhaps the area which offers most possibilities of influencing the capacity of the disadvantaged groups to raise their output and productivity. As stated above, this means that the capacity to generate productive employment, both in urban and rural areas, should be given priority among the criteria that determine which activities should receive preferential support on the part of the government. Similarly, the peasants of rural areas—the group in which extreme poverty is mainly found in most of the countries of the region—should be the agents on which this support is concentrated. In the same order of ideas, the extremely low productivity of the urban informal sector should be raised.

Moreover, since the low-income strata are characterized by their precarious insertion in the productive apparatus, the creation of employment is also one of the basic means of promoting the strategy of development with greater equity. This calls for the incorporation of an employment policy, designed to act on the factors of supply and demand in the labour market.⁵¹ This policy would include measures designed to increase the employment effect of growth; to raise, as indicated above, the productivity of the traditional agricultural sector and the urban informal sector; and to promote youth training programmes, both to match the supply of labour with the demand, and to delay the entry of these young people into the labour force. In all the foregoing, the public sector as employer can continue to play an important role, though its expenditure on this item should of course fit in with the concept of functional equity that is being applied. Thus, for example, even in those countries where the level of unemployment is such that emergency work programmes have been set up, it is desirable to reconcile the aim of transferring income with that of generating basic goods and services which will help to raise productivity and output.

Finally, another crucial element for a strategy of development with equity is to foster the emergence of organizations in different groups of society—trade associations, co-operatives, trade unions, other types of associations, political parties, and pressure groups in general—which, in the framework of democratic and participative societies, generate a dynamism favourable to more equitable distribution of the fruits of economic growth. In this regard, the distribution policy—instead of being an objective fixed by a benefactor State—becomes something that stems from the reconciliation of concrete conflicting demands through the political interaction of different actors in the society. The mere fact

that societies are more participative and that different groups of the population organize themselves thus serves to assist the achievement of the equity objective.

3. Investment in human capital

The main elements of a social policy in the classic sense, such as the provision of health and education services, are entirely compatible with the concept of functional equity described above. One of the pivots of the transformation of the production structures consists in the integral development of human resources, in order to avoid the reproduction of poverty, exclusion and social segmentation in the new generations. To achieve this, the measures that affect the formulation of economic policy should be complemented by a set of policies that enable all the members of society to work and earn income, take part in the political system and organize themselves to defend their rights, as well as to acquire skills and knowledge in keeping with the renewal of productive capacity and in accordance with the needs of a rapidly changing world economy. Biological, social and cultural upbringing is not only indispensable for constituting the citizen body and preparing for the emergence of modern societies but also represents the essential base for sustaining dynamic programmes of labour training and for resettling the labour force, which will become increasingly necessary owing to the successive technological changes.

All that has been said thus far implies the incorporation into development strategies of health and education policies, and also a special concern for the protection of the cycle of pregnancy, birth and early infancy, as well as nutrition, health and education in the formative stage of the social groups which are at present disadvantaged. The aim is to avoid the reproduction of poverty in the new generations, and to try to facilitate an adequate biological, social and cultural upbringing for the emerging members of society, with a view to their entry into adult and active life in minimally homogeneous conditions.⁵²

In this respect, an effort made in the health, educational and nutritional fields to reduce infant mortality, whose levels are high in the region especially among the rural and urban poor, would find more favourable conditions now than in the past: from greater concentration of the population to a greater endowment of personnel trained or able to be trained in these fields, as well as a higher level of instruction for young women which prepares them more adequately to perform their functions as mothers.

Following this effort, or in conjunction with it, the protection of the cycle of pregnancy, birth and early infancy is a vital element in the strategy of equity proposed and in the improvement of the future human

resources of the region. In this cycle the initial bases of biological and mental development are established; an adequate integral health programme in this field could be the beginning of a new type of social security for the region. Similarly, maternal and child welfare services constitute a basis for the access of families to information on the process of reproduction, which enables those at a lower socio-cultural level to plan their families in a manner compatible with the health of the mother, the adequate upbringing of the children and the resources of the home.

These objectives should naturally be complemented with policies of full-time basic education, integrated with food and health services. There are several reasons why these objectives are an excellent example of one of the virtuous circles of development, equity and democracy. The first is that the needs of productive efficiency and technological development confronting the region require that the future human resources should reach certain levels of culture and mental development. It is no longer merely a question of overcoming illiteracy but of producing manpower with sufficient education to cope with the foreseeable changes in production. Secondly, poverty is a complex phenomenon in which the limited access of the poor to economic assets is inextricably linked with their exclusion from the cultural assets of society; the incorporation of the new generations —through socialization and instruction in the basic fields of knowledge— into the collective cultural patrimony constitutes one of the key requisites for not projecting poverty from one generation to another. Thirdly, the achievement of a democratic society requires, both to reach agreements on development and to control expectations, a body of citizens able to organize themselves and understand the functioning of the economic and social systems, which can hardly be attained without an adequate development of the biological and mental capacities of the whole population.

To reach these goals not only calls for a longer cycle of compulsory schooling, earlier entry into the educational process and longer daily contact between the children and educational, health and nutritional care, but also a radical change in the methods and scientific content of basic education.

This latter point is associated with the subject of manpower training. The past experience of the region shows that part of the population of active age, especially in the cities, could not be incorporated into the more modern sectors of the economy not only through lack of jobs but also through lack of adequate skills, while that another part joined the informal sector, which has very low productivity that can only be raised through training and provision of greater capital. In the present decade there has also been a loss of educational and labour skills in a proportion of the labour force that is, or has been, affected by unemployment and underemployment: a situation particularly affecting young people of

under 25 years of age, who in some countries represent around half of the urban open unemployed; this is aggravated by the current reconversion of the sectors of production and jobs in almost all areas of economic activity, as a result of the introduction of new technological patterns.

An intensive training strategy must be complemented with suitable provision of producer goods of social use. For instance, priority in this should be given to peasant farmers and the urban informal sector through support for microenterprises and small industry, together with associative and co-operative systems which make possible the wider use of producer goods and enable producers to sell their products without unnecessarily passing through middlemen. The provision of land, machinery and electricity for peasant agriculture and of machines, equipment and workshops for urban artisans are some of the items which, coupled with credit and technical assistance, might bring about positive changes in the production and productivity of the social sectors that at present have very little share in income.

The dynamization of urban and rural productive projects at the local level should be complemented by an infrastructure of basic services—ranging from water supply to integrated school units, and including peripheral health centres—to support development with equity and at the same time constitute a basis for self-management by the communities in the productive and social fields.

Giving priority to collective systems which rationalize the use of funds and increase the number of beneficiaries, does not in any way mean overlooking the serious problem of housing, which, in cities whose growth has exceeded 4% per year for three decades, is not susceptible of immediate solution. Construction is at a form of reactivating the economy without much cost in foreign exchange and a method of generating employment for workers of a modest level of skill, so that it plays an important role in development. The mechanisms of saving and credit for housing have been inaccessible to the poorer sectors, who lack the means of payment, however, and the subsidies granted have often ended by favouring the middle and higher income groups. All this points up the need to allocate public resources to systems of collective use and to net transfers for social housing. Since it would not be possible to meet the whole of the potential demand in the short run, there would have to be a rigorous selection of beneficiaries and concurrently the maintenance of unsubsidized systems of saving and credit for the middle and upper social strata.

Another point to consider is basic social security for the population. The system in force in most of the countries was based on a model of social insurance that assumes a population almost entirely made up of regular wage-earners and contributors, which has led to the exclusion of most sectors. At the same time, the population included in the system has

its contributions backed by large financial subsidies derived from taxation (in most cases indirect). Building up a universal social security system means a careful selection of the services that can be offered, in keeping with the resources available, to improve the quality of the human resources and increase the protection that every family should receive in circumstances when it cannot meet its basic needs. This signifies priority for basic health policies and for protection in cases of congenital or acquired incapacity, death of the family breadwinner, and low-income families whose head is a woman.

To sum up, the achievement of a new form of development such as that proposed in this paper calls for profound changes in the production structure in force and the training of individuals, coupled with the need to ensure as far as possible that no groups are excluded from this option. Consequently, equity in this context means that all citizens should have the opportunity of becoming useful members of society. In this respect, it is not enough to regard equity merely as a better distribution of income. The possession of the necessary instruments of cultural knowledge for integration into the present changing society is a priority aim. Similarly, the possibility of helping to decide on the meaning and potential directions of the change, should be made available, in a democratic society, to all its component groups; these should be able to participate in the decisions on what to produce, how to produce it, and for whom. Finally, if the dynamics of development lead to societies which are more differentiated than those we have at present in functional terms, the opportunities for acceding to the different posts must increasingly be based on merit (as opposed to nomination), and this equality of opportunity must be the determinant of social stratification. To ensure equality on these terms becomes, in consequence, one of the basic lines of a policy aimed at achieving social equity.

III. INTRA-REGIONAL CO-OPERATION

1. The potential of intra-regional co-operation

Even though intra-regional co-operation initiatives, and especially those in the field of economic integration, intended to open up paths to development in Latin America have always proved positive and of considerable significance, there has been an occasional tendency to underestimate them and even to consider them as being efforts of secondary importance. This is in every respect paradoxical, in view of the tangible benefits of the process and its potential for helping to overcome some of the main hurdles in the path of the region's development.

This is particularly so under the present circumstances. In the short term, integration offers a means of shortening the path leading out of the economic crisis and reducing the costs of readjustment, by facilitating fuller use of existing productive capacity and diminishing the use of scarce foreign exchange to finance imports from third countries. With regard to the medium and long term, virtually all the issues raised in previous chapters involve actions which would be facilitated through integration. Consequently, the simplest path, and that which is least dependent on uncontrollable external circumstances, is that of co-operation, including integration of markets. This would help bring about the sought-after transformation of the productive structures, facilitate more efficient mobilization and use of the region's meagre savings, and stimulate technological innovation and creativity. It is also necessary to take into account the wide range of potential offered by regional co-operation, which has shown its capacity to unite governments around concrete initiatives, to promote various sectoral co-ordination projects and, in general, to strengthen the mutual relations between economic agents at both the bilateral and the multilateral levels.

Moreover, the improvement of Latin America's insertion into external markets and the possibility of securing advantages in order to exert negotiating power in a world dominated by the great economic blocs will essentially depend on Latin America's will to achieve the unification of points of view and interests. In this respect, not only does economic integration help to ensure a more dynamic insertion of the

region to international trade: it is in fact the basic instrument for achieving such insertion. The region has very extensive experience in these matters. On the basis of this, it will be possible to project a new approach which makes the processes of integration and co-operation functional elements for the present and future development of the region.

2. Some lessons of the past

It is worthwhile briefly weighing up the achievements of economic integration and particularly those obstacles which hamper its furtherance in the region, with the aim of correcting or relieving shortcomings and assessing the potential contribution of integration to the development effort outlined in previous chapters.

The progress made in the past has been enormous. At the beginning of the 1960s, trade between the Latin American countries was only in its initial stages, and there was virtually no complementation between productive activities. In contrast, over the following years reciprocal trade grew into the most dynamic ingredient of the region's external trade (see table 12). Similarly, during the same period and on the basis of common interests, there was an increase in the levels of economic interdependence, particularly in the subregional processes involving countries with small and medium-sized economies. Thus, for Latin America as a whole, reciprocal trade came to represent more than 16% of the region's total exports, while in the case of some subregional schemes, such as that of Central America, the figure was higher than 25% in 1980. Intra-regional co-operation found many other forms of expression in the development of sectors of production and of the physical infrastructure and in the creation of intergovernmental institutions and subregional or regional associations representing a variety of groups and interests.

The increase in reciprocal trade paved the way for the expansion, diversification and modernization of industrial production, as well as for a certain degree of specialization of activities at the subregional level. In this respect, integration was functional for development during the first few decades after the war, by making industrialization and growth viable, particularly for the smaller economies. In addition, the expansion of markets and scales of production attracted new and increasing flows of domestic and foreign investment, furthering a process of capital formation which contributed to the diversification and expansion of productive capacity.

However, integration also displayed shortcomings and difficulties, particularly if the successes achieved are contrasted with the perhaps somewhat exaggerated expectations of those who set their sights on the possibility of organizing a common market of regional scale within a

predetermined period.⁵³ For example, it became apparent that progress could not necessarily be achieved in an uninterrupted manner, and still less in a linear one, but tended to be intermittent; setbacks occasionally occurred, while a number of pre-established goals (for example, the establishment of a common tariff by a fixed date) were frequently set aside in the face of the pressing needs of actual circumstances. Thus, in assessing integration a certain tendency grew up to exaggerate the distance between the commitments originally agreed upon and the extent to which they were fulfilled, rather than judging the project by its results.

In addition to this trend, which has somewhat diluted the initial support given by the different governments and strata of society to integration, a certain reluctance to go all the way with the above processes made itself felt. Noteworthy examples of this are the distrust felt by governments and by some groups as regards exposing national production to the competition of goods from other countries in the region; the unequal distribution of the costs and benefits of integration and, in general, the difficulties in generating reciprocity between countries with economies of different sizes and different levels of development; differences of interest, especially as regards each country's relationships with third countries, where the members of the integration schemes generally find themselves in competition with one another; the reluctance to replace the extremely varied supply offered by third countries with the rather more limited supply available in the region; and finally, conflicts between the commitments accepted as part of the integration agreements and the objectives of national development strategies and policies, particularly when national decisions have to take second place to multi-lateral ones. This latter problem, which has perhaps been the most significant and constant dilemma facing the integration processes, has been amplified in some countries by the minor significance of intra-regional trade in comparison to trade with third countries.

Likewise, the mobility of products on intra-regional markets has been considerably restricted by the high transport costs. This has been particularly so in the case of manufactures, which require services superior to those of traditional maritime transport. Transport facilitation through specific co-operation agreements, and the establishment of customs facilities for the international transit of goods, have not always received the decided support of all the countries of the region.

Finally then, two types of phenomena have shaped the evolution of the integration process. On the one hand, there are the tangible benefits and costs for each country, which are difficult to measure, as they are often associated with different methods of quantifying the new trade and production flows, opened up (or, occasionally, impeded) by co-operation agreements. On the other hand, it is necessary to bear in mind the

intangible assets, linked to the degree of political support, to the community of interests and the solidarity to which the issue may give rise within different governments and societies. Both of these phenomena naturally affect one another.

In this respect, the erosion of the intangible assets of integration which was partly the result of the "crisis of expectations" referred to in previous paragraphs was compounded by the deterioration in reciprocal trade in recent years caused by the shrinkage in the overall levels of demand, the sharp fall in imports, and the acute shortage of foreign exchange, which rapidly made itself felt in the level of liquidity of the systems of payment of the subregional integration processes. Intra-regional trade, measured in terms of exports, declined even faster than overall exports (see table 12), at precisely the same time as it became urgently necessary to protect the installed industrial capacity of the region and to save foreign exchange by developing import substitution on a subregional and regional basis. In other words, over the last thirty years the trade flows induced by integration have displayed a procyclical character.

In view of this phenomena and of the circumstances facing the region at the present time, there is reason to wonder whether integration is capable of performing the function of promoting development in the future. In the programme of priorities set forth in previous chapters, it is suggested that the different spheres of intra-regional co-operation, including, in particular, the sharing of markets within the framework of preferential agreements, are in fact more relevant today than ever before. It should be emphasized that this assertion is in no way the product of wishful thinking, but is based on a clear awareness of the instrumental role which integration could play in reactivating supply, enlarging the narrow leeway currently available for the economic policies of all the countries, raising levels of saving, carrying out joint action in a variety of areas, strengthening the international presence of the region and finally, on the political level, forging new links of solidarity between governments.

Above all, the stimulus given to demand as a result of the expansion of markets would help to increase efficiency, while joint efforts at modernization would make it easier to adapt the productive structure to the new conditions of regional and international demand. Consequently, reciprocal co-operation, as already pointed out, would provide support for extra-regional exports, allowing many medium-sized or small countries to achieve progress which would otherwise be impossible.

Moreover, there is clear evidence of an increasing degree of political support for the idea of integration, on the dual grounds of the urgent need to overcome the crisis and the need to achieve a greater community of interests between the governments involved in the recent process of

democratic revival in the region. This fact, together with the adjustment of the economic approaches of integration in order to correct the shortcomings of the past, would make it possible to put an end to the state of inertia affecting the integration schemes at the present time.

The picture given above would not be complete without some reference to the varied forms of expression which intra-regional co-operation has had and continues to have and which have not always been manifested directly through the subregional integration processes. Such diversified intra-regional co-operation has taken place in the development of the individual sectors and of the physical infrastructure; in the establishment of intergovernmental institutions for co-operation in particular areas, and in the creation of subregional or regional associations representing various groups and interests in a wide range of fields extending from the productive sectors to the training of skilled human resources in scientific and technological matters and other spheres of knowledge. Mention should also be made of the relatively recent emergence of numerous sectoral co-operation networks which have begun to function in a dynamic and flexible manner, using innovative forms of horizontal co-operation and thus strengthening the activities of the subregional or regional institutions and associations which already existed in the respective sectors.

3. Bases and guidelines for giving a new thrust to integration

How will the economic integration effort in coming years differ from past experience and practice? Despite the exaggerated disenchantment observed with regard to the previous results of the subregional integration processes, the governments of the region now seem to be keenly aware of the desirability of furthering these processes, to judge from certain official declarations and a number of concrete facts. An event worthy of attention, for example, is the trend which has developed in recent years towards a more personal type of contact at various levels (including the Presidential level), which has made a considerable contribution to recent co-operation efforts. In addition, a number of innovative steps have been taken, such as for example the bilateral agreements between Uruguay and Argentina, Brazil and Mexico, on the one hand, and between Argentina and Brazil on the other, all of which have come about in recent months.⁵⁴ The last-named agreement represents the abandonment of long-standing mutual mistrust and reservations between the two nations and opens up a fertile field for broad-ranging initiatives of a unifying nature.

The secretariats of the subregional integration schemes, too, are zealously seeking means of giving a new thrust to integration. Thus,

within the context of ALADI, the regional round of negotiations has begun; the countries of the Andean Group are pursuing a strategy to re-orientate their integration process; the Heads of State of the CARICOM countries have recently agreed to intensify reciprocal trade, while in Central America work continues on the "restructuring" of the Common Market.

While these efforts reflect an unquestionable desire for renewal, any integration scheme is subject to certain constant factors with regard to the use of the instruments for action. The adaptation of the integration programmes to present circumstances, just like the adaptation of development policy itself, involves changes of emphasis, of style, of priorities and perhaps of procedure in the use of instruments or the operation of national and regional institutions. Nevertheless, in the promotion of reciprocal co-operation the well-known instruments will always be present, such as trade preferences —either in the form of tariffs or subsidies—, preferential agreements for the regional purchase of goods and services by public enterprises, reciprocal payment and credit systems, complementation agreements or agreements on the creation of joint enterprises, and so forth. What seems to be changing, basically, is the priority assigned to the central objectives of the integration efforts over purely instrumental advances. At the same time, there are a number of features which may indicate a break with the past, both in order to increase reciprocal trade through unification of markets and in order to carry out joint action to solve or alleviate common problems.

First of all, the symbiotic relationship which exists between intra-regional co-operation and the trade relation of the countries of the region with third countries should be emphasized. Both aspects are complementary and reinforce one another, and they are functional as far as the development requirements mentioned in previous chapters are concerned. There is no longer any question of setting up possibly excessive barriers against imports from third countries in order to favour intra-regional trade, but rather of taking advantage of the benefits of an expanded market to gain in efficiency and competitiveness on international markets, either to substitute imports or to diversify and expand exports, especially of manufactures. In another connection, the possibility of organizing and exerting bargaining power at the international level constitutes an integral part of reciprocal co-operation.

Secondly, there is a need to disseminate and heighten the importance of the concept of regional co-operation: in other words, to help to ensure that integration receives the support and even the enthusiastic backing of governments and broad sectors of the population of Latin America. For this purpose, it is essential that those groups who are favourably disposed towards the process should be enlarged and strengthened and that the resistance it generates should be reduced. This issue,

which falls within the sphere of the intangible assets, is of vital importance, particularly in view of the skepticism which is generally characteristic of the attitude of different groups with regard to intra-regional co-operation and the natural resistance generated by the commitments entered into as part of integration agreements. In order to achieve this, a view and concept of integration which go beyond its strictly commercial aspects are called for.

Naturally, it is not possible to improvise such support. To begin with, it springs from the political endorsement which governments are willing to give to the process and above all, from the tangible benefits to which it gives rise. It may also be facilitated by the incorporation or greater participation of different groups in the decisions taken in support of co-operation. It is also necessary to ensure that the scope, purpose and likely consequences of co-operation are more widely disseminated. At the same time, an assessment should be made of the State instruments for promoting activities directly linked with integration programmes, and objective analyses of the results and new strategic importance of integration should be prepared and disseminated. Finally, as a further contribution to the aim under consideration, regional institutions should be strengthened along the lines indicated below.

Thirdly, past experience shows the difficulties which arise in implementing co-operation programmes between countries of very different size or economic structure, unless systems which provide special (and generally non-reciprocal) concessions to the "weaker" partner are adopted. Thus, together with programmes of Latin American and sub-regional coverage, it would be desirable to promote deeper co-operation between countries of more or less similar economic size (Argentina, Brazil and Mexico; the Andean countries; the countries of Central America; the Caribbean countries), and between countries whose economic structure is complementary (Argentina-Bolivia, Colombia-Venezuela), including, of course, integrated development in various frontier areas. In addition, consideration should be given to certain forms of relationships between countries which are of different economic size but which display levels of interdependence due to historical circumstances or geographical proximity (Uruguay and Paraguay with Argentina and Brazil, for example, or the member countries of the "Amazon Pact"). This latter type of situation could facilitate a system of intra-regional specialization which, in turn, would meet the essential requirements of reciprocity. It is important to avoid reproducing within the region, between countries of greater and lesser relative development, the asymmetrical relationship which generally exists between the nations of the periphery and those of the central economies. In this respect, it would be desirable to take steps to guarantee the principle of reciprocity. Thus, it would seem feasible to set up a system facilitating the access of capital goods of Latin American

origin to countries of smaller economic size, in exchange for access of the latter countries' manufactures to the countries of greater economic size, along the lines of the pioneering agreement between Argentina and Uruguay.³⁵ Similarly, just as some binational initiatives have made it possible to mobilize big international financial resources (the case of the great hydroelectric complexes), regional co-operation could generate flows of financial assistance in the national currencies of the participating countries in order to help to expand the physical and technological infrastructure of the less developed countries of Latin America and the Caribbean. In this respect, it is worth recalling the low contents of inputs from outside the region involved in this type of initiative, on the one hand, and its effects on the export potential of the countries of the region, on the other.

Further to the above, the existing subregional integration projects should continue to be strengthened. As the President of the Argentine Republic, Dr. Raúl Alfonsín, recently stated, efforts should be made to "consolidate and extend the integration agreements already existing in the region; rather than launching new programmes, a new impetus should be given to the existing ones".³⁶ It may be noted that partial-scope agreements and subregional commitments are complementary, and are fully consistent with the 1980 Montevideo Treaty, which clearly provides for the possibility of signing agreements which may progress at different speeds.

Fourthly, attention should be centred on those areas of economic activity where there is a possibility of achieving concrete progress of clear significance for transforming the structures of production and creating conditions which facilitate achievement of the objectives of development. In other words, what is proposed is a selective approach to integration, both as far as the sharing of markets is concerned, and with regard to the identification of areas of activity which could be suitable for trial intra-regional co-operation in view of their importance for economic growth or for overcoming the crisis experienced in the 1980s. Moreover, it is not absolutely necessary for market integration to cover all products, as has been shown by the recent agreement signed by Argentina and Brazil.³⁷ This agreement points rather at the potential existing in the field of sectoral agreements or at the level of branches of activity. Other suitable issues for helping to bring about economic reactivation fall within the sphere of the efforts which countries will have to make to transform or modernize productive activities, including the development and adaptation of technology, the mobilization of savings, co-operation in some service activities, and specific joint action in relation to the international community.

Fifthly, and closely linked to the above, greater stress than in the past should be placed on the monetary and financial aspects of integra-

tion. One of the main immediate causes of the relative deterioration of intra-regional trade compared with the overall trade of Latin America is the impact on the payments systems of the subregional integration programmes of one of the main legacies of the economic crisis: the lack of liquidity in convertible currency, together with the possibly inadequate progress in the field of monetary integration. This accounts for the recent initiatives taken within ALADI, CARICOM and the Central American Common Market with a view to strengthening their respective machinery for payments and/or reciprocal credits, as well as the concern of some countries with the creation of a Latin American monetary unit to cover at least part of the liquidity needs of the regional system. In this connection, the main barriers affecting intra-regional trade are no longer in the sphere of tariffs, but are related to exchange problems or to the administrative arrangements regulating imports because of the widespread shortage of foreign exchange. Consequently, co-operation in the monetary and credit spheres is an essential condition for reversing the trend towards declining reciprocal trade.

Finally, stress must be laid on the importance of strengthening those institutions whose main function is to further integration and co-operation in all their possible forms, at the subregional and/or the regional level. It is in this area that action in support of integration should be systematically identified, encouragement should be given to its implementation, and the subregional or regional vision and concern which contribute to the process of reactivating development should be kept alive. This thereby brings into the list of priorities the issue of strengthening, and in some cases revitalizing, the institutions for intra-regional integration and co-operation, bearing in mind the need to make a clear distinction of roles between them, with all its administrative, financial and organizational consequences. In order to reactivate co-operation it is necessary to break the vicious circle whereby governments fail to give full support to regional or subregional institutions, thereby weakening their capacity to respond, which in turn tends to be reflected in a lack of government support. As far as the institutions themselves are concerned, they should carry out a self-examination, in order to review and update programmes for intra-regional co-operation.

In this respect, it is important to note that such co-operation is not the exclusive preserve of public sector institutions and bodies. In many cases it is these bodies which should give the initial impulse for the execution of co-operation activities in line with national priorities, but the participation of the organized private sector and non-governmental organizations in general must contribute to the successful implementation of intra-regional co-operation programmes and projects.

To sum up, while the fact of giving a new impetus to regional co-operation does not involve drastic changes in the instruments for

action, it does involve considerable changes of emphasis, with perhaps the need to pay greater attention to monetary and financial measures as well as to those which will rapidly lead to an improvement in the access of regional supply to regional markets. The use of these instruments, and the anticipated results, have innovative features which make it necessary to create a background of support for integration, and also to intensify the participation of different economic agents in the process, in order to overcome the inevitable resistance. In other words, transforming integration into a functional instrument of national economic development policies calls for basic groundwork to clarify the strategies of the countries of Latin America, together with the adoption of political decisions in which economic concerns are associated with certain decisive steps in the institutional, political and administrative spheres.

4. Some concrete proposals

What concrete ideas is it possible to formulate in the light of the above basic orientations? It is difficult to put forward detailed proposals, in view of the special features of the subregional processes and of the existing binational and multinational agreements. For example, deeper and more far-reaching proposals could be made in the case of those processes which have already reached a relatively advanced level of economic interdependence —such as the Central American Common Market and, to a lesser extent, ALADI— while less ambitious ones would be called for in order to stimulate co-operation between countries whose economic links are perhaps not as deep at the present time, but which nevertheless possess considerable potential for drawing mutual advantages from co-operation. By way of illustration, some suggestions aimed at overcoming the phenomena which have prevented greater progress in the past are set out below. If they are to be subsequently developed, it will be necessary to address the specific conditions in the respective countries and in each particular integration and co-operation process. One of the main objectives of all of them should be to revitalize the trade flows within the region and within the subregional integration schemes and to restore economic bonds and links which have been damaged by the crisis.

Some of the mechanisms which could be implemented in order to give a new thrust to integration are well known. They include the granting of tariff preferences to regional production, normally on a reciprocal basis, but not necessarily always so, should the relationship be between countries with different levels of development; use of the purchasing power of governments and of State enterprises, in order to protect and strengthen regional industry, and in particular those branches considered to be of a priority nature; the establishment of specific agreements such as, for example, a regional form of the multifi-

bres agreement which exists between the industrialized nations, in order to assist the regional textile industry; the issue of financial instruments in foreign currency at preferential interest rates, in order to check the flight of capital; and trade financed by common funds or by means of barter and multilateral compensation. Similarly, the insertion of the countries in the international economy could be improved by intra-regional co-operation in areas as diverse as the creation of trading companies; the pooling of services such as transport and insurance, and the use of the purchasing power of some or all of the countries of the region in order to strengthen their bargaining capacity *vis-à-vis* third countries.

Just as integration was initially conceived as a support system for the incipient industrialization processes in Latin America and the Caribbean, in the immediate future it could help the member countries of each subregional scheme to achieve complementation of their industrial structures—especially in the field of capital goods, intermediate inputs and mass-consumption goods—as well as of the corresponding technological capacity. Similarly, integration should provide opportunities for developing the complementation of production among the countries of the region, with a view to enabling all the participants to improve their level of efficiency in these areas. Past experience shows that the processes would need to be selective and to centre on strategic sectors which justify an effort at joint programming and development, either because of the size of the investment, the large scales of production, the technological complexity, or the possibility of entering outside markets requiring high production levels. Consideration could even be given to specialization in some countries in the manufacture of parts or components for subsequent assembly into final products in other countries.⁵⁸ A similar approach might be appropriate for the agricultural sector, bearing in mind its special characteristics and the interrelation with the food security of broad strata of the region's population.

Moreover, it is impossible to ignore the major effort being made in some of the subregional integration schemes to reactivate trade flows which have been severely damaged by the economic crisis affecting the whole of the region. The Regional Round of Negotiations of ALADI has opened in a promising manner, supporting commitments by the member countries to intensify regional tariff preferences, to eliminate non-tariff barriers hampering zonal trade and to initiate negotiations over "packages" of products which are at present imported from third countries. A significant feature of the Round is its possible extension to the whole region, i.e., the possibility of opening it up to the participation of other Latin American and Caribbean countries which are not members of ALADI. This process has already begun with the signing of a number of partial-scope agreements between countries which are Contracting Parties of ALADI and other which are not.

The support provided by governments, entrepreneurial sectors, international bodies and the secretariats of the subregional integration and co-operation programmes themselves will be vital in revitalizing intra-regional trade flows. In this respect, it is also possible to observe a favourable evolution with regard to the clear distinction between ends and means, the establishment of quantitative goals for the recovery or growth of trade, and the search for *ad hoc* instruments making it possible to achieve this objective. In this respect, it is impossible to overlook the fact that State enterprises could play a significant role, as they are major purchasers of all kinds of imported goods and services.

As already noted, the most practical means of reviving reciprocal trade, and thereby production—including better use of the installed productive capacity in the region—is to provide liquidity for the payments clearance mechanisms or to finance such trade as already exists in the subregions. In turn, this idea has two aspects. The first of these involves progressing in the field of monetary integration, by creating the region's own instruments of payment or even, in its most ambitious form, setting up a payments union. The second consists of obtaining external support, particularly from official sources of financing, in order to provide liquidity in convertible currency for these mechanisms, thereby allowing them to finance the payment of debit balances in reciprocal multilateral trade. Naturally, both of these aspects are mutually supporting.

Various initiatives in this direction are already underway.⁵⁹ These include, in the case of Central America, the creation of the Central American Common Market Fund, designed to expand the financing of debit balances in intra-regional trade, and the recent creation of the instrument of payment known as the "Central American Import Rights" (DICA), as a means of facilitating the payment of reciprocal trade in local currencies. In this connection, mention should be made of the agreement reached by the Heads of State of the Caribbean Community to set up a service for financing intra- and extra-regional exports within the framework of the Caribbean Development Bank.⁶⁰ What is now required is the improvement, or, as the case may be, implementation of these initiatives as quickly as possible and, if possible, their complementation with the external financing essential to make them viable. In view of the potential impact of a reactivation of reciprocal trade on production, there is every justification for this type of financing being granted by official organizations with a commitment to the development of the countries of the region, such as the Inter-American Development Bank and the World Bank.⁶¹

Another idea which deserves to be explored is the possibility of increasing trade flows by linking them to the reduction of the external liabilities of the countries of the region, by paying for goods with the

exporter country's debt documents, purchased by the importer country on secondary markets. For example, a country which normally imports wheat from outside the region could divert its purchases towards regional suppliers and these purchases could be paid for by the exporter country's debt documents, purchased at a discount on secondary markets. The difference between the nominal and real value of these documents could be shared between the purchaser and the seller, which would also help to render this transaction more attractive than purchase from extra-regional suppliers. Thus, both the regional importer and exporter would benefit, new flows of production and trade would be created, and in addition the external liabilities of one of the parties would be reduced. This mechanism would lend itself to the adoption of both bilateral and multilateral agreements, and an institution such as the Inter-American Development Bank could assume responsibility for its implementation.

As far as relationships between countries of different economic size are concerned, consideration should be given to special systems which give goods from smaller countries access to the markets of the larger ones, following the model offered by Argentina, which offers a wide range of Uruguayan products free access to its own domestic market, within predetermined limits. The bilateral agreements reached between Mexico and Uruguay on the one hand, and Brazil and Uruguay on the other, are further examples of realistic action measures adopted by countries of different economic structure.⁶² While there might be no case for reciprocal treatment, in view of the differences which may exist in the degree of industrial development of the countries concerned, it seems reasonable that in importing capital goods, the countries of Latin America and the Caribbean should give priority to those produced in the region, particularly in the case of purchases by public enterprises. In order to avoid the importer countries having to bear any additional cost as a result of granting this priority, the exporter countries should provide special compensation to the suppliers of capital goods. In addition, steps should be taken to strengthen the machinery which already exists within the Inter-American Development Bank for financing intra-regional trade in capital goods on financial terms competitive with those offered by the official export banks of the main industrialized economies. In order to do so, it would be necessary to expand the financial capacity of this machinery and to extend the repayment periods for the operations it carries out.

The type of relationship between economies of differing size and structure examined above is suitable for the establishment of both multilateral and bilateral agreements. In a first stage, for example, the countries of Central America—and to a lesser extent those of the Caribbean—could seek increased access to the Mexican market, while Bolivia, Paraguay and Uruguay could direct their attention to the Argentine and

Brazilian markets. However, it would be desirable for special agreements of this type, founded on historical and geographical links, to develop into multilateral agreements, in order to at least partly offset the inherent disadvantage in any relationship between countries of unequal economic size.

Another type of measure which lends itself to bilateral and multilateral co-operation involves the establishment of joint enterprises, both for production and marketing. The firm LATINEQUIP, set up by three official banks from Argentina, Brazil and Mexico to promote the export of capital goods and technological services, is but one example of what could be achieved. This type of agreement could be extended to other services, including of course financial services.

In previous pages emphasis has been laid on the desirability of expanding the participation of different actors in the taking of decisions regarding integration initiatives. One possible means of achieving this aim is to integrate representatives of entrepreneurs and workers in the assemblies or bodies which negotiate and follow-up such action. A further means could involve the creation of committees of entrepreneurs (both public and private) at the level of the different branches of activity and within the subregional and regional spheres, to act as mechanisms for consultation, exchange of information and promotion of reciprocal trade and co-operation. An example of this type of organization is the Latin American Association of Capital Goods Industries (ALABIC), set up in 1985, to which more than 40 enterprises from the capital goods sector in the region belong. In addition to their considerable intrinsic value, this type of mechanism helps to increase the receptiveness towards intra-regional co-operation in each country.

The same purpose of disseminating and popularizing the concept of intra-regional co-operation could be fulfilled through a renewed effort to promote relations among institutions of higher and post-graduate education. It is not just a question of taking advantage of economies of scale in establishing a limited number of outstanding centres of training and research, but of promoting exchanges at all levels, so as to leave firmly rooted in the collective awareness the idea of the potential of co-operation and the need to strengthen centres of Latin American and Caribbean thinking. The experience already accumulated in this field makes it desirable to intensify and develop it.

Another aspect of which mention was made in previous paragraphs is connected with the need to strengthen the integration institutions, both regional and subregional, including the Latin American Economic System (SELA) and its Action Committees. This is a complex issue which, among many other aspects, has considerable financial implications. Consequently, one means of helping achieve this end is to establish automatic means of financing such institutions. This is not the place to consider the

advantages or drawbacks of different methods of financing, but simply to put on record that the more or less automatic provision of a volume of resources whose amount it is possible to anticipate with certainty would make a fundamental contribution to consolidating the soundness of the institutional order on which a renewed impulse towards integration will have to be founded.

Mention has already been made of the risks involved in certain all-embracing proposals *vis-à-vis* the possibility of promoting sectoral or partial agreements.⁶³ The agreement on integration between Argentina and Brazil mentioned above is an example of this type of pragmatic approach, since it defines both concrete objectives and a flexible instrument for reaching them. In this connection, consideration should also be given to the possibility of promoting intra-regional co-operation in the area of services. There is considerable experience on this matter in the region, fundamentally in the field of transport and insurance, which are issues closely linked to trade in goods. As stated in previous paragraphs, consideration should be given to the possibility of expanding co-operation in this area, especially in the development and use of new technologies (particularly information technology), the exchange of professional and personal services, the strengthening of exchanges among academic centres of the region, the establishment of binational or multinational enterprises providing certain specialized services, and the adoption of subregional or regional preferences for services provided in the region.

Regional-level planning efforts can also play a significant role in the co-ordination, orientation and promotion of the process of integration and co-operation. Through them, it would be sought to incorporate action of a regional nature into national development plans, especially in the field of investment decisions and the potential flow of trade; in other words, what would be sought would be regional planning that would guide such decisions by indicating in advance the structural rigidities (in transport, energy, food supplies, etc.) which most severely limit the dynamic progress of integration and the strengthening of industrial and technological development. No less important are the tasks that can be carried out in the regional context as regards the distribution of the benefits of the integration process and forecasting of the medium-term international economic situation, with its likely consequences for the region, in order to guide integration negotiations and action in the field of co-operation.

Finally, with regard to co-operation, it would be necessary to seek mechanisms allowing it to be promoted and developed in a more continuous manner, so as to take advantage of all its direct and indirect effects. What is proposed is to systematize the co-operation initiatives taken in various fields, such as trade, infrastructure, joint exploitation of natural

resources, energy, transport and communications, science and technology, banking and finance, the productive sectors, joint enterprises and a whole range of other areas, and to set up and strengthen units specializing in co-operation within the subregional integration schemes, or at the regional level if necessary. The central idea is to render co-operation functional in respect of efforts to establish sound and lasting economic and technological links between the member countries of the integration schemes in order thus to bring about greater convergence between the integration processes and action in the field of co-operation.⁶⁴

IV. INTERNATIONAL CO-OPERATION

The importance of international trade and external financing as variables responsible for the growth of the economies of Latin America and the Caribbean is well-known. Although the extent of their influence varies from country to country and is particularly great in the small agro-exporting economies of the Caribbean and Central America, historically there has been a close relationship among, for example, the growth rate of international trade, the volume of exports and finally, the level of economic activity of the countries of the region.

Less attention has been paid to the inverse relationship, i.e., the way in which the growth of the Latin American and Caribbean economies has influenced the foreign trade indicators and the other macroeconomic variables of the leading developed economies. Although in recent years reciprocal trade links have weakened as a result of the sudden drop in the region's imports and the persistent erosion of its share in world exports, the emergence of new relation modalities in the financial sphere throws new light on the way in which certain events which have taken place in Latin America and the Caribbean can influence the performance of the economies of the centre. This explains, for example, the extraordinary importance attached to the subject of external debt in the Latin American and Caribbean economies.

With this in mind, it can be reasonably postulated that an improvement in the international economic environment—which calls for acceptable growth rates of trade, price stability, interest rates similar to those recorded in the past and availability of foreign credit—is vital for facilitating economic recovery and development of the economies of the region. From the standpoint of the countries of the centre, if the austerity policies in Latin America and the Caribbean are extended, this, together with the potential disequilibrium factor surrounding the problem of the external debt, will constitute a burden for the international economies. Thus, the interaction between the growth of the Latin American economies, on the one hand, and that of the economies of the centre on the other also provides the foundations for a certain community of interests since the well-being of the one indirectly benefits that of the other and, conversely, the recession is spread precisely through the interdependence referred to.

It is of course not a matter of waiting for solutions to obstacles to the development of the region to come from outside, since that would be neither realistic nor desirable. As has been stressed repeatedly in the earlier parts of this report, Latin America and the Caribbean are faced with the enormous task of solving those obstacles primarily on the basis of their own efforts. Nevertheless, the region also has a right to hope for the existence in the international economy of a minimum platform of basic conditions in the form of responsibilities of the industrialized countries, which would facilitate this effort. In connection with these conditions, mention may be made of three traditional subjects which are interrelated: access to markets, access to technology and access to financing. The third condition is linked, in turn, with the way in which the crushing burden of servicing the external debt is approached. In this chapter, which makes no claim to providing a complete analysis of the broad subject area of relations which has traditionally been considered in the North-South dialogue, consideration is given only to certain aspects of this topic which are particularly vital for the economic recovery and development of Latin America and the Caribbean.

A. EXTERNAL FINANCING AND DEBT RELIEF

1. The problem

It would seem unnecessary to insist on the seriousness for most of the countries of the region of the problem of servicing the foreign debt; nevertheless, it must be borne in mind that the subject has lost its sense of urgency in some spheres, especially in the industrialized countries. Perhaps this is due to the fact that the creditor banks have improved their capacity to face the risks of the Latin American portfolio, by strengthening their equity position, and also to the fact that international interest rates have continued to decline since 1985.

Despite this, from the debtors' standpoint, the problem does not appear to have been solved. The balance of the debt continues to increase, though slowly, and the fall in the interest rates has been more than offset in many countries by the continuing deterioration in the terms of trade. Consequently, a considerable proportion of the foreign exchange generated in the region, as well as a high percentage of domestic saving, has to be withdrawn from the domestic economy to meet external commitments. This drainage of resources obstructs the capacity to grow, to transform the productive structure through new investments, and to combat the inequalities that persist in the Latin American and Caribbean societies.

The subject has become so important that it is now feasible to examine the requirements of future external financing in the region by

analysing the way in which the problem of the servicing of the current debt will be solved. In fact, numerous studies have insisted that developing countries in general, and those of Latin America and the Caribbean in particular, need a restoration of their historic levels of net external credit in order to recover their capacity for growth.⁶⁵ Notwithstanding, both the behaviour of the international private banks and that of direct foreign investment are notoriously procyclical, and aside from the potential advantages and disadvantages of the latter, it is far from likely that they will restore flows of funds remotely comparable with the historic amounts, at least in the coming years.

Official financing deriving from bilateral and multilateral agencies could certainly be increased, although in insufficient amounts, judging by the magnitude of the needs as against the limited capacity of the more active agencies of the region. For this reason the possibility of reversing the present situation, in which Latin America and the Caribbean have suffered a major exodus of their domestic savings, rests basically on the possibility of alleviating the burden of servicing the foreign debt.

The rapid growth of this debt between the mid-1970s and 1982 was due to factors of demand for and supply of resources, which highlight the joint responsibility of creditors and debtors. This, however, is not reflected in the shared distribution of the burden of the debt, which explains the changes, not only in the magnitude, but also in the direction, of the net flows of real resources between the region and the rest of the world.

The external debt of the region grew very dynamically between the mid-1970s and 1982.⁶⁶ Subsequently there was a moderate growth, not so much because fresh funds had been received, but as a result of the partial refinancing of interest payments agreed in the renegotiation processes (see table 7). The increase in the debt reflected in part the deliberate decision of many governments to resort to external financing to offset the effects of adverse factors originating in the world economy, such as the oil crisis or the international recessions. For a short period, this enabled effective demand and growth to be simultaneously maintained, while the external deficit was covered by the use of the elastic supply of credit. However, this situation changed abruptly in the period 1981-1982, with the joint appearance of the adverse phenomena described in earlier chapters.

The desirable combination of circumstances in which debt servicing might be complied with would be a rise in saving which is transformed into resources transferable to the exterior by an increase in exports or by import substitution. In this way the debt would be serviced and a high domestic level of activity and employment maintained without the sacrifice of investment. Nevertheless, the perverse combination of factors that took place from 1981 onwards, linked with the fact that these

resources were not always devoted to ends compatible with development, caused the surplus that had to be transferred to be generated through a brusque fall in capital formation, and its conversion into transferable resources was obtained through a drastic reduction in imports and domestic consumption. The contraction in imports had to create the capacity not only to transfer abroad the real resources associated with the servicing of the debt, but also to counteract the fall in Latin American exports.

The linkage between financial flows and trade flows is in fact obvious. When, as in most of the Latin American countries, capital flows change their normal direction and economic growth remains below the international interest rate, the servicing of the external debt can only be complied with by compressing domestic consumption and/or investment. In the same conditions, when the growth rate of exports is lower than the aforesaid interest rate, the capacity to service the debt can be achieved only by diminishing purchases abroad. Thus, when consumption and imports have already been drastically reduced, the normal maintenance of the debt servicing becomes a function increasingly dependent on the performance of exports. If these do not sufficiently expand, access to greater financial resources will bring only temporary relief, and the problems will be still further aggravated thereafter.

2. Prospects

There is a lively controversy as to the formulas that would enable the foreign debt problem to be alleviated and possibly surmounted, but there is virtual agreement that it will only be possible in the context of dynamically expanding economies, a framework within which the incidence of the debt would tend to diminish along with its repercussions on the main macroeconomic variables. Nonetheless, many debtor governments contend that the servicing of external loans must be alleviated as an indispensable requisite for growth. On the other hand, there are others —especially a number of creditors— who advocate the slogan "grow and pay"; these maintain that with a "successful" adjustment the economies of the region will be in a position to return to the path of growth, and that this will in itself solve the financing of the service of the debt.

It must be admitted that within an exceptionally favourable constellation of factors —an international economy in dynamic expansion, with low interest rates, and fresh external financing in magnitudes comparable to those prevailing at the end of the 1970s— it might be feasible, at least conceptually, to achieve growth rates of the order of 5% per year and at the same time meet the commitments of the current debt.⁶⁷ It is unlikely, however, that these favourable conditions will occur in practice.

What is to be expected, instead, is that the countries will be unable to generate sufficient saving to finance the transformation of their productive structure, or sufficient foreign currency to achieve acceptable rates of growth.

Some recent events illustrate this truth. Although at present the nominal interest rates are equal to less than half those of 1981, the persistent growth in volume of the accumulated debt and the deterioration in the terms of trade mean that the debt servicing burden is still very heavy. If a country had experienced a deterioration in its terms of trade similar to that of the non-oil-exporting group of countries of Latin America between 1980 and 1985, the cost of interest payments on the debt in terms of real resources would have grown by close on 50%. This means that if in 1980 it was necessary to sacrifice a hundred units of tradeable goods to service the debt, at the end of 1985 it was necessary to devote some 150 units to carry out the same servicing, if account is taken of the increase in the debt, the fall in nominal interest rates and the loss in respect of the terms of trade.⁶⁸

The last two elements are decisive in this result. The behaviour of the interest rates and other financial costs and the variation in the terms of trade are substantially beyond the sphere of influence of the debtor countries, taken separately. Collectively, however, they exercise a rather undesirable influence on the terms of trade. As already noted, the simultaneous efforts to increase exports, especially of primary products, in a world economy which is growing only sluggishly, generate a depressive effect on prices, thus unintentionally aggravating the problem of external financing.⁶⁹

The ECLAC Secretariat has prepared several simulation models to relate the growth rate of the debt with the real interest rate, the debt-output coefficient and the foreign trade imbalance (or the difference between saving and investment), as applied to 18 countries.⁷⁰ In these studies it is concluded that, even on favourable hypotheses regarding the supply of fresh external funds and the evolution of the interest rates, it would be difficult to achieve, during the period 1986-1990, the annual export expansion rates (between 10 and 15%) and the investment coefficients (between 20 and 25%) needed to attain a modest growth (4%) of the gross domestic product.

The calculations made underline the evident need to look for formulas for alleviating the burden of the debt which will enable a larger proportion of the foreign exchange generated to be devoted to purposes compatible with development. These formulas should be such as will allow this relief to be obtained without additional cost to the debtor countries.

There are only four ways of achieving this objective: a reduction in the principal of the debt, a reduction in interest rates, an improvement in

the terms of trade or in the world demand for Latin American products, and an increase in investment productivity. The first three ways do not depend on the policies of the debtor countries, at least in the short term. Changes in productivity would require investments, and even structural reforms, which take time and demand additional financing. In this sense "financing" and "adjustment" are not, as often stated, alternative formulas for correcting economic imbalances, but complementary ingredients.

3. Solution options

Failing increased access —both trading and financial— to the international markets, any alternative solution would call for a reduction in the payments made to service the debt. This problem can be tackled in two ways: the first would consist in restricting these payments in accordance with criteria of capacity to pay (for example, in terms of the total of exports, the price of a key export product, the total of foreign currency income or the gross domestic product); the second would consist in directly reducing, without accumulation, the interest or amortization payments. If in the first method the servicing of the debt could be accumulated indefinitely over and above the limits adopted, the first and the second would be financially the same.

a) *Reduction of the capital*

One way of reducing interest payments abroad consists in the direct reduction of the principal of the debt. This was the formula employed, for example, to mitigate the problem that arose during the crisis of the 1930s, when the bulk of the debt was represented by investments of securities abroad. The drop in the debtor countries' capacity to pay was reflected in a fall in the market price of the bonds, sometimes to 15% or less of their nominal value.⁷¹

At present, since the debt is mainly owed to the banks, it must be admitted that accounting write-offs might provoke adverse reactions in terms of the debtor's future access to the normal market. For this reason, despite the drastic process of adjustment and its high social cost, the countries have striven to maintain the servicing of their external debt. In other words, in the light of the national interest in preserving a stable and long-term relationship with the international financial markets, there has been no recourse to rupturist solutions and unilateral action has been isolated and due to the absence of other options. Hence, contrary to what occurred in the 1930s, the reduction of the principal of the debt as a means of alleviating indebtedness has been an expedient little used.

Nonetheless, there are formulas which would enable the principal of the debt to be reduced without affecting the debtors' access to the

commercial credit market. A secondary market of documents relating to the debt, such as that which has been appearing since the end of 1984, would allow the debtors to purchase their own debt at a capital value below 100% of the nominal value. It is common knowledge that transactions have been carried out with discounts fluctuating between 10 and 60% of the nominal value of the debt, and some countries have set up mechanisms for the advance purchase of the documents of their own debt with the commercial banks. Hitherto operations of this type have represented only small percentages of the total debt, but their use is tending to grow rapidly. At all events, it is an instrument which can alleviate the burden of indebtedness by transferring some of the costs of the debt to the creditors and would lend itself also to the establishment of subregional or regional co-operation mechanisms and might even foster reciprocal trade.

For the rest, if some of the bank regulations in the industrial centres were modified, whether to make it easier to reflect in the balances of the creditor financial institutions the balances of the Latin American debt nearer to their market values, or to foster the annual sale of a small part of this portfolio, it would enormously strengthen the development of swaps of documents and a secondary discount market which could significantly lighten the burden of servicing the foreign debt.

In the same order of ideas, proposals have been made for the transfer of bank assets to multilateral agencies, which would purchase them at lower than their nominal values and would take over the task of rescheduling the payments of the debtors, transferring to the latter the benefit of the lower value of these assets. The obstacle to these proposals is that the operation would require an increase in the capital of the multilateral institutions, or rather in their gearing ratio. Hence this type of solution does not seem to be a widely applicable formula that would permit the debtors to increase their supply of net resources. It might be an advantage to the creditors, however, in so far as their present portfolio is at considerable risk.

One way of changing the nature of the interest payment commitment, which in turn can be combined with the repurchase of the debt, is the transformation of the latter into capital participation. In this way the nature of the obligation is changed, since the regular payment of interest is replaced by remittances of profits as these are generated. As the State does not guarantee the commercial risk of investments, the transformation of debt into capital participation implies in practice the elimination of the public guarantees that might be committed in the debt. This transformation might also reduce the procyclical inflexibility of the annual amounts of remittances abroad. This mechanism, however, would have only a limited application. The balance of the external debt exceeds by 300% the book value of the whole private foreign investment in the

region. Consequently, in view of the magnitudes involved, the transformation of the debt into capital participation on a massive scale might signify a radical turnaround in the ownership of the main Latin American enterprises.

Both the repurchase of the debt and its transformation into capital participation can facilitate the return of national capital invested abroad. If the operation of repurchase and investment produces attractive profits, as seems to be the case, one might expect some expatriated capital to be attracted back again.

b) *Reduction of interest payments*

The burden of the debt can also be reduced directly by cutting interest payments and other costs to below market prices. Although this approach differs in accounting terms from the direct reduction of the principal of the debt, if tax conditions are the same, the two are financially equivalent.

The accounting norms are very important in this respect. In the United States, for instance, concessions in interest rates must be reflected in charges against assets only if the sum of future payments of capital and interest is lower than the amount of capital existing at the moment of concluding the concessional agreement.⁷²

The effects on the profits of the creditor banks of reducing the interest payments on the debt do not seem to be excessive. A study conducted by the United States Congress indicates that, if Latin America's interest payments had been reduced by US\$ 12 billion in 1985, and if the banks had written off 1% of the value of their existing credits with the region in that year, the nine leading United States banks would have obtained profits in 1985, after discounting taxes, which would certainly have been higher than the level reached in 1984 if each of them, in their turn, had absorbed a part of the reduction of interest payments in proportion to their credits with Latin America.⁷³ It should be noted, besides, that the effects on the book profits of the financial institutions caused by a lowering of the interest rates or the principal could be deferred, in accordance with the tax regulations applied to them.

In fact, commissions and surcharges have already been eliminated or reduced in the course of the three rounds of renegotiation held between the banks and the debtor countries.⁷⁴ Thus, it had been possible to bring down the high levels of surcharges and commissions in force during the first round of renegotiations. In some recent cases of renegotiation, the traditional reference rates (LIBOR or Prime) have been replaced by rates representing the cost of procurement of funds by the creditor banks, which are lower than the historic reference rates.

All in all, the formulas employed so far have not been sufficient to relieve the debt servicing burden substantially. Hence numerous comple-

mentary formulas continue to be analysed with a view to reducing interest payments or modifying the nature of these payments. These formulas have been put forward both in debtor and in creditor countries.⁷⁵ They include in particular the automatic capitalization of interest—at rates substantially lower than the existing rates—and the payment of interest in national currency.

The capitalization of interest would permit the regularization of the annual servicing of the debt for amounts exceeding certain ceilings or limits. In this way, while alleviating the annual payment of interest, an element of stability is introduced into the debtors' balance of payments with the separation of the annual payment allocations from the changes that might occur in the international interest rates. Mechanisms of this kind would constitute elements of automatic stabilization of the world economy and would also help to distribute proportionately among the creditors the cost of the capitalization of interest.

The system that consists in paying interest in the debtor's currency (indexed with the value of the currency in which the loan is denominated) is conceptually similar to the former method, with the difference that, in this latter case, it is usually expected that the creditor will use the accumulated funds for purposes specified in advance. For instance, the resources might be used to purchase goods and services, shares or other assets in the debtor country, or they might be lent again; the conversion of these funds into foreign currency and their transfer abroad would be subject to formulas linked, for example, with the total of exports or the value of the sales of a commodity of key importance to the foreign trade of the economy concerned. These mechanisms might also be used to regulate interest payments abroad, in order to convert them into a relatively constant flow over time.

c) *Loans from official sources*

The solution mechanisms mentioned above are mainly applicable to loans deriving from private sources. As regards loans originating from official sources, which constitute a relatively small proportion in the Latin American countries (although not in some relatively less developed or small economies, especially in the Caribbean), the terms of the renegotiations should not be subject to the same considerations of profitability that affect loans from the commercial banking system. This is the case with the Paris Club agreements, where the terms agreed upon do not carry commissions or surcharges. What is more, in some recent rounds of negotiation the creditor countries have agreed to reschedule not only the maturities of capital, but also the interest payments. Nevertheless, many public institutions that finance the exports of creditor countries tend to limit their credits, in rescheduling maturities, following the practice of the international commercial banks.

In principle, the governments of the creditor countries are not subject to the same restrictions as the commercial banks in regard to writing off portfolios of certain loans, however much the regulations and practices may vary from country to country. Similarly, there is no reason for the suppressions and reductions carried out by the creditor governments to produce the contraction in the flows of future credit that is involved in the case of commercial banks. And the same applies to reductions in interest. Thus, in those cases in which it becomes imperative to lighten the load of debt servicing, the part played by the foreign official creditors could be decisive.

d) *Debt and external financing*

Past experience highlights the need to assess the problem of indebtedness, not only country by country, but also from a global or systemic standpoint. Otherwise there is a risk of falling into fallacies in recommending policies whose effect might be appropriate for some countries considered individually, but which would be counterproductive if universally applied. Consequently, in order to solve the debt problem, there is need on the one hand for national policies to foster the transformation of the productive structure of the debtor countries and, on the other, for measures taken by the creditor countries to alleviate the burden of the debt and to introduce complementary modifications into the international monetary and financial systems, as well as into trade. Obviously this subject goes beyond the scope of this chapter, but it provides some food for thought.

In the first place, it is essential to recognize the existence of asymmetries in the international monetary system in relation to the policies of adjustment, especially in the search for measures which, while affecting as little as possible the interests of the creditor countries, will alleviate the problem of the debtor countries. Given the nature of the problem, it is desirable to strengthen existing mechanisms and create others to facilitate the fulfilment of a twofold objective: to increase the financing of the official multilateral agencies, and to improve the mechanisms which mitigate the effects of external phenomena on the economies of developing countries. The increase of the loan resources of the multilateral agencies would compensate for the procyclical conduct of the present financial movements, and stimulate the contributions of private institutions.

Again, it is essential to establish more flexible conditions for the contraction of loans. This is extremely important, since the conditionality exacted by the official multilateral agencies depends on the availability of resources: the more reduced the latter, the more rigorous and restrictive will be the conditionality. Similarly, the scarcer the resources, the shorter will be the time in which the adjustment must be made and, in

consequence, the more drastic will be its application. Again, if there is no symmetry in the adjustment (with the creditor countries assuming part of the costs), a greater amount of credit will be needed to alleviate the burden of the debtor countries.

With regard to the buffer mechanisms, two may be mentioned which were created by the Monetary Fund: the Compensatory Financing Facility for Loss of Export Income and the Oil Facility. The latter was a temporary mechanism which provided resources in the years 1974 and 1975.⁷⁶

Owing to the limitation of financial resources, access to the aforesaid mechanisms has been subject to a set of highly restrictive conditions. In general, their application is based on the assumption that the economies are functioning normally and that the problems they are facing are merely transitory. Hence formulas are needed that can function as automatic stabilizers in face of problems deriving from wide-ranging repercussions, among which three are clearly outstanding: variations in international interest rates, variations in the terms of trade, and the procyclical behaviour of external financing.

There are numerous forms that might be taken by a mechanism designed to cushion the effects of interest-rate fluctuations on the economies of debtor countries. One possibility would be the enlargement of the coverage of the Compensatory Financing Facility already mentioned, to include safeguards against the increase in international interest rates above a certain norm (for example, a movable average of ten years). It should be recalled that at the end of 1985 each percentage point of variation in the interest rate represented close on US\$ 6 billion of saving or additional expenditure for the developing countries as a whole. Another formula might consist, for instance, in automatically capitalizing the interest payments that exceed prearranged limits. This would be the basis of the range of income for oil exports agreed between the Government of Mexico and the International Monetary Fund.

As regards the variations in the terms of trade, action would be required in three directions. The first, already mentioned, consists in broadening the coverage of the Compensatory Financing Facility. The second relates to access for the products of the developing countries to the main international markets, so as to expedite the diversification of those countries' production and exports, instead of transferring to them the cost of the protection of the industrial countries' markets. The third points up to the need to study the relaxation of the debt-capital ratio of the multilateral agencies for development financing in respect of the procyclical behaviour of external financing. The aim would be to expand their operations rapidly at times when private financial sources are retracting, and to reduce them when the latter are expanding their credits more rapidly. In relaxing the debt-capital ratio, the international agen-

cies might attract the resources which the developing countries are not in a position to obtain directly.

Finally, although, it seems unrealistic to expect any immediate readiness on the part of the international private banks to increase their loan portfolio in Latin America and the Caribbean (with the exception of the credits stemming from the renegotiations), the countries of the region might adopt two types of measures to increase this readiness. In the first place, there are measures that would help to speed up the process of normalization of bank credit. These include some formulas of co-financing, the creation of coverage systems for risks, options and futures, and the enlargement of the guarantee operations of the governments of some industrialized countries and of certain multilateral credit institutions. Secondly, it would be necessary to diversify the access of the countries of the region to the international capital markets. In some developed countries the liberalization of the norms which govern pension funds, insurance companies, the issue of bonds or the organization of mutual funds would facilitate this access through the use of instruments such as portfolio investments with variable return, ordinary or convertible bonds, profit drawing, certificates of constant real payment, etc. In a first phase this type of operation would need the backing of multilateral credit institutions or bilateral official bodies, which would take the form of the granting of guarantees and the fostering of secondary markets to provide the liquidity needed to manage the portfolios. This is also a field capable of producing major benefits through intra-regional co-operation.

4. Conclusions

To sum up, if the present trends in the behaviour of international trade and rates of interest are maintained, most of the countries of the region will certainly see their efforts at development frustrated. A high percentage of domestic net saving is destined for debt servicing, which limits the capacity to finance the expansion and renovation of installations, including the transformation of the export sector and the possibility of growing and achieving objectives of equitable distribution.

In these circumstances it would seem imperative to seek to alleviate the debt problem over and above what happens in the normal course of events. For this it would be desirable to agree in each case on a ceiling for transfers of real resources abroad—a ceiling that could be set on the basis of total exports, the unit price of a key export commodity, or one or another variable—, so as to ensure a gradual process of expansive adjustment that would avoid the continued erosion of the living standards of the population. In fact, the aim would be to accept the principle of reducing the annual allocations of transferable resources for debt servicing, and using them instead for guaranteeing a minimum rate of develop-

ment, higher than the rate of demographic expansion and compatible with the indispensable structural change of the supply.

There is no single solution to this complex problem. On the contrary, in most cases what would be needed would be a combination of some of the mechanisms and instruments analysed in earlier paragraphs, which might form part of a systemic set of policy measures for external financing inextricably linked, in addition, with the currents of trade. The more specific forms of relief that are put forward should be agreed between creditors and debtors, with the active participation of the governments. In the absence of a marked increase in external flows of fresh savings, it seems inevitable that the solution will largely gravitate around the reduction of interest rates below the market prices. Only in this way could the cost of the debt be appreciably relieved, at least in those countries whose portfolio is mainly in the hands of the international private banks. A "moderate" aspect of the solution, in the sense that it would not involve losses for the international private banks, would consist in eliminating all commissions and spreads, fixing as a reference rate for restructuring purposes the average cost of deposits in the creditor banks.

Actually, a reduction of 2.5% in the real interest rate would equal a savings effort of two percentage points or more of the product, or between two and three percentage points of the growth rate of exports. It has been estimated, moreover, that a fall of 2.5% in the interest rates during 1986 would have enabled the value of the region's imports to rise by close to 8% (see table 13). On the other hand, as is logical, in the countries in which the component of private bank loans in the total external debt is small, the reduction of the interest rates would bring smaller benefits: in 11 countries it would only affect imports by an amount equivalent to 4% or less. In these cases, additional foreign credit would be required, preferably from official sources.

The set of measures to alleviate the debt problem which seems most appropriate for each country is bound to vary according to its special circumstances. This highlights the importance of individual negotiations between each debtor and its creditors. Nevertheless, the global character of the problem also underlines the positive contribution made to its solution by efforts to seek general positions agreed among groups of countries on certain aspects of common interest. In this context, the Cartagena Agreement has played an important role in that it defines the essential elements of a solution, valid for all the debtor countries. The subject, of course, is susceptible of various forms of future co-operation among the debtors *vis-à-vis* their creditors.

It should be noted, finally, that the solution of the debt problem will not only favour the debtors, as is obvious, but will also be to the advantage of the creditors themselves. On the one hand, it will improve the quality

of the portfolio of the lending institutions and speed up the recovery of normality in the functioning of the world financial system. On the other hand, it will free the formulation of economic policy from the cloud of uncertainty arising from the debt crisis. With the increment in the growth rate of the debtor countries, their purchases in the creditor countries will constitute a notable element of dynamism in the international economy.⁷⁷

B. THE INTERNATIONAL ECONOMIC NEGOTIATIONS AND ACCESS TO EXTERNAL MARKETS

In order to bring about the transformation of the structures of production, achieve economic growth and attain the objectives with regard to distribution, the extreme external vulnerability of the majority of the countries of the region must be overcome so that their independence in the design and application of economic policies can be increased. To this end, it is necessary to strengthen the process of regional co-operation and integration and on that basis to organize and exercise bargaining power at international level such as will allow the countries of the region to include those factors which most severely limit their possibilities for economic and social development in the dialogue with the industrialized countries.

Where trade is concerned, it is vital for the developing countries that the leading industrialized economies achieve acceptable growth rates, low levels of unemployment and price stability; however, this is by no means enough for the vigorous development of the export sector of Latin America and the Caribbean. In actual fact, the volume of exports of the region has shown lower growth rates than those achieved by world trade during the current decade, while their value has virtually stagnated owing to the frequently cited deterioration in the terms of trade.

The situation described is due in part to the export structure of the great majority of the countries of the region, which depends to a large extent on primary products whose demand is diminishing or is lacking in dynamism. It is also due to the progressive erosion of the principles and norms of trade liberalization which, under the aegis of the General Agreement on Tariffs and Trade (GATT), have governed international trade for close on 40 years. Hence the increasingly discriminatory and far from transparent character of many of the measures adopted has meant that the exceptions to the GATT rules now embrace a considerable proportion of international trade.

The scope and amplitude of this set of measures —especially protectionist pressures and export subsidies for the agricultural products of the industrialized countries— can be illustrated, in so far as they have affected Latin America and the Caribbean, by the fact that in recent years

non-tariff barriers were applied to a high proportion of the non-petroleum exports of the region to the United States, the European Economic Community and Japan.⁷⁸ Even the countries of the Caribbean Community that through special arrangements⁷⁹ have ample access both to the United States market and to that of the European Economic Community have encountered restrictions in placing goods considered "sensitive" on the importing markets.

For these reasons the countries of the region have been advocating a system of transparent international trade, the elimination of the tariff and non-tariff barriers to the access of their products to the markets of the industrialized countries, the expansion and stabilization of the Generalized System of Preferences, the strengthening of multilateralism, stable and remunerative prices for basic exports, greater participation in the decisions that affect them in this field and, in general, the adoption of policies which, instead of hindering, will assist the redeployment of activities towards the developing countries.

So far, however, the ability of the countries of the region to influence the organization of world trade has been very limited. There has, moreover, been a tendency to replace negotiations on practical problems of particular interest to the region by global claims whose legitimacy from the Latin American standpoint is unquestionable, but which may fail to give rise to concrete action in the conditions now surrounding international economic relations. At the same time there is a noticeable failure to keep all the advantages which the countries of the region might enjoy if they exercised their joint bargaining power in their negotiations with third countries.

In the future, when access to the world markets will be more important than ever for the success of the strategy of economic recovery and development that is discussed in this paper, the countries of the region will at the very least have to concentrate their efforts around three types of measures. First, those that aim to diversify and amplify their export structure, so as to take greater advantage of the trends of world demand and of the points of entry which the external markets will undoubtedly continue to offer. Second, those that tend to reinforce intra-regional co-operation, both in the sharing of markets and in the strengthening of bargaining power *vis-à-vis* third countries. (In this same order of ideas interregional co-operation also offers possibilities of greater leeway in creating and sharing markets.) These topics were condensed briefly in previous chapters. Finally, the countries of the region should draw up their own agenda of trade negotiations with the industrialized countries in the framework of the multilateral and bilateral forums in which they take part, deciding on the content of those negotiations and setting their date and in particular seizing the opportunity for joint action mentioned above and the potential offered by this joint

bargaining power. This last aspect is briefly examined hereunder. Emphasis must be placed on the intimate relationship between this subject and that of the debt, or, in more general terms, between the commercial and the financial spheres in the external economic relations of the region, and their relationship with technological development.

1. A priority agenda

The countries of Latin America and the Caribbean could prepare a specific agenda for negotiations with developed countries or groups of countries. The round of negotiations recently agreed to at the ministerial meeting of the Contracting Parties of the General Agreement on Tariffs and Trade, held at Punta del Este, Uruguay, from 15 to 20 September—the Uruguay Round—provides an opportunity to advance in the fulfilment of some of the general objectives set out in previous paragraphs.⁸⁰

A variety of items are to be considered in this round owing to the many problems that are pending and to the set of circumstances that is jeopardizing the functioning of the international trade system.

Some of the items included in the agenda of the Uruguay Round and of special interest to Latin America and the Caribbean are the following: i) The "standstill", which commits all the participants not to take any trade restrictions or trade distorting measures inconsistent with the provisions of GATT or with the instruments negotiated within the framework of GATT or under its auspices; and not to take, in the exercise of their rights under GATT, any trade measure of this type that would go beyond that which is necessary to remedy specific situations of faulty adjustment and not to adopt any trade measures aimed at improving the negotiating position of a country or group of countries; ii) the "rollback", which provides that all trade restrictions or distorting measures inconsistent with the provisions of GATT or with instruments negotiated within its framework shall be phased out or brought into conformity within an agreed timeframe; iii) the multilateral surveillance of standstill and rollback within the framework of appropriate mechanisms to be proposed by the Trade Negotiations Committee; iv) the agreements relating to the application of safeguards, and to the reduction or elimination of tariffs and non-tariff measures and, v) the liberalization of trade in tropical products and products obtained from the exploitation of natural resources, as well as their processed or semi-processed subproducts.

Another subject of special interest for many countries of the region is the encouragement of agreements on the liberalization of trade in agricultural products, and the elimination or phased reduction of the

subsidies that several developed countries grant to their producers, thus artificially improving their ability to compete in other markets.⁸¹ Some developed countries are actually applying price and income policies aimed at increasing the agricultural supply, and are also financing investments in infrastructure and research and technical assistance programmes for the same purpose. These programmes, coupled with steady technological progress, have created large structural surpluses in numerous primary products, which —among other effects— bring down prices and are harmful to the interests of the smaller and less productive farmers of the developed countries themselves. This gives rise to protectionist pressures, which induce the governments concerned to intensify and maintain price and income support policies, and to use subsidies to promote exports. Thus, there are stockpiles of grains, cotton, sugar, rice and dairy products in the United States; of meat, sugar and grains in the European Economic Community and of rice in Japan. All this changes the pattern of the trade flows, and adversely affect the participation of countries in no position to compete in the subsidy escalation, even if they enjoy obvious comparative advantages. Subsidized exports from the developed countries are particularly prejudicial to Latin American exports of meat, sugar, wheat and other grains and certain vegetables to other developing countries and some centrally planned economies.

In more general terms, subsidies should be included in the priority agenda of items subject to negotiation, since the subsidy code now in force has proved to be inappropriate and ineffective. While these negotiations are in progress it would be useful to have some complementary operational mechanisms to handle, *inter alia*, the assessment of the effects on Latin American economies of the subsidies now being applied in the developed countries, and to suggest ways of eliminating them.

It is also of interest to the countries of the region to liberalize trade in textiles and clothing. This might be done within the limited framework of the recently renewed Multifibres Agreement, or preferably —as was established by the Ministerial Declaration on the Uruguay Round— through the application to these products of the norms and disciplines of GATT. It is particularly important to Latin America and the Caribbean that textiles and clothing should cease to be, in international trade, a special sector which for more than 20 years has been conducted under systems of exception. In practice, the Multifibres Agreement has allowed the application of severe restrictions on bases different from that of the most favoured nation, and has prevented in a discriminatory manner the consolidation of comparative advantages that favour the region's trade.

Moreover, in most of the industrialized countries the tariff structure penalizes the processing of primary goods in the producing countries, thus depriving them of the possibility of raising the value added and diversifying the structure of their exports. This hinders the setting up of

linkages, both forward and backward, in those activities which, because of their prior degree of consolidation, are most suitable for acting as pivots of the reorientation of productive structures. It is therefore of interest to eliminate or diminish the tariff and non-tariff barriers that affect processed goods based on the primary products of the region.

With regard to the basic products, although it would be unrealistic to postulate the dynamic growth of future world demand it must nevertheless be admitted that for a relatively long period they will continue to be the main source of foreign exchange for the majority of the countries of the region, and therefore their prices must be defended through the conclusion of international agreements between producers and consumers within the framework of the Integrated Commodity Programme. It will undoubtedly be difficult to achieve this type of agreement, but it might be easier if the agreements were regarded as a temporary component contributing to the transformation of the productive structures of the countries producing the aforementioned goods. It would be useful to define differentiated policies by products or groups of products, in accordance with their characteristics and according also to the types of actions or measures that would be involved, and the role played by the region in their international marketing. In some cases the bargaining power of the region—or, where applicable, of groups of countries—would benefit from the organization or consolidation of producers' associations with similar objectives.

From another point of view, it will be realized that a large part of world exports of the main primary products are transacted at prices relating to futures transactions. This occurs above all in the case of agricultural products whose prices are mainly fixed on the basis of quotations established in commodity markets, practically always situated in the developed market economies. The same applies to minerals, and is increasingly affecting petroleum.

Despite the growing importance of organized commodity exchanges and markets, the agents of developing countries still play only a small part in these mechanisms of price determination. This can be attributed to a lack of familiarity with the functioning of the markets, to obstacles imposed by local rules, or to the high opportunity costs of the foreign exchange needed to operate in these institutions. In these organizations—the London Metal Exchange, for example—not only can their members take part but also some producers who are represented by agents or intermediaries in the respective market. Even so, it would be very advantageous to be able to participate directly in the operations of the exchanges, especially in the formulation of the regulations that govern their functioning, and this is open only to those who are regular members.

As regards the commodity exchanges, the developing countries can choose among several alternatives. One of these would be to avoid them, in respect of part of their exports, through contractual trading on the basis of negotiated prices. Another would consist in avoiding some of the existing difficulties by creating new commodity exchanges within their own frontiers. For these options to have a chance of success, however, it would be necessary to solve some problems in advance. As regards the first option, the basis of negotiated prices in long-term contracts could perhaps not be divorced from the international price derived from the exchanges situated in the developed countries. In the case of the second alternative suggested, it would be necessary for foreign traders and processors to use these bodies, and this would call for a great improvement in the infrastructure of commodity marketing in the developing countries and, above all, considerable changes in their norms concerning foreign exchange operations. Consequently both options are regarded as measures only viable in the medium and long term. For the present it seems preferable to increase the participation of the developing countries in the exchanges already existing.

Direct participation in these exchanges by agents of the Third World and the specialized knowledge of the market that would derive from this would serve as important instruments for establishing their own expectations regarding all the economic forces that affect future prices. The cost of participation might not be justified if it were a case of a single product from a specific country, but if concerted action were taken by several countries in relation to different products—for instance, through a regional body with representation in London, Chicago and New York—it might have a great influence on commodity trade as a whole. This would require a certain relaxation of the operational norms of the existing exchanges, especially as regards the requisites for entry.

Another item that will form part of the agenda of the multilateral trade negotiations—not within the GATT framework but in an intergovernmental forum separated from, though supported by, the GATT Secretariat—is "... a multilateral framework of principles and rules for trade in services... with a view to expansion of such trade under conditions of transparency and progressive liberalization...".⁸² It is common knowledge that this subject has been much discussed in Latin America and the Caribbean. Thus in view of the increasingly serious deficit situation of the region in trade in most of the services, there are clear disadvantages in competing in many specific activities, such as information technologies and financial services. Nonetheless, liberalization also has useful potential advantages, not only for traditional activities such as tourism—particularly important in some of the Caribbean countries for its weight in the economy—, transport and insurance, but also in activities of increasing importance in the industrialized countries, such as for

example health services, the design of sets of computer programmes (software), engineering services and in general those services in which the countries of the region might have comparative advantages in view of their wage structure. Here, as in the case of goods, a gradual and selective approach is called for, in order to try to make use of any openings existing in the regulations on the international trade in services and to minimize the possible risks, especially in the more controversial activities. In this regard the region must recognize the great heterogeneity and diversity of services, which would enable each sector to incorporate those concerns, both economic and non-economic, which in the judgement of the countries of the region should be taken into account in formulating international agreements. Likewise, for the countries of the region it is important to improve the preparation of statistics on the external trade in services, as an essential basis for the formulation of regional co-operation schemes and negotiating positions.

On a more general plane, it is indispensable to persevere in the formulation and adoption of a global international trade system—comprising all the operations in merchandise trade—of universal coverage, that is, including all the countries. The principles, norms and mechanisms of this system should meet the needs of different groups of countries, which calls for a special treatment, well-defined and differentiated, in favour of the developing countries, this being a principle that was approved in the Tokyo Round of multilateral trade negotiations, and ratified in the Uruguay Round.

In conclusion, it should be reiterated that the trade and financial spheres are indissolubly linked in practice. Thus, the topics considered in the preceding paragraphs cannot be divorced from the international negotiations on reforms in the international monetary and financial systems or from those on the importation, adaptation and generation of technology.

In the financial and monetary sphere there are two more matters, apart from the external debt, which are of special interest for Latin America and the Caribbean: i) the fixing of exchange rates and interest rates, which is governed at present by bilateral agreements among the industrialized countries which are not in keeping with the market forces or international agreements and do not significantly alter the conditions and decisions regarding regional development; and ii) international supervision of the macroeconomic policies of the developed countries, whose imbalances lie at the root of the instability currently observed in the functioning of the international monetary and financial system.

The topic of technology was explored in the preceding chapter. It is only necessary to add here something which is obvious: the necessary restructuring of the production apparatus involves options which will call for the adaptation of other technologies acquired from outside the

region and more participative co-operation between Latin America and the Caribbean and the developed countries in order to gain access to spearhead technologies. These latter aspects form part of the agenda for the international negotiations.

In the three spheres mentioned above —trade, finance and technology— the region must carry out complex negotiations with the developed countries in order to reduce its excessive vulnerability, increase its degree of autonomy, and achieve a qualitative change in its insertion in the world economy. For this purpose, it is necessary to strengthen regional co-operation and integration and derive therefrom the joint negotiating power which will make it possible to bring up in the negotiations the topics which are of greatest interest to Latin America and the Caribbean. Otherwise, as already noted, the region's capacity to influence external events will be extremely marginal.

2. Some institutional aspects

The recent agreements of the GATT Contracting Parties, destined to start a new round of negotiations on the subject of goods, and that of the Ministers of the member countries of GATT, aimed at establishing a negotiating group on services, offer an opportunity to promote the negotiations involved in the priority agenda of Latin America and the Caribbean. This makes it necessary for the countries of the region to prepare themselves adequately and to try to reinforce their intrinsically weak capacity to influence events.

There are no easy prescriptions for this, of course, given the marked asymmetry that characterizes contemporary international relations. There is still some room for manoeuvre, however. In the first place, there are opposing interests in North-South relations, but there are also common interests with industrialized countries or groups of countries arising from points of complementarity, while there are also cracks in trade and renewed competition among the industrialized economies. Secondly, there is the potential represented by the organization and exercise of regional negotiating power. There can be no doubt that the bargaining power of the countries of the region would be greatly strengthened if they presented a united front in the negotiations from the beginning. This would not only give greater solidity to the technical preparation of the regional delegations that would take part in the process, but would increase the capacity to influence and would even make it possible to use the "purchasing power" of the region as a whole to obtain greater concessions.⁸³

The strengthening of joint bargaining power *vis-à-vis* third countries is entirely consistent and complementary with the orientation discussed in another part of this paper that seeks to strengthen intra-

regional co-operation. The need for simultaneous management of these two lines of policy is based on the idea that everything conducted within the region will necessarily have an effect outside it, thus amplifying the room for manoeuvre and the countries' autonomy to mark out their own lines of action.

Likewise, it is worth reiterating that if the region's bargaining power is to be credible and effective, there must be some potential for applying treatment to match that received from other countries, and this cannot be achieved without a real strengthening of the co-operation and integration efforts within the region.

Organizing and exercising regional negotiating power means complying with various practical requirements. First, an institutional entity is needed to permit the speedy interchange of information, reciprocal consultations, the preparation of special studies, and the organization of meetings to adopt concerted positions on determined subjects. In part, agreements of this type already exist, above all within the framework of the Latin American Economic System (SELA) and its Secretariat; it would therefore be necessary to strengthen them and adapt them to the new circumstances. Furthermore, preparatory tasks must be undertaken to lay the bases of the propositions that the countries of the region will have to put forward in the multilateral negotiations, which has clear implications as regards the preparation of technical studies, the strengthening of national nuclei of experts, and the ranking of tasks. Within each country, priority would have to be given to the formation of technical and negotiating teams to reformulate the priorities and facilitate concertation at the regional and international level. All this would help to strengthen the voice of Latin America and the Caribbean in the new process of multilateral negotiations, where it is essential to achieve the incorporation of topics which really cannot be put off any longer in view of the economic crisis affecting the region.

In the pertinent activities, the countries of the region will also need to broaden the scope of their mechanisms of concertation with other developing countries. The United Nations Conference on Trade and Development (UNCTAD) and its Secretariat should play an important role in identifying areas of special interest for the developing countries and proposing mechanisms designed to improve their relative share in international trade flows.

Considerations of the type outlined are suitable for the formulation of certain Latin American and Caribbean proposals to particular countries or to the rest of the international community. This raises the question of what the most appropriate multilateral fora for this would be. In fact, with the agreements recently adopted in Punta del Este, the natural arena for the negotiations is that established in the Uruguay Round, even though not all the countries of the region are currently

Contracting Parties of GATT.⁸⁴ (It must be stressed that in the Ministerial Declaration of Tokyo which preceded the foregoing round of negotiations, the Ministers agreed to give other countries which were not Contracting Parties the possibility of participating in the negotiations, through a notification to the Director-General of GATT. This decision, then, was broader than that approved on the present occasion in Punta del Este.)

Finally, among the general principles that will govern the forthcoming multilateral trade negotiations of the Uruguay Round, there are two that are particularly relevant to the developing countries: on the one hand, that which refers to the differentiated and more favourable treatment of developing countries, contained in Part IV of the General Agreement, and on the other, the principle that the developed countries should not expect reciprocity for the commitments they undertake in the trade negotiations in respect of reducing or eliminating customs duties and other obstacles that hinder the trade of the developing countries. These principles already formed part of the Tokyo Declaration.

As regards monetary and financial matters and technology, the Uruguay Round of GATT can serve as a starting point, but special forums could also be set up to further the dialogue on these topics.

V. SOCIAL AND POLITICAL QUESTIONS

The crisis has shaken the economic and political systems of the countries of Latin America to their foundations and has obliged them to conceive and implement new solutions in order to tackle it. In the same way as those outlined in previous chapters, these solutions must provide answers to a number of social and political questions. Which social agents would be capable of carrying out the proposed solutions? Are they both able and willing to do so? What hurdles and conflicts will they face and what should they do to overcome them?

These questions demand answers, but these will not be applicable to the region as a whole, in view of the enormous diversity of circumstances encountered therein. However, some general observations could contribute towards a better analysis of specific national circumstances.

1. Governments and the capacity to govern

The countries of the region face a variety of challenges in carrying out the necessary transformations, which, in view of their scope, will require not only determination on the part of those who govern, but also support from a broad section of the population. However, there is no doubt that governments as such, will have to play a decisive role, and the success of the tasks undertaken will to a large extent depend upon their behaviour.

If the political challenges of transformation are viewed from the point of view of governments, one which seems particularly outstanding is the need to reinforce the capacity to govern. This is not the only challenge facing governments, but it is particularly significant, since, in the absence of a clear capacity to govern, the measures proposed will be mere theoretical exercises, with no practical consequences whatsoever.

There are few issues whose objective examination has been so disturbed by ideological factors. As the government represents the most significant part of the State power, all agents struggle to control or use it, adopting the most varied means and arguments. Consequently, it should be emphasized that reinforcing the capacity to govern is not the reflection of a "statist" ideology, but rather an essential requirement of any organized society; in the modern world, all political systems are con-

cerned with reinforcing this capacity and controlling, in so far as they are able, those external and domestic factors which affect it. In the absence of a government capable of enforcing the norms which govern a society, it is impossible to provide even minimum support for economic and political processes. Similarly, the capacity to govern needs to be distinguished from other political issues with which it is often confused and which are the subject of controversy: on the one hand, the area within which State action is desirable, particularly with regard to the production of goods and services, and on the other, the level of authoritarianism or democracy considered possible in the public decision-making process. Reinforcing the capacity to govern does not necessarily imply a greater degree of political authoritarianism or of State productive activity.

As a result of multiple factors, including the integrated nature of the division of labour and coexistence with other States, modern societies require co-ordination and concertation. The concrete forms adopted by the State structure to fulfil its role in these matters, as can be seen from the political diversity of Latin America and the Caribbean, depend on a large number of structural and cultural factors which blend together in a variety of ways. In this respect, it may be stated that, both in those countries which are nowadays developed and in the developing countries, the less the capacity of the agents of society to face alone the challenges of modernization and development, the deeper and broader State intervention has tended to be and the greater the degree of autonomy with regard to society that State institutions have possessed. In those central countries whose industrial development took place late (both capitalist and socialist), and in what are known as the newly industrialized countries, the State has played a decisive role and the capacity to govern—together with productive capacity, in many cases—has been a key factor, not always as a result of the application of doctrinaire principles, but also because of the weight of circumstances.

The capacity to govern manifests itself both in the ability to formulate a strategy satisfying the demands of the crisis and of development and in the capacity to implement that strategy. At the same time, this latter capability is reflected in three spheres: a) the technical, administrative and managerial efficiency and effectiveness of the State apparatus, which is of importance for the performance of each of its units and for the linking together of the whole; b) the political capacity to unite wills and organize society, particularly by linking together the government and State apparatus with the social agents, and c) the economic and financial capacity to set in motion, stimulate and orientate the process of change.

2. Factors which affect the capacity to govern

Those factors which decisively influence the capacity to govern, and to which policy measures should give priority, include the influence of external agents, the degree of efficiency and effectiveness of the State apparatus and the relationship between the State and society.

a) *The influence of external agents*

In previous pages emphasis has been laid on the manner in which externally originating phenomena influence domestic events in the countries of the region. Thus, governments are subject to processes governed by decisions over which they have no control and which they are unable to anticipate, as well as by often contradictory logic. In addition to this, it is necessary to add what appears to be a reversal of the trend towards the multiplication of political, economic and financial centres at the world level, with the increasing capacity of a small group of countries to exert decisive influence over events: a phenomenon which leads to increasingly narrow room for manoeuvre being available to the countries of the region.

The capacity to govern, on the other hand, requires an expansion of national autonomy. There are two possible approaches in facing the external factors restricting the capacity to govern. On the one hand, domestic reinforcement (of the State and of society) would increase national bargaining power; on the other hand, reinforcing regional bargaining power could also bring about an expansion of national manoeuvring room. Since reference has been made to this in previous chapters of this document, here we shall merely underline its political importance with regard to improving the capacity to govern, particularly in small and medium-sized countries.

b) *The efficiency and effectiveness of the State apparatus*

The efficiency and effectiveness of the State apparatus is manifested in many ways. For example, occasionally the internal heterogeneity of the system of government itself prevents it from formulating a coherent policy; the lack of professional training of civil servants constitutes an obstacle to the implementation of policies, or else the government is unable to collect sufficient revenue to carry out its role. Within the broad and complex set of factors influencing the State's efficiency and effectiveness, there is one which deserves particular attention under the present circumstances: the internal articulation of the State apparatus and, above all, the relationship between the government and public enterprises.

Frequently the lack of articulation within the State apparatus itself has had a negative impact on the capacity to govern. The history of the

formation of State apparatuses in Latin America reveals that they are not generally the outcome of an expansionary internal logic, but rather of the superimposition of functions and bodies which came into being under diverse circumstances and under different régimes, and which coexist with a low level of articulation. In some countries, those who govern usually discover that a considerable part of their capacity—or incapacity—to govern derives from the degree of control they are capable of exerting over the technicians and administrators of the State apparatus; the mere fact of taking office does not automatically give control over this apparatus. Many studies have described the jungle of red tape, the firmly established sectoral interest groups within the State apparatus, the links between these and private economic agents and their autonomy with regard to control by the central government, as well as the difficulties encountered by governments in tackling them. However, in view of the requirements of the crisis and of future development, it is necessary to adopt measures designed to bring about coherent articulation of the State apparatus with overall strategy.

A better idea of the importance of this articulation and the form it may take can be gained by examining the relationship between the government and State enterprises producing goods and services. Such enterprises have been at the centre of the public debate in view of their real or supposed inefficiency, their high costs and their impact on the fiscal deficit: all problems that the governments of the region are striving to overcome. The debate has gone deeper, covering the relationship between the State and private agents as well as the desirable level and scope of State productive activity. In some circles it is suggested that State productive activity be reduced to a minimum, on the assumption that a private enterprise will always be more efficient, as a result of the discipline imposed upon it by competition. However, in fact not all State enterprises are inefficient, nor are all private firms subject to market discipline.

Consequently, the policy area with regard to State enterprises which is most pragmatic and fruitful is that concerning the application of measures to increase their efficiency and effectiveness. It is necessary for such measures to seek the point of balance between two requirements which are often difficult to reconcile: on the one hand, the need to increase government control over the enterprises, in order to bring them within the framework of overall policy; on the other, the need to provide them with greater autonomy so that they may perform flexibly and efficiently. Experience in developed and developing countries provides a variety of examples of the search for suitable articulation between governments and State enterprises and between the latter and the rest of the economic agents.

c) *Relations between the State and society*

An enormous range of problems arise with regard to the characteristics of the power structure which includes and links together State and private-sector groups and organizations, and the situation in the various countries of the region is also extremely diverse. In the vast majority of countries of the region public and private agents coexist, in a state of dynamic and creative tension whose features and concrete expression vary over time, and from one country to another.

In the last few decades, several changes have taken place in both society and the State, not always to the advantage of the capacity to govern. For example, one consequence of economic growth has been the concentration and transnationalization of private economic and financial agents, whose ability to influence State action has grown out of all proportion, so that when governments endeavour to implement strategies which could affect these agents, they encounter considerable resistance. The concentration and transnationalization of private economic power is only one of a number of domestic social phenomena affecting government action. Others which may be mentioned by way of example are those societies which are marked by the conflictive presence of a large number of powerful and highly mobilized agents; in order to govern, civil governments are obliged to establish a minimum of order among the agents in conflict, a task which is hampered at the present time by the economic crisis.

3. The conduct of the social groups

The possibilities of development of the countries of the region depend not only on suitable economic, social and cultural policies, but also on the behaviour of the varied social groups which make up a given society and constitute the basis for change and transformation. The attitudes adopted by these groups may be favourable towards processes of change or, on the contrary, they may resist them; at all events, they influence the conception and implementation of those policies by the public sector.

In addition, as is well known, any process of change involves a modification of the ways in which relationships between the different groups have grown up, opening the way to new social relationships: a process which in many cases is not devoid of conflicts and friction. The major task facing the political system is precisely that of encountering suitable ways of bringing together the different forces involved in these conflicts.

If, at the political and social level, it is important to increase the capacity to govern, it is equally important to be able to contribute towards helping the various social groups to increase their capacity of active

participation in the development process. In view of the existing social diversity, the crucial problem is finding functional means of providing for an articulation of those interest groups which, through their various contributions, are capable of forming viable national development projects.

a) *The social agents and the present challenges of the process of change*

It is almost a commonplace to observe that the countries of the region are confronted with a dual challenge: on the one hand, they must face the crisis, both in its most pressing and acute manifestations and in its deeper and structural features, and on the other hand they must respond to the far-reaching changes required by the future.

All this must be carried out in the face of the inadequacy of both the industrial and agricultural structures, whose social consequence is inequality and whose political consequence may be doubt as to the legitimacy of governments.

The results of the shortcomings mentioned above are reflected in a fairly widespread diagnosis of the essential features of the region's problems: the existence of excessive metropolitanization, disproportionate and spurious development of the tertiary sector, which in turn implies a certain degree of insufficiency in the type of industrialization, and a fading of the significance of the rural environment. These phenomena are far from being the normal outcome of a process of modernization, since they take place in a context of low productivity and income.

In view of its impact upon the social structure, prime importance should be given to the phenomenon of urbanization and metropolitanization. This of course displays complex features in the various countries. The absence of a continuum between country and city—as distinct from the case of Europe or the United States—has often been indicated as being a specific characteristic of the region. While in some countries it is possible to observe a certain growth of medium-sized and small cities, they too are affected by the problem of excessive metropolitanization. In other countries, it is possible to observe a phenomenon of ruralization of small cities, and even medium-sized ones.

The excessive weight of the tertiary sector in the region's occupational structure is also a subject of controversy. The services sector is extremely heterogeneous: it covers personal services (frequently of a traditional kind); social services, many of which (such as education, health and others) are connected with human resources and improvement of the quality of life, and those services which are in some way linked to production. However, the main feature which may be observed in the development of the tertiary sector in the region is that of low productivity and low income generation.

As far as the rural population is concerned, it has clearly declined as a proportion of total population. Furthermore, in most cases it has proved extremely difficult to raise the average levels of agricultural productivity in comparison to overall productivity. The technical progress observed in certain sectors has not brought about greater homogeneity; indeed, it has sometimes had the opposite effect, and the sector as a whole has failed, in terms of output, to meet demand.

This all underscores the fact that while an undeniable process of change and modernization has taken place in the region over the past four decades, it has not been without certain distortions, and it may be asserted that these are not only the result of purely economic determinants, but also of broader social and cultural factors. Nevertheless, as was pointed out in chapter II, during the thirty years following the war, the majority of societies in the region witnessed the emergence of new actors, together with a growing differentiation between the various strata of society, to such an extent that it is difficult to clearly categorize the various agents of development. As a result, the present societies of Latin America and the Caribbean are of notable diversity and heterogeneity. Some of these agents will be examined below, as an illustration of the complex interrelationships which are emerging among the various social groups and between them and the State, and also in the light of their possible attitudes and reactions to the challenges of change that have arisen.

b) *The need to reduce the contrasts between countryside and city: the rural structure and its transformation*

A summary comparison between the rural and urban worlds, taking into account the types of social stratification, the standards of living and degrees of social integration (levels of participation by citizens, educational coverage and extent of social protection) reveals that, while there is no doubt that rural conditions have improved in comparison to the past, there is still an undeniable distance between the rural and urban worlds, with frequent areas of backwardness which tend to reproduce their characteristic living conditions.

According to the traditional hypothesis, the peculiar social make-up of the hacienda contributed to the stagnation affecting the agricultural sector in the region. The hacienda, which was at one and the same time a system of social, cultural and economic relations, acted as a brake on the modernizing influence of the city. While it is true that there are areas where the traditional hacienda still exists, generally speaking circumstances in the region are no longer as they were. The hacienda system did, however, leave as its legacy the key factor in the present-day rural stratification in many countries: the existence of a form of peasant

agriculture with very different features from those of entrepreneurial agriculture.

Clearly, there is more to the agricultural structure of Latin America than large enterprises contrasting with the peasant economy. It is necessary to add the activity of medium-sized entrepreneurs and agricultural co-operatives: forms of economic and social organization which in some countries—and in different forms—have acquired growing significance. The transnational corporations, too, play a major role. However, it is an indisputable fact that in the late 1980s 70% of Latin America's agricultural population is living in conditions of subsistence. Of this total, some 45 million are agricultural labourers, and another 40 million small land-owners. Consequently, it is necessary to tackle the problem of the relationship between the entrepreneurial economy and the peasant economy and the modes of development of each of these.

c) *Economic orientations of the main rural groups and their incidence on the development process*

If we look at peasant and entrepreneurial agriculture, the most striking feature is the difference between their economic orientations and motivations. In the view of "agricultural entrepreneurs" profitability constitutes the determining factor of their action; this concern is reflected in the spheres of both production and techniques, as well as in the search for the most profitable lines to produce. The economic organization is complex and linked with non-agricultural economic sectors (financial, industrial or commercial). It should also be underscored that, mainly as a result of the technology adopted, this type of agriculture employs only a limited number of specialized workers, supplemented as required, by unskilled labour hired on a temporary basis.

The orientation of peasant agriculture is very different. Its fundamental motivation is to ensure sufficient family income to permit reproduction. Its economy is based on family labour, which it uses to work the peasants' own piece of land as well as selling the family's labour outside the peasant unit. A form of "perverse" complementarity between entrepreneurial agriculture and peasant economy is often encountered. The agricultural enterprises do not finance the subsistence of agricultural labourers throughout the whole year, since to a certain extent their profitability depends on the existence of certain types of casual labour, while for its part, the peasant economy has adopted the seasonal sale of labour as a survival strategy.

Consequently, the key problem in the rural social structure lies in the fact that, in spite of its achievements, the action of the modern agricultural subsector has not brought about sufficient economic and social change: it is estimated that little more than a quarter of the arable agricultural land in the region is actually utilized. This may be the

consequence of the special criterion of profitability guiding the agricultural enterprises. The latter endeavour to draw maximum benefit from the existing situation, without devoting equal attention to the creation of new economic opportunities.

The peasant economy, for its part, has demonstrated the capacity to withstand—even quite successfully—the most harmful consequences of the crisis, and it continues to provide the market with a considerable share of the basic products it requires. Moreover, to a certain extent it helps to keep the agricultural population settled in rural areas. Nevertheless, under the present circumstances it does not constitute a “dynamic factor” of development. Various types of action to alter this state of affairs have been put forward in previous pages.

d) *The distortions of urban modernity*

Nor are the phenomena of modernization fully apparent in the cities. While it is impossible to deny the presence of symbols of modernity, or instances of upward social mobility as well as the incorporation of new patterns of behaviour, these are not the same for all groups, and heterogeneity is clearly apparent in most of the cities of the region. Moreover, marginality and urban poverty persist and in some cases even tend to increase. Although patterns of social mobility do exist, they follow different paths from those described as characteristic of modern societies: i.e., they are not principally based on the notion of merit. It should also be borne in mind that Latin American growth has frequently implied a type of mobility which has been described as “conveyor belt”: everybody moves forward, but there is no change in the relative positions. Indeed, in many countries the distance between the highest and lowest groups tends to increase in spite of the overall progress. It is also true that, whatever form mobility has taken, it shows a tendency to stagnate, and this phenomenon is unavoidably aggravated by the crisis and by policies whose impact is recessive.

e) *The significance of the enterprise*

There are two essential reasons for dealing, albeit very briefly, with the topic of the enterprise: firstly, the reference made in previous chapters to the gradual decline in dynamism of the past pattern of industrial development, and secondly, the assumption, implicit in modernization, that the industrial enterprise as an institution will generate and disseminate patterns of rational behaviour, foreshadowing the modern social system as a whole. This set of assumptions endowed the industrial entrepreneur with the capacity to renovate the existing economic and social behaviour. To a certain extent, an attempt was made to cast him in the role of the traditional figure of the innovating entrepreneur. How-

ever, most research confirms that many industrial entrepreneurs tend to adopt the behaviour of the most traditional entrepreneurial groups (traders, financiers or others): frequently, rather than innovating they adapt themselves to existing trends. Moreover, they also reveal a significant tendency to associate with foreign enterprises (through technology, patents, finance or other means), thereby reinforcing the trend towards a type of development which is imitative rather than innovative.

The other key element in the enterprise as an institution is the workers. As in the case of entrepreneurs, it was assumed that, by their behaviour, they were capable of spreading the attitudes and orientations typical of modern society through society as a whole. The weight acquired by their trade-union organizations was to be decisive in this process. The assumptions about modernization carried with them the notion that it could be promoted "from above" by the entrepreneurs or alternatively "from below" as a result of the intensification of trade-union activity. However, entrepreneurs have not easily accepted the development of negotiating structures, and it is only organizational complexity and technological development which seem to dictate mechanisms —albeit always limited— for participation.

The trade unions, for their part, display a number of weaknesses. Regardless of how many members they have, their active members tend to be few in number, and generally speaking trade-union discipline is far from effective. Structural factors are partly responsible for the relative weakness of the trade-union movement: on the one hand, there is the undeniable heterogeneity of the industrial sector, and on the other, the fact that industrial workers are heavily outnumbered by non-industrial workers, with unstable jobs, low productivity and who are not protected by labour legislation. All of these factors affect bargaining power on the labour market. Moreover, in many cases it is labour legislation itself which diminishes the workers' possibility of organizing: in some cases it lays down restrictions, in others it draws distinctions between sectors (such as, for example, government workers, industrial workers, peasants and others). Differences are also often introduced through different systems of social security, different ways of providing services, or other mechanisms which reinforce heterogeneity. Furthermore, the demands of the leadership do not always coincide with those of the rank and file. Consequently, a certain precariousness characterizes both the institutional and organizational forms which bind together the working-class sectors.

From these observations, it can be appreciated that in a large number of the countries of the region it has not been possible to structure the set of basic orientations of transforming modernization which, springing from within the sphere of "industrial activity", is held up as a socio-cultural model for society as a whole.

In the preceding pages, emphasis has been placed on the most problem-laden aspects of the conduct and orientations of some of the groups which make up the societies of the region. Through the contrast between the types of conduct described here and the targets of change which are set forth, it is possible to gain an approximate idea of the changes which it would be desirable to motivate and promote. Furthermore, there are a number of other groups whose conduct may be just as important as that of the groups referred to here by way of example, if not more so. It must be stressed, however, that the really decisive factor is not so much change in each of the individual groups as change in the overall set of relations between them.

4. Forms of social articulation

a) *Democratic and technocratic articulation*

If, as far as external relations are concerned, it is necessary to increase regional and national bargaining power in order to reinforce the capacity to govern, then at the domestic level the central aim, again with the purpose of reinforcing this capacity, should be the articulation of State and social groups and interests around a development project.

In order to achieve this articulation, there are three fundamental premises: authoritarian and technocratic principles of articulation are undesirable and often inefficient; democratic principles are the very bases of articulation; and conventional democratic principles, while very important, are inadequate to articulate complex and conflictive modern societies, and consequently must be complemented.

The different national circumstances reveal differing degrees of capacity to govern and diverse levels of democracy (which also exists in different forms), so that consequently the tasks facing democratization are also extremely diverse. However, in addressing the issue of the articulation of society with a view to applying strategies for change, it is necessary to warn against authoritarian and technocratic forms. Just as important as emphasizing the need to reinforce governing capacity, as an essential requisite for transformation, is the assertion that any such reinforcement should not be expressed through imperative political formulas, but through democratic formulas based upon agreement, compromise and consensus.

In this respect, it is desirable that those responsible for formulating and implementing public policies should suitably combine technical judgement with a real appreciation of social demands. The view which planners have of the political process and of the role played by the State in it is of vital importance. Nowadays planning is perceived by a considerable number of planners as an activity inserted within a decision-making

process characterized by the influential presence of multiple public and private actors who, with extremely varied orientations and power resources, endeavour to direct government policy. A democratic conception of planning, in which the demands of social groups not only represent variables to be incorporated into the analysis but also, in most cases, legitimate aspirations which must be articulated in the overall policy design, represents an ideal towards which planning practice in the region should strive.

The technocratic view of the political process is generally to be found among those who centre their efforts on creating, through State action, suitable conditions for the private economic agents to be able to perform efficiently. In the creation of such conditions, guided by a technical and economic logic, experiments in technocratic authoritarianism must be avoided. Both planning and the market can play an important role in articulating society; however, in order to avoid their being used as instruments of particular interests, they should be guided by basic decisions, taken within participative mechanisms, regarding the orientation of the social and economic process.

b) *The option of development and concertation*

The transformation of the region's social structure brings with it greater complexity of the national societies, together with the existence of diverse social and economic interests in a permanent state of dynamic tension. The diversity of demands makes it necessary to seek a type of agreement expressed in institutional agreements, a form of concertation, which will make it possible to further these demands and adopt political decisions which take them into account.

One condition which modern societies must satisfy in order to function is that of following the interests of individuals to be organized in such a manner as to lead to collective action. A major task facing the majority of countries of the region is the need to contribute to the development of the organizational capacities of the various existing social groups, since, if it is to be valid and possible, concertation requires an organized society.

In the light of existing experience, the forms of concertation are varied, and may vary considerably in depth. They may concern extremely concrete issues, such as the determination of the level of prices and wages or, alternatively, issues which influence investment and savings decisions and which affect the distribution of income and the style of development adopted.

It should be emphasized that, while concertation attempts to bring about economic and social agreements between organized sectors or groups, these agreements, in the last instance, are reflected in the activity

of the State. As far as the countries of the region —most of which possess mixed economies— are concerned, in addition to legitimating the agreement, the State is one of the parties thereto. Consequently, it has to play the role of both mediator and party.

The function of legitimating the agreement or social concertation, which is the responsibility of the State, assumes that a legitimate and stable set of political institutions exist. Concertation does not mean that decisions are removed to the sphere of negotiations between private groups. Since such decisions affect society as a whole, it is necessary for agreements to be institutionalized, which in turn means that the particular interests of each group must be posed in relation to a broader social interest.

It is occasionally held that concertation is a means for the representation of the interests of the various social groups, and according to this approach, projects involving alternative options or models of society must be reserved for the political sphere. However, it is difficult to imagine pure instances representing one or other of these types of objective. While it is desirable for organizations which give priority to one of the aspects to exist, it is also necessary for there to be articulation between the political sphere and that of the interests of the various groups.

It must be borne in mind that within the region there are important social groups whose organization is limited and whose capacity to put forward their interests is weak. Although responsibility for seeking greater equity in social relations may correspond more to the strictly political sphere than to the agency for concertation itself, the latter should not become a mere means of perpetuating existing conditions.

Moreover, another characteristic feature of the regional conditions is the impossibility of limiting concertation merely to the handling of a given situation. Concertation must rather deal with the management of development, unifying the issues of economic growth, political incorporation, social integration, institutional stability and many others. All these considerations make it even more necessary to be fully aware of the mutual dependence which exists between social concertation and political concertation.

Notes

¹ See, *inter alia*, ECLAC, *Políticas de ajuste y renegociación de la deuda externa en América Latina*, "Cuadernos de la CEPAL" series, No. 48, Santiago, Chile, 1984; United Nations publication, Sales No.: S.84.II.G.18; *The onset of the crisis and the economic policy response: effects and options*, in *Crisis and development: the present situation and future prospects of Latin America and the Caribbean*, Volume II (LC/G.332 (Sem.22/2)/Add.1), Santiago, Chile, 1985; and *The economic crisis: policies for adjustment, stabilization and growth* (LC/G.1408(SES.21/7)/Rev.1), Santiago, Chile, April 1986.

² See, *inter alia*, ECLAC, *América Latina en el umbral de los años 80* (E/CEPAL/G.1106), Santiago, Chile, 1979.

³ *Ibid.*

⁴ ECLAC, *The problem of the external debt: gestation, development, crisis and prospects* (LC/G.1406(SES.21/10)), Santiago, Chile, March 1985.

⁵ It should be noted that this coefficient far exceeds those registered by Germany after the Treaty of Versailles, both as regards payments of war reparations and payments of interest on its external debt and remittances of profits. See, League of Nations, *Experiencia monetaria internacional: lecciones del período de entreguerras*, Geneva, 1945.

⁶ ECLAC, *Economic development: an appraisal, and projections 1985-1995* (LC/G.1407(SES.21/9)), Santiago, Chile, March 1986.

⁷ The term "opening-up to democracy" has been used in Latin America to denote the transition from authoritarian régimes and régimes which completely exclude or restrict participation to more open or participative forms of government. See, for example, Fernando Henrique Cardoso, "A democracia na América Latina" in *Novos Estudos*, No. 10, São Paulo, CEBRAP, October 1984, p. 51.

⁸ See, for example, Oscar Altimir, *La dimensión de la pobreza en América Latina*, "Cuadernos de la CEPAL" series, No. 27, Santiago, Chile, 1979; United Nations publication, Sales No.: S.81.II.G.48.

⁹ ECLAC, *Economic development: an appraisal, and projections 1985-1995*, *op.cit.*

¹⁰ Albert Hirschman, "Ideologies of economic development in Latin America" in *A bias for hope*, New Haven, Yale University Press, 1971, p. 280. The work to which Professor Hirschman was referring was, of course, the *Economic Survey of Latin America*, 1949.

¹¹ Address delivered by the President of Mexico, Miguel de la Madrid, during the opening ceremony of the twenty-first session of ECLAC, Mexico City, 23 April 1986.

¹² See, *inter alia*, Octavio Rodríguez, *La teoría del subdesarrollo de la CEPAL*, Mexico City, Siglo XXI, 1980.

¹³ See ECLAC, *En torno a las ideas de la CEPAL: desarrollo, industrialización y comercio exterior*, "Cuadernos de la CEPAL" series, No. 13, Santiago, Chile, 1977.

¹⁴ Address delivered by President Miguel de la Madrid, *op.cit.*

¹⁵ This topic has frequently been dealt with in the past. See, for example, ECLAC, *Economic Survey of Latin America*, 1949, United Nations, New York, 1951; United Nations publication, Sales No.: 1951.II.G.1, pp. 5-7. See also "The concept of integrated development" in *Regional appraisals of the International Development Strategy*, "Cuadernos de la CEPAL" series, No. 2, Santiago, Chile, 1975, p. 2.

¹⁶ See, for example, Montek S. Ahluwalia, C.L.G. Bell, Hollis Chenery, John H. Duloy and Richard Jolly, *Redistribution with growth*, a publication by the World Bank and the Institute of Development Studies, Oxford, Oxford University Press, 1974.

¹⁷ Albert Fishlow, "El estado de la ciencia económica en América Latina", Inter-American Development Bank, *Progreso económico y social en América Latina*, Washington, D.C., 1985, p. 158.

¹⁸ Alexander Gerschenkron, *Economic backwardness in historical perspective*, Cambridge, Belknap Press, 1962.

¹⁹ Marshall Wolfe, *Agents of "Development"*, document of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES) (Santiago, LC/IP/G.35), 31 July 1986.

²⁰ Inflation and the deficit on the balance-of-payments current account always reflect a disequilibrium between aggregate supply and demand. However, the situation is very different, depending on whether that disequilibrium has been caused by a demand shock (as occurs when there is an excessive increase of domestic expenditure financed by

internal or external credit) or by a supply shock (as occurs when the supply of goods and services is reduced sharply because of a deterioration in the terms of trade or a considerable increase in interest payments). To regard all cases of disequilibrium as situations arising from excessive demand distorts the nature of the problem and leads to the rejection of economic policies which could be more effective and which attempt to rectify or compensate for the real causes of the disequilibrium, such as drawing down the international reserves or incurring greater foreign indebtedness (if the cause of the disequilibrium is a temporary drop in the terms of trade or a temporary contraction of agricultural output due to climatic reasons) or applying export promotion and import substitution policies (if the cause of the imbalance is an external disturbance perceived as being more permanent).

²¹ On the other hand, an anti-inflationary shock policy may be efficient, because basically what stabilization requires is a change in the nominal values of the variables. The possibility that these changes can take place rapidly is not only conceivable in theory (through a more or less simultaneous slackening of all values) but is also possible in practice (as witness the experiences of Costa Rica at the end of 1983 and Brazil from March 1986).

²² If the problem is a temporary outbreak of inflation, there are no indexation mechanisms and the inflationary expectations are not widespread, then a simultaneous stabilization and adjustment programme may be feasible. However, this presupposes that the price stabilization will begin at a new higher price level reached as a result of the adjustments in relative prices required by the adjustment programme. In order to avoid such an increase in price levels it would be necessary to apply policies that were sufficiently restrictive to ensure that the increases in some prices were offset by absolute decreases in others, and in practice this process is unlikely to be achieved without a recession.

²³ In this connection it is noteworthy that the IMF's recommendations tend to contradict this conclusion: the adjustment that they advocate is usually too drastic and they are usually more gradualist than is desirable in terms of stabilization. For example, the unorthodox stabilization policies recently applied in Argentina, Brazil and Peru went far beyond the targets recommended by the Fund.

²⁴ Thus, if the international price of petroleum falls below US\$ 9 per barrel, the plan provides for additional external financing which will compensate for the entire effects of that decline on the balance of payments during three quarters. Subsequently, the economy would have to be gradually adjusted to cope with the deterioration in the price of petroleum, within a period of five quarters. If, however, the price of petroleum should exceed US\$ 14 per barrel, the external financing would decline in proportion to the increased revenue from exports. Furthermore, if the growth of the economy during the first half of 1987 is not sufficient to reach the planned goal of 3% to 4% per year, external financing will be increased by US\$ 500 million in order to increase public investment and stimulate economic activity. Another new feature of the programme is the criterion used to calculate the public sector deficit, the amount of which will be estimated after excluding the effects of inflation on payments of interest on the internal debt. When this criteria is applied, an actual nominal deficit of around 13% of the gross domestic product is equivalent to a real deficit of only 3%. Moreover, in accordance with the priority given to the revival and growth of economic activity, the programme does not expect to make progress simultaneously in the stabilization of price levels and the external adjustment of the economy.

²⁵ Except for agriculture and occasionally mining, the sectoral and subsectoral production levels are significantly below their historic maximum levels (1980-1981) in almost all the countries of the region. This idle capacity varied in 1985 from a minimum of around 10% to 15% in manufacturing to a maximum of 20% to 25% in construction, in the majority of the countries.

²⁶ When the adjustment problem is widespread and affects a considerable number of countries at the same time, it is obvious that the effectiveness of policies designed to correct the external deficit by increasing exports may be undermined by the deterioration in the terms of trade of groups of countries which export the same primary commodities. This would amount to fallacy of composition.

²⁷ As an approximation, it can be estimated that in order to improve the trade balance by US\$ 100 billion in three years, the region sacrificed US\$ 250 billion lost product: in other words, two and a half dollars of domestic production were sacrificed to save one dollar of foreign exchange. This would suggest that any combination of tariff surcharges or special subsidies to exports that saves or generates one dollar of additional foreign exchange at a cost lower than two and a half dollars of domestic production would be preferable to the adjustment policy adopted.

²⁸ Nevertheless, such possibilities do exist, especially in those countries where the recessionary adjustment was greatest; where the tariff and para-tariff protection afforded to manufacturing and agriculture is relatively low and evenly applied; where there is a greater degree of under-utilization of installed capacity in activities competing with imports, and where the proportion of luxury or non-essential imports is relatively higher.

²⁹ In other words, the tariff protection offered an infant import substitution industry must be equivalent to the incentives granted in order to permit an export production activity to enter the external market for the first time.

³⁰ Examples of this include the abrupt halting of some cases of hyperinflation after the First World War or, in more recent times, the case of Indonesia, which brought inflation down from 1 000% to 10% per year between 1965 and 1970 without sacrificing its growth process. In Latin America, there is also the case of Bolivia, which reduced inflation from 63% in 1974 to 11% in 1975, while at the same time registering an economic growth of 6%, and Uruguay, which reduced inflation from 125% to 20% between 1968 and 1969 without causing a recession. Although it is too early to make a full assessment of them, the recent stabilization programmes implemented in a number of countries of the region suggest that it is possible to bring inflation down sharply, with only a slight negative impact on economic activity (Bolivia) or even with economic growth (Argentina, Brazil and Peru).

³¹ In order to do this, it must be determined whether it is the fiscal deficit and the monetary supply that are the root causes of the outbreak of inflation or whether it is really due to outside structural pressures or cost pressures.

³² Programmes which attempt to freeze prices raise a special problem. Although it may be possible to correct the average structure of relative key prices for a given period, that structure may not be the appropriate one at all times during that period, since many prices, wages and the exchange rate usually adjust themselves intermittently at different intervals and at different dates. The result of this lack of synchronization is that when prices are frozen, many distortions in relative prices are crystallized, even though the average structure over a given period may be the correct one. When inflation is very high, the cost may be tolerable, but even so it is desirable to try to correct certain distortions in advance, especially in the case of longer-term contracts (such as wages or financial contracts, which are agreed upon assuming a certain inflation rate). A practical way to achieve this objective in the case of financial contracts is that used in the unorthodox programmes of Argentina, Peru and Brazil. In these programmes, a new currency was issued, whose value in terms of the old currency increases daily according to the inflation rate during the period preceding the plan, thus achieving de-indexing and the synchronization of the value of all contractual financial obligations.

³³ C.R. Contador, "La crisis de los años 80 y la formación del ahorro en Brasil", a study presented at the Third International Conference on Financial Development in Latin America and the Caribbean, and published in Instituto Interamericano de Mercados

de Capital, *El desarrollo financiero de América Latina y el Caribe* 1985, Caracas, November 1985.

³⁴ Hence the attempts to increase saving through taxation have frequently been successful when they have been carried out at the expense of private agents with less propensity for saving. See J.A. Ocampo, J.L. Londoño and L. Villar, "Ahorro e inversión en Colombia", in *Coyuntura Económica*, Vol. XV, No. 2, Bogotá, June 1985, pp. 93-141.

³⁵ J.M. Fanelli, "Ahorro, inversión y financiamiento. Una visión macroeconómica de la experiencia argentina", Banco Central de la República Argentina, *Ensayos Económicos*, No. 31, Buenos Aires, September 1984, 1st. part, pp. 1-40.

³⁶ See, for example, A. Foxley, "Ahorro interno y ahorro privado: realidad y perspectivas, 1985-1990", in *Ahorro inversión y desarrollo nacional*, Centro de Estudios del Desarrollo (CED), Santiago, Chile, March 1986; and R. Zahler, "Las tasas de interés en Chile: 1975-1982", Instituto Interamericano de Mercados de Capital, *El desarrollo financiero de América Latina y el Caribe* 1985, Caracas, November 1985.

³⁷ In periods of economic recession it is usually politically impracticable to promote fiscal reforms in taxation. Even so, these reforms would have to be undertaken in some countries where taxation is disproportionately low in relation to the aggregate value of the economy. At all events, there are ample opportunities for improving tax administration and reducing fiscal avoidance and evasion; for increasing and extending the taxable bases with a view not only to increasing income but also to achieving distributive equity; for adjusting the systems to high inflation rates which erode the real value of the taxes, and for raising taxation on luxury consumer goods of national or foreign origin.

³⁸ Although it should be noted that the present system of financing of the majority of the social security systems in the region also contain some disadvantages. See ECLAC, *El desarrollo de la seguridad social en América Latina* (LC/G.1334), Estudios e Informes de la CEPAL series, No. 43, Santiago, Chile (1985), United Nations publication, sales No.: S.85.II.G.6, especially pp. 16-22.

³⁹ In accordance with the data of the institutions that inform the Bank for International Settlements (BIS), between 1977 and 1985 Latin American assets in relation to contracted liabilities represent between half and a third, despite the losses in the levels of reserves of the central banks. See also: Inter-American Development Bank, *Fuga de capitales en América Latina, 1870-1985*, working paper, Washington, D.C., September 1986.

⁴⁰ Among possible innovations the following may be cited as examples: the development of markets for the issue of bonds and shares repayable in foreign currency, perpetual income bonds, privileged capital repatriation funds, long-term bonds with capital protection and guarantee of repurchase (while the secondary markets develop), national systems of guarantees and swaps, bonds with variable maturity, bank acceptances, commercial paper and treasury certificates. Similarly, there should be a promotion of larger issues of variable income shares of enterprises registered in the commercial exchanges, together with emissions of bonds of a mixed type, such as convertible liabilities, privileged shares of investment funds.

⁴¹ At the regional or subregional level, apart from the feasibility and, in many cases, advantages of introducing services of the same type that will benefit in particular small or medium-sized economies, there should be the establishment or improvement of joint systems for export financing, guarantees, guarantees of issue, insurance against trade and financial risks, payment compensation, exchange and repurchase of national debts and reinsurance, to mention only a few possibilities.

⁴² For Japan, structural adjustment in the industrial sector is the basic trait that might characterize historically its industrialization process, which went on successively shifting resources to the sectors expected to have greater dynamism in the international markets, and placed emphasis on activities involving technical progress. A similar concern, although with different institutional forms, has existed in the case of the Federal

Republic of Germany, and, with regard to France, in specific sectors linked with the purchasing power of the public sector. In the United States, in contrast, industrial restructuring implies conceptual and institutional innovations; the idea of structural change as a reflection ex-post of the succession of adjustments provoked by market forces results in the favouring, as instruments of structural adjustment, of the macroeconomic variables.

⁴³ This requires no further argument in the light of the magnitude of the resources lost in the region as a result of erosion, desertification, deforestation, salinization and depletion of the phreatic layers that have characterized the use of agricultural resources.

⁴⁴ See Joint ECLAC/FAO Agriculture Division, "Análisis y diseño de la política alimentaria: lineamientos de un enfoque sistémico", appendix A, "Campesinado y seguridad alimentaria", Santiago Chile, 1985, preliminary version.

⁴⁵ The creation of agro-industries as local associative enterprises of small producers or, if the scale required it, as mixed enterprises with the State, might lead to the formation of organizations that correspond to these proposals.

⁴⁶ On a much smaller scale, the displacement of sugar by sweeteners derived from maize and other sources is now causing a major crisis in several Caribbean countries.

⁴⁷ By way of example, according to estimates of the United States Department of Agriculture, the transport of a ton of Brazilian soya from the source of production to the port of embarkation cost some years ago eight times what the same operation cost in the United States. See Bárbara Insel, "A World Awash in Grain", *Foreign Affairs* (Vol. 63, No.4, 1985), pp. 899-900.

⁴⁸ See: ECLAC, *Políticas de población en América Latina: experiencia de 10 años* (E/CEPAL/CEGAN/POB.2/L4), 4 October 1983; ECLAC, *Population and development in Latin America*, (E/CEPAL/CEGAN/POB.2/L3), 13 October 1983; and Latin American Demographic Centre (CELADE), "La población y el desarrollo: hechos y reflexiones", *Notas de Población* (XIII, No. 38, August 1985), pp. 65-120.

⁴⁹ See ECLAC, *Development, change and equity: vanquishing poverty* (LC/R.538(Sem.35/3)), Santiago, Chile, 1986; World Bank, *Poverty in Latin America: the Impact of Depression*, Washington, D.C., Report No. 6369, August 1986.

⁵⁰ Despite this, there will always be persons in every society who are unable to find work or raise their productivity, so that to some extent social assistance programmes will have to continue.

⁵¹ See PREALC, *Creación de empleo productivo: una tarea impostergable*, working paper No. 280, September 1986; *Los programas especiales de empleo. Algunas lecciones de la experiencia*. PREALC, working paper No. 225, 1983; *Los programas especiales de empleo: lecciones del Programa de Empleo Mínimo en Chile*. PREALC, working paper No. 228, 1983; *La creación de empleo en períodos de crisis*. PREALC, working paper No. 251, 1984.

⁵² See again: ECLAC, *Development, change and equity: vanquishing poverty*, op.cit.

⁵³ It should be noted that due warning was given of the dangers of excessive expectations, for example when it was pointed out that: "the common market must emerge from a policy rather than a formula. It is, of course, possible to visualize a comprehensive and far-reaching formula according to which goods and services, human beings and capital circulate freely, without hindrance of any kind, in one huge Latin American common market. This final objective must be constantly borne in mind, even though it can be reached only by gradual stages. In the first of these, aspirations would have to be confined to partial but attainable targets, and these would necessarily have to be the patiently-nurtured issue of a policy conceived on realistic lines and implemented with firmness of purpose". See ECLAC, *The Central American Common Market* (E/CN.12/531), Santiago, Chile, 1959. United Nations publication, Sales No.: 59.ILG.4, p. 3.

⁵⁴ The agreement which has perhaps had the greatest impact is the Memorandum on Argentine-Brazilian integration and the 12 protocols which constitute an integral part of it, signed on 29 July 1986.

⁵⁵ See the *Acta de Colonia* which came into effect on 1 September 1985.

⁵⁶ Speech on the occasion of the commemoration of the twentieth anniversary of the creation of INTAL, 21 August 1985. See *Integración latinoamericana*, No. 105, Buenos Aires, September 1985, p. 4.

⁵⁷ The 12 protocols which form part of the Memorandum on Argentine-Brazilian integration cover capital goods, wheat, complementarity in food supply, expansion of trade, binational enterprises, financial affairs, investment fund, energy, biotechnology, economic studies, assistance in case of nuclear accidents, and co-operation in the field of aeronautics.

⁵⁸ See in this respect Aaron Tornell, "¿Es el libre comercio la mejor opción? Comercio Heckscher-Ohlin vs. comercio interindustrial", in *El Trimestre Económico*, vol. LIII(3), No. 211, July-September 1986, Mexico City, pp. 529-560.

⁵⁹ See ALADI, *El financiamiento del comercio intrarregional* (ALADI/SEC/DT/69/Restringido), 29 July 1985, and Executive Secretariat of the Central American Monetary Council, *Estudio relativo a las formas de pago intracentroamericanas que se podrían adoptar en las condiciones de anormalidad financiera de la región*, San José, 6 November 1984.

⁶⁰ See the report on the Seventh Meeting of Heads of State of the CARICOM Governments, held in Georgetown from 1-4 July 1986. On this occasion the "Declaration to expand and intensify the Caribbean Community", whose text is included in the report, was also adopted.

⁶¹ As is well known, conversations are underway between the General Secretariat of ALADI and the World Bank with regard to the provision by the latter of credit in support of a system of financial and monetary co-operation among the countries of the subregion. See the final report of the Second Special Meeting of High-Level Government Representatives, held in Acapulco, Mexico, from 21-25 July 1986 (ALADI/RE.RRN/II/Informe), 25 July 1986, pp. 10-11.

⁶² See the Memorandum on Co-operation between Uruguay and Brazil signed on 12 August 1986, and Economic Complementarity Agreement No. 5 signed between Mexico and Uruguay in force since 1 July of that year.

⁶³ For a list of actions of this type see SELA, *Tercer Programa Bional de Cooperación Regional del SELA, 1987-1988* (SP/CL/XII.O/DT.26), December 1985.

⁶⁴ See ECLAC, *Relaciones económicas internacionales y la cooperación regional de América Latina y el Caribe* (LC/G.1422), Santiago, Chile, May 1986.

⁶⁵ United Nations, Committee for Development Planning, *Doubling Development Finance, Meeting a Global Challenge*, New York, 1986. United Nations Publication, Sales No.:E.86.II.A.10.

⁶⁶ ECLAC, *The Problem of the External Debt: Gestation, Development, Crisis and Prospects* (LC/G.1406(SES.21/10)), Santiago, Chile, March 1986.

⁶⁷ ECLAC, *Economic Development: an Appraisal, and Projections 1985-1995* (LC/G.1407(SES.21/9)), Santiago, Chile, March 1986.

⁶⁸ C. Massad, "The real cost of the external debt for the creditor and for the debtor", *Latin America: International Monetary System and External Financing*, Joint Project UNDP/ECLAC RLA/77/021, Santiago, Chile, 1986.

⁶⁹ ECLAC, *The Problem of ...*, *op.cit.*, and Bank for International Settlements, *Fifty-Sixth Annual Report*, Basle, June 1986.

⁷⁰ ECLAC, *Economic Development...*, *op.cit.*

⁷¹ In 1939, for example, South American bonds whose payment period had matured with arrears of payment were quoted at 14% of their nominal value; Central American bonds at 30%, and those of the West Indies at 46%. Many governments bought

bonds of their own debt for a nominal value equivalent to 15 cents for each dollar of the debt. See W. Feurlein and E. Hannan, *Dollars in Latin America, An Old Problem in a New Setting*, Council of Foreign Relations, New York, 1941.

⁷² Joint Economic Committee of the Congress of the United States, *The Impact of the Latin American Debt Crisis on the U.S. Economy*, staff study (mimeograph), Washington, D.C., 10 May 1986.

⁷³ *Ibid.*

⁷⁴ In the first round, both the surcharge on the reference rate and the commissions were raised substantially in comparison with the levels before the crisis. The average surcharge rose in the first round to 2.22% above the LIBOR rate and the average commission amounted to 1.27% for the twelve countries that were renegotiating. In the second round, the average surcharge was reduced to 1.77% over LIBOR for the average of the seven countries renegotiating in the period 1983-1984, while the commissions went down to 0.8%. In the third round the average surcharge over LIBOR and the commissions fell even further, reaching 1.44 and 0.42%, respectively. In this last round some countries negotiated the complete elimination of the commissions, but the surcharge on the reference rate still remained far above that existing before the crisis, which in some cases had been considerably below 1%. In Mexico's negotiation with its creditors, in September 1986, for example, a spread of 13 to 16% over LIBOR was agreed, with a partial restructuring of the debt, payable in twenty years, with seven years' grace.

⁷⁵ These include in particular the widely publicized initiative announced by James Baker, Secretary of the Treasury of the United States of America, during the Assembly of Governors of the IMF and of the World Bank held in Seoul, Korea, in September 1986; the proposal of Senator Bill Bradley, member of the Senate of the United States, with a view to providing relief consisting in a reduction of interest and of principal; a proposal by Senator John F. Kerry, also a member of the Senate of the United States, seeking to create a programme of international development by setting a ceiling on debt service payments as a percentage of exports and establishing a progressive alleviation of the servicing according to the degree of disequilibrium in the debtor's trade balance; a proposal by Franz Luetolf, Managing Director of the Swiss Bank Corporation, who recently proposed a temporary suspension of interest payments (see *Neue Zürcher Zeitung*, No. 208, Zurich, 9 September 1986, p. 19); and the proposal by Antonio Ortiz Mena, President of the Inter-American Development Bank, to automatically refinance a proportion of the interest payments on the debt, and reduce its cost through the transfer of the requisite amounts by the creditor banks to a special fund for financing investment projects to promote the growth of exports in the debtor countries. That which comes closest to a proposal by the most indebted Latin American countries is found in the Montevideo Declaration of the countries of the Cartagena Agreement (Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Peru, the Dominican Republic, Uruguay and Venezuela), issued in Montevideo on 17 December 1985.

⁷⁶ Two other instruments are the Subsidy Account, aimed at reducing, in the case of low-income countries, the cost of using resources of the supplementary financing services of the Monetary Fund, and the financing service for regulatory stocks that has been very seldom used and only in relation to two products, tin and sugar.

⁷⁷ In the case of the United States, several studies estimate that half of any reduction in the payment of Latin American debt-servicing will be earmarked for purchases in that country. See Joint Economic Committee of the Congress of the United States, *op.cit.*

⁷⁸ See UNCTAD, *Trade and Development Report, 1985* (UNCTAD/TDR/5), New York, 1985, United Nations Publication, Sales No.: E.85.II.D.16.

⁷⁹ It should be remembered that the member countries of the Caribbean Community are beneficiaries of the Third Convention of Lomé, through which they have ample access to the market of the European Communities. The August 1983 Law on the

economic revival of the Caribbean Basin, also gives free access to the United States market for a wide range of goods, for a period of twelve years. At present a similar agreement, though more limited in scope, is being negotiated with the Government of Canada.

⁸⁰ See the Ministerial Declaration on the Uruguay Round, which emanated from the extraordinary session of the Contracting Parties of the General Agreement on Tariffs and Trade, Punta del Este, Uruguay, 20 September 1986.

⁸¹ In this respect, after arduous negotiations, the following was adopted in the Ministerial Declaration on the Uruguay Round: "Contracting Parties agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions therein, including those related to structural surpluses, so as to reduce the uncertainty, imbalances and instability in world agricultural markets", *ibid.*, p. 11.

⁸² *Ibid.*, p. 20.

⁸³ See ECLAC, *El proteccionismo de los países industrializados: estrategias regionales de negociación y defensa* (LC/R.500), Santiago, Chile, April 1986.

⁸⁴ The Ministerial Declaration leaves open the possibility of the following participating in negotiations, in addition to the Contracting parties: i) "countries having acceded provisionally to the General Agreement"; ii) "countries applying the GATT on a *de facto* basis having announced, not later than 30 April 1987, their intention to accede to the GATT and to participate in the negotiations"; iii) "countries that have already informed the CONTRACTING PARTIES, at a regular meeting of the Council of Representatives, of their intention to negotiate the terms of their membership as a contracting party", and iv) "developing countries that have, by 30 April 1987, initiated procedures for accession to the GATT, with the intention of negotiating the terms of their accession during the course of the negotiations".

STATISTICS TABLES

Table 1

**LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF
PER CAPITA GROSS DOMESTIC PRODUCT**

	Annual growth rates					Cumulative variation
	1981	1982	1983	1984	1985 ^a	1981-1985 ^a
Argentina	-8.2	-7.8	1.4	0.6	-5.9	-18.7
Barbados	-6.5	-5.2	-0.5	1.8	...	-7.3 ^c
Bolivia	-2.3	-5.4	-9.0	-3.5	-4.4	-22.4
Brazil	-4.2	-0.8	-4.8	2.6	5.9	-1.6
Colombia	0.1	-1.1	-1.0	1.4	0.4	-0.2
Costa Rica	-0.5	-9.7	0.1	4.6	-1.0	-11.2
Cuba ^b	14.4	2.5	3.2	6.8	3.8	34.1
Chile	3.6	-14.4	-2.1	4.5	0.8	-8.6
Ecuador	0.8	-1.8	-4.0	1.5	1.4	-2.1
El Salvador	-11.0	-8.4	-2.3	-1.5	-1.6	-22.8
Guatemala	-1.8	-6.1	-5.4	-2.6	-3.8	-18.2
Guyana	-2.6	-12.6	-12.0	3.9	...	-22.2 ^c
Haiti	-3.9	-6.4	-2.3	0.2	-1.4	-13.1
Honduras	-2.8	-3.9	-4.5	-0.8	-1.7	-13.0
Jamaica	1.1	-1.6	-	-1.7	...	-2.2 ^c
Mexico	5.4	-2.6	-7.6	0.9	-0.1	-4.3
Nicaragua	2.0	-4.0	1.0	-4.7	-5.9	-11.3
Panama	1.7	2.7	-2.2	-2.5	1.1	0.7
Paraguay	5.4	-3.6	-5.9	0.2	1.1	-3.2
Peru	1.3	-2.5	-14.2	1.5	-1.0	-14.8
Dominican Republic	1.5	-1.0	1.9	-1.9	-4.4	-4.0
Trinidad and Tobago	-1.5	1.6	-8.0	-5.5	...	-13.0 ^c
Uruguay	0.8	-10.7	-6.7	-2.8	-0.2	-18.5
Venezuela	-3.9	-4.1	-8.2	-3.7	-3.8	-21.6
Latin America ^d	-1.9	-3.7	-4.8	0.8	0.4	-8.6
Latin America and the Caribbean excluding Brazil and Cuba	-0.9	-5.0	-4.8	-0.1	-2.1	-12.4

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.^bRefers to the concept of the global social product.^cCumulative

variation 1981-1984.

^dExcluding Cuba.

Table 2

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF REAL WAGES

Annual average indexes (1980 = 100)

	1979	1980	1981	1982	1983	1984	1985 ^a
Averages wages							
Argentina ^b	89.5	100.0	89.4	80.1	103.6	131.0	113.4
Brazil ^c	95.0	100.0	105.5	113.3	101.9	103.0	109.7
Colombia ^b	99.3	100.0	101.4	105.2	110.4	118.7	114.9
Costa Rica ^d	99.2	100.0	88.3	70.8	78.5	84.7	92.2
Chile ^e	91.8	100.0	109.1	108.7	97.1	97.4	93.0
Mexico ^f	102.9	100.0	103.6	104.4	80.7	75.7	76.6
Nicaragua ^g	122.7	100.0	101.3	91.8	84.5	75.8	60.4
Panama ^h	104.8	100.0	98.6	100.4	104.6	108.1	...
Paraguay ⁱ	99.4	100.0	105.3	102.4	95.2	91.8	89.9
Peru ^j	88.9	100.0	98.2	100.4	83.6	70.8	59.6
Uruguay ^k	100.4	100.0	107.5	107.1	84.9	77.1	88.0
Minimum wages							
Ecuador ^l	60.4	100.0	86.2	75.9	63.6	62.8	60.8
El Salvador ^m	87.7	100.0	96.8	86.6	76.5	76.8	66.3
Guatemala ⁿ	62.5	100.0	89.8	89.6	85.5	82.8	69.8
Haiti ^o	85.8	100.0	96.3	100.8	94.0	87.1	...
Honduras ^p	109.2	100.0	105.6	104.5	96.6	92.1	88.8
Dominican Republic ^q	105.0	100.0	93.0	86.4	80.8	82.0	80.2
Venezuela ^r	60.7	100.0	83.7	76.0	71.0	61.8	80.3

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bWages of manual workers in manufacturing. ^cAverage wages in manufacturing. ^dWages declared for members of the social security system. ^eAverage wages in the non-agricultural sectors. ^fAverage wages of members of the social security system. 1985: average for January-October. ^gAverage industrial wages in the districts of Panama and Colón. ^hWages of workers in Asunción. ⁱWages of private sector workers in Metropolitan Lima. ^jReal average wages. ^kGeneral minimum wage, calculated on the basis of the annual minimum wage and complementary legal benefits. ^lMinimum wage for non-agricultural activities in San Salvador. ^mNational minimum wage. ⁿMinimum daily wage paid in industrial enterprises. ^oMinimum wage in the Central District and San Pedro Sula for manufacturing. ^pNational minimum wage for non-agricultural activities.

Table 3

**LATIN AMERICA AND THE CARIBBEAN:
URBAN UNEMPLOYMENT**

(Average annual rates)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985 ^a
Argentina ^b	3.7	4.9	3.3	3.3	2.5	2.6	4.7	5.3	4.6	4.6	6.1
Bolivia ^c	...	...	...	4.5	5.2	5.8	9.7	10.5	14.2	15.1	18.0
Brazil ^d	...	...	...	6.8	6.4	6.3	7.9	6.3	6.7	7.1	5.3
Colombia ^e	11.0	10.6	9.0	9.0	8.9	9.7	8.2	9.3	11.8	13.5	14.1
Costa Rica ^f	...	5.4	5.1	5.8	5.3	6.0	9.1	9.9	8.6	6.6	6.7
Chile ^g	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3	16.3
Honduras ^h	...	...	...	...	...	8.8	9.0	9.2	9.5	10.7	11.7
Mexico ⁱ	7.2	6.8	8.3	6.9	5.7	4.5	4.2	4.1	6.7	6.0	4.8
Nicaragua ^j	...	...	...	...	...	18.3	15.8	14.0	15.2	18.4	24.2
Panama ^k	8.6	9.0	...	9.6	11.6	9.9	11.8	10.3	11.5	11.0	15.2
Paraguay ^l	...	6.7	5.4	4.1	5.9	4.1	2.2	5.6	8.4	7.4	5.2
Peru ^m	...	8.4	9.4	10.4	11.2	10.9	10.4	10.6	9.2	10.9	11.8
Uruguay ⁿ	...	12.7	11.8	10.1	8.3	7.4	6.7	11.9	15.5	14.0	13.1
Venezuela ^o	8.3	6.8	5.5	5.1	5.8	6.6	6.8	7.8	10.5	14.3	14.3

Source: ECLAC and PREALC, on the basis of official figures.

^aPreliminary figures. ^bNational urban rate, average for April-October. ^cNational average. ^dMetropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife, twelve-month average; 1980, average for June-December. ^eBogotá, Barranquilla, Medellín and Cali, average for March, June, September and December. ^fNational urban rate, average for March, July and November; 1984, average for March and November. ^gGreater Santiago, average for March, June, September and December. ^hNational average. ⁱMetropolitan areas of México City, Guadalajara and Monterrey, average for four quarters. ^jNon-agricultural activities. ^kNational urban rate, August of each year. 1980 figures correspond to the unemployment in the urban area registered in the population census of that year and 1981 to the metropolitan area. ^lAsunción, Fernando de la Mota, Lambaré and urban areas of Luque and San Lorenzo, annual average; 1981, first half; 1982, first quarter; 1983, average for September, October and November; 1984, average for August and September; 1985, average for November-December. ^mNon-agricultural activities. ⁿMontevideo, average for four quarters. Up to 1981, average for two half-years. ^oNational urban rate, average for two half-years.

Table 4

**LATIN AMERICA AND THE CARIBBEAN: EVOLUTION
OF THE BALANCE OF PAYMENTS**

(Billions of dollars)

	1980	1981	1982	1983	1984	1985 ^a
Balance on current account ^b	-28.2	-40.2	-40.9	-7.6	-1.9	-3.2
Trade balance, goods	-1.4	-1.7	9.1	31.6	38.0	34.5
Exports	89.2	95.9	87.4	87.5	96.8	92.3
Imports	90.5	97.6	78.3	55.9	58.8	57.8
Net payments of profits and interest	18.5	28.1	39.7	35.2	36.7	35.3
Balance on capital account ^c	29.5	37.3	19.9	3.2	10.2	6.0
Global balance	1.4	-2.9	-21.1	-4.4	8.3	2.8

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bIncluding net unrequited private transfers. ^cIncluding long- and short-term capital, unrequited official transfers and errors or omissions.

Table 5

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF CONSUMER PRICES

(Variation from December to December)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Latin America and the Caribbean ^a	62.3	40.0	39.0	54.1	56.1	57.6	84.8	131.1	185.2	274.5
Latin America and the Caribbean ^b	63.2	40.5	39.5	54.3	56.6	58.2	81.3	127.8	152.0	141.8
Argentina	347.5	150.4	169.8	139.7	87.6	131.2	208.7	433.7	688.0	385.4
Barbados	3.9	9.9	11.3	16.8	16.1	12.3	6.9	5.5	5.1	3.0 ^c
Bolivia	5.5	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2	8 170.5
Brazil ^d	44.8	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.3	223.0
Colombia ^e	25.9	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3	22.5
Costa Rica	4.4	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.3	10.9
Chile	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0	26.4
Ecuador ^f	13.1	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1	24.4
El Salvador	5.2	14.9	14.6	14.8	18.6	11.6	13.8	15.5	9.8	32.1
Guatemala	18.9	7.4	9.1	13.7	9.1	8.7	-2.0	15.4	5.2	31.5
*Guyana	9.2	9.0	20.0	19.4	8.5	29.1	...	...	...	...
Haiti ^g	-1.4	5.5	5.5	15.4	15.3	16.4	6.2	12.2	6.1	15.0
Honduras	5.6	7.7	5.4	22.5	11.5	9.2	8.8	7.8	3.7	4.2
Jamaica	8.3	14.1	49.4	19.8	28.6	4.8	7.0	16.7	31.2	22.8 ^h
Mexico	27.2	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2	63.7
Nicaragua	6.2	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2	334.5
Panama	4.8	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9	0.8 ^c
Paraguay	3.4	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8	24.0
Peru	44.7	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5	158.3
Dominican Republic ⁱ	7.0	8.5	1.8	26.2	4.2	7.4	7.1	9.8	40.9	39.4 ^b
Trinidad and Tobago	12.0	11.4	8.8	19.5	16.6	11.6	10.8	15.4	14.1	6.9 ^c
Uruguay	39.9	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0
Venezuela	6.9	8.1	7.1	20.5	19.6	10.8	7.9	7.0	13.3	5.8

Source: International Monetary Fund, *Financial Statistics*, January 1986, and official data supplied by the countries.

^aExcluding Cuba. ^bExcluding Bolivia and Cuba. ^cCorresponds to the variation between October 1985 and October 1984. ^dUp to 1979 corresponds to the variation in the consumer price index for Rio de Janeiro; from 1980 onwards refers to the variation in the national total.

^eUp to 1980 corresponds to the variation in the consumer price index for workers; from 1981 onwards refers to the variation in the national total, which includes both manual and non-manual workers. ^fUp to 1982 corresponds to the variation in the consumer price index in Quito; from 1983 corresponds to the variation in the national total. ^gCorresponds to the variation between September 1985 and September 1984. ^hCorresponds to the variation between November 1985 and November 1984. ⁱUp to 1982 refers to the variation in the consumer price index in the City of Santo Domingo; from 1983 refers to the variation in the national total.

Table 6
**LATIN AMERICA AND THE CARIBBEAN: COEFFICIENTS OF TOTAL GROSS INVESTMENT
 AND GROSS DOMESTIC SAVING**
(Percentages of gross domestic product at constant 1980 prices)

	Coefficient of investment						Coefficient of domestic saving					
	1980	1981	1982	1983	1984	1985 ^a	1980	1981	1982	1983	1984	1985 ^a
Argentina	22.8	18.8	16.8	15.5	13.3	11.5	20.7	18.7	21.2	20.7	17.9	18.6
Bolivia	14.7	16.6	12.6	10.9	10.4	10.2	16.5	17.0	19.1	15.2	14.4	10.9
Brazil	22.6	20.1	18.5	15.8	15.5	16.1	20.2	21.0	19.5	20.1	22.0	22.4
Colombia	18.7	20.7	21.6	20.4	18.6	16.5	18.3	17.6	16.8	16.2	16.8	16.5
Costa Rica	26.6	17.0	13.7	16.6	18.0	19.0	17.1	20.8	22.8	22.2	21.8	21.3
Chile	21.0	24.4	9.8	8.1	13.4	12.2	17.2	15.3	13.7	15.8	18.8	22.1
Ecuador	26.2	21.8	24.3	16.9	17.0	16.9	25.6	20.2	23.4	27.4	27.5	29.5
El Salvador	13.3	14.0	13.3	12.1	12.3	12.6	14.5	9.8	8.5	11.4	3.5	3.0
Guatemala	15.9	18.2	15.2	12.9	13.2	11.2	13.0	13.7	14.4	14.2	12.3	12.4
Haiti	18.9	19.6	18.9	19.8	20.6	22.2	6.7	5.0	9.8	12.1	10.0	10.6
Honduras	26.2	21.5	13.2	14.1	18.7	18.3	18.8	18.7	13.3	11.8	14.2	13.0
Mexico	28.2	30.1	21.5	17.0	17.7	19.8	26.9	27.8	27.2	28.2	28.0	27.7
Nicaragua	16.8	24.4	20.3	21.1	20.5	17.5	-3.2	5.3	6.0	4.6	-0.8	-7.0
Panama	27.8	30.1	26.6	21.1	19.7	18.0	20.4	27.9	35.6	25.6	18.0	100.0
Paraguay	28.8	31.0	26.0	21.9	20.5	20.5	22.6	22.0	17.3	16.9	8.8	16.6
Peru	18.3	21.2	19.7	13.5	11.9	9.1	22.2	19.7	20.5	17.9	20.8	20.7
Dominican Republic	24.9	21.4	19.6	19.2	19.3	18.6	15.1	16.5	18.9	18.5	21.2	21.6
Uruguay	17.4	15.6	14.2	9.6	9.0	8.0	11.2	11.3	14.9	16.3	16.0	16.6
Venezuela	24.8	24.7	27.5	12.4	17.0	16.3	32.9	28.6	23.8	25.8	28.9	28.9
Latin America and the Caribbean	23.7	23.0	19.5	15.7	15.8	15.9	22.4	22.1	21.7	22.2	22.4	23.2

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 7

LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT

(End-of-year balances in millions of dollars)

	1975	1978	1980	1981	1982	1983	1984	1985 ^a
Latin America and the Caribbean	78 414	158 633	230 235	287 709	330 702	351 123	366 493	372 871
Oil-exporting countries	30 448	70 581	96 894	126 489	142 690	152 107	155 056	156 294
Bolivia ^b	883	1 822	2 340	2 622	2 502	3 156	3 165	3 500
Ecuador	708 ^b	2 975	4 652	5 868	6 187	6 712	6 949	7 300
Mexico	16 900	39 700	50 700	74 900	87 600	93 800	96 700	97 800
Peru	6 257	9 324	9 594	9 688	11 340	12 442	13 389	13 794
Venezuela ^c	5 700	16 760	29 608	33 411	35 061	35 997	34 853	33 900
Non-oil-exporting countries	47 966	88 052	133 341	161 220	188 012	199 016	211 437	216 577
Argentina	7 875	12 496	27 162	35 671	43 634	45 087	46 903	48 312
Brazil ^d	26 500	53 415	70 025	79 946	91 035	95 520	102 039	101 920
Colombia	3 502	4 033	6 300	7 885	9 410	10 405	11 551	12 856
Costa Rica	649 ^b	1 870	3 183	3 360	3 497	3 848	3 955	4 084
Chile ^e	4 854	6 664	11 084	15 542	17 153	17 431	18 877	19 757
El Salvador	391 ^b	986	1 176	1 471	1 710	1 891	1 949	2 003
Guatemala	243 ^b	821	972	1 305	1 560	2 130	2 493	2 570
Haiti ^f	57	210	290	372	410	551	607	650
Honduras	363 ^b	971	1 510	1 708	1 986	2 162	2 392	2 615
Nicaragua	593 ^b	1 465	1 825	2 566	3 139	3 789	4 362	4 936
Panama	771 ^f	1 881 ^f	4 756	5 047	5 960	6 924	6 537	6 500
Paraguay	332	669	861	949	1 204	1 469	1 654	1 773
Dominican Republic	805	1 331	2 059	2 286	3 076	3 237	3 447	3 701
Uruguay	1 031	1 240	2 138	3 112	4 238	4 572	4 671	4 900

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bTotal medium- and long-term debt.^cPublic debt plus non-guaranteed long- and short-term debt with financial institutions reporting to the Bank for International Settlements. ^dIncludes total medium- and long-term debt plus short-term debt in accordance with World Bank figures. From 1984 onwards, corresponds to the total debt according to official statistics. ^eShort-, medium- and long-term debt, excluding debt with the IMF and short-term credits for foreign trade operations in the non-financial private sector. ^fPublic debt.

Table 8

**LATIN AMERICA AND THE CARIBBEAN: INDICATORS
OF EXTERNAL INDEBTEDNESS**

	1977	1978	1979	1980	1981	1982	1983	1984	1985 ^a
Billions of dollars									
Total disbursed external debt									
Latin America and the Caribbean	119.0	158.6	183.0	230.2	287.7	330.7	351.1	366.5	372.9
Oil-exporting countries	53.4	70.6	80.1	97.0	126.5	142.7	152.1	155.1	156.3
Non-oil-exporting countries	65.6	88.0	102.9	133.2	161.2	188.0	199.0	211.4	216.6
Interest paid ^b									
Latin America and the Caribbean	6.9	9.5	14.2	21.0	31.5	40.8	36.0	39.6	37.5
Oil-exporting countries	2.9	4.1	5.8	8.6	13.0	18.3	15.9	17.6	16.0
Non-oil-exporting countries	4.0	5.4	8.4	12.4	18.5	22.5	20.1	22.0	21.5
Coefficients									
D/X (times)									
Latin America and the Caribbean	2.1	2.6	2.2	2.1	2.5	3.2	3.4	3.3	3.4
Oil-exporting countries	2.4	2.8	2.1	1.9	2.2	2.8	3.0	2.9	3.1
Non-oil-exporting countries	2.0	2.5	2.3	2.4	2.8	3.6	3.8	3.6	3.7
I/X (percentages)									
Latin America and the Caribbean	12.4	15.5	17.3	19.5	27.1	39.6	35.1	35.1	34.5
Oil-exporting countries	12.9	16.0	15.5	16.6	22.6	35.6	31.7	32.5	31.6
Non-oil-exporting countries	12.0	15.1	18.9	22.3	31.6	43.5	38.4	37.5	37.1

Source: ECLAC, on the basis of official figures.

Symbols: D = Total disbursed external debt; X = Exports of goods and services; I = Total interest paid.

^aPreliminary figures.

^bExcluding Panama.

Table 9

LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INFLOW AND TRANSFERS OF RESOURCES

(Billions of dollars and percentages)

	Net capital inflow	Net payments of profits and interest	Transfer of resources (3)=(1)-(2)	Exports of goods and services	Transfers of resources/ exports of goods and services (5)=(3)/(4)
	(1)	(2)	(3)	(4)	(5)
1973	7.9	4.2	3.7	28.9	12.8
1974	11.4	5.0	6.4	43.6	14.7
1975	14.2	5.5	8.7	41.1	21.2
1976	17.8	6.8	11.0	47.3	23.3
1977	17.1	8.2	8.9	55.9	15.9
1978	26.1	10.2	15.9	61.3	25.9
1979	29.0	13.6	15.4	82.0	18.8
1980	29.5	18.5	10.0	107.6	9.3
1981	37.3	28.1	9.2	116.1	7.9
1982	19.9	39.7	-19.8	103.2	-19.2
1983	3.2	35.2	-32.0	102.4	-31.3
1984	10.2	36.7	-26.5	112.9	-23.5
1985 ^b	6.0	35.3	-29.3	108.6	-27.0

Source: ECLAC, on the basis of the International Monetary Fund, *Balance of Payments Yearbook*, 1985 and official figures.

^a Percentages. ^b Preliminary estimates subject to revision.

Table 10

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF PUBLIC FINANCES

(Percentages)

	1980	1981	1982	1983	1984	1985
A. Central Government current income/gross domestic product						
Argentina	6.0	6.0	6.2	5.9		
Bolivia	9.2	8.6	5.0	3.5	2.9	
Brazil	9.3	8.8	9.1	9.4	8.7	
Colombia	9.6	7.9	7.6	7.8	7.9	
Costa Rica	12.7	13.1	13.3	16.7	17.2	13.1
Cuba						
Chile	22.3	25.1	24.3	22.4	23.4	-
Ecuador	12.8	11.3	11.1	10.7	12.4	
El Salvador	11.7	12.8	12.4	12.5	13.5	13.6
Guatemala	9.5	8.6	8.4	8.2	7.1	
Haiti	9.5	9.0	10.3	10.4	10.0	
Honduras	15.3	14.0	13.8	13.3	15.1	16.3
Mexico	15.9	15.9	16.3	18.6	16.9	
Nicaragua	17.8	17.9	19.5	23.7		
Panama	19.6	20.4	19.8	20.7	20.2	
Paraguay	9.2	8.4	9.3	8.0	8.0	7.9
Peru	20.5	17.9	17.5	14.2	16.2	
Dominican Republic	13.1	12.5	9.3	10.6	11.1	11.4
Uruguay	16.2	17.4	15.2	15.6	13.5	15.0
Venezuela	24.7	32.5	26.9	24.7	28.5	
B. Central Government total expenditure/gross domestic product						
Argentina	8.8	10.8	12.4	17.9		
Bolivia	16.7	14.9	33.5	26.7	43.3	
Brazil						
Colombia	10.3	10.8	11.7	11.3	12.1	
Costa Rica	21.8	17.4	16.7	21.9	22.0	16.9
Cuba						
Chile	21.1	22.9	26.1	25.7	26.5	-
Ecuador	16.2	17.0	15.5	13.2	13.2	
El Salvador	17.2	20.1	20.3	27.1	22.0	20.5
Guatemala	15.1	17.2	14.4	12.1	12.0	
Haiti	16.4	18.0	24.8	23.0	21.9	
Honduras	25.4	23.9	28.6	27.0	31.8	31.2
Mexico	18.8	22.4	28.2	26.8	24.4	
Nicaragua	28.8	32.7	37.4	55.9		
Panama	29.9	31.4	38.0	31.3	32.9	
Paraguay	9.5	11.1	10.5	9.9	9.0	9.5
Peru	23.3	22.7	21.5	23.1	21.3	
Dominican Republic	15.9	14.7	12.4	13.3	11.7	12.8
Uruguay	16.1	17.5	23.9	19.6	18.8	17.8
Venezuela	24.9	29.2	28.1	25.6	25.3	

Source: ECLAC, *Economic Survey of Latin America and the Caribbean*, 1983, 1984 and 1985.

Table 11

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE, 1930-1985

(Index: 1970 = 100)

	Total, Latin America and the Caribbean ^a	Non-oil-exporting countries ^b
1930	102.4	95.3
1931	82.7	78.1
1932	89.5	83.2
1934	82.7	79.0
1935	93.3	89.6
1936	95.7	93.1
1937	100.3	97.0
1938	94.1	89.9
1939	93.3	80.5
1940	90.8	86.4
1941	94.5	90.6
1942	94.8	93.4
1943	99.3	93.5
1944	106.2	103.3
1945	102.9	100.9
1946	118.1	117.2
1947	121.0	118.3
1948	122.0	110.2
1949	114.8	103.1
1950	135.9	114.9
1951	135.4	118.8
1952	117.4	99.2
1953	129.2	109.2
1954	125.8	109.9
1955	123.1	99.1
1956	124.5	100.4
1957	130.6	99.8
1958	119.3	92.4
1959	109.3	88.3
1960	106.4	90.6
1961	104.4	89.9
1962	98.8	85.8
1963	98.7	88.9
1964	100.4	96.4
1965	95.6	92.8
1966	95.8	93.7
1967	94.3	91.0
1968	95.2	91.3
1969	96.7	96.2
1970	100.0	100.0
1971	97.4	91.8
1972	100.0	96.2
1973	113.4	107.1
1974	131.4	97.8
1975	113.8	84.9
1976	118.9	90.6
1977	125.8	98.4
1978	112.7	88.2
1979	116.8	84.2
1980	119.7	79.4
1981	110.2	71.0
1982	99.8	65.0
1983	94.3	65.0
1984	99.3	68.8
1985 ^c	96.9	66.1

Source: 1930-1949: ECLAC, "América Latina: relación de precios del intercambio 1928-1976", 1977.

1950-1985: ECLAC, on the basis of official figures.

^aComprising 19 countries.^bExcluding Mexico, Venezuela, Ecuador.^cPreliminary figures.

Table 12
**LATIN AMERICA AND THE CARIBBEAN: EXPORTS WITHIN
 INTEGRATION SCHEMES, INTRA-LATIN AMERICAN
 EXPORTS AND TOTALS**
(Millions of current dollars, FOB)

	1960	1965	1970	1975	1978	1979
ALADI						
Total exports	7 344.8	9 388.7	13 786.7	29 664.2	44 630.1	60 729.0
Exports to Latin America	-	-	1 583.5	5 031.2	7 174.3	10 011.8
Exports to Latin America as percentage of total	-	-	12.4	17.0	16.1	16.5
Exports within ALADI	566.6	841.9	1 266.0	4 010.2	5 838.4	8 574.6
Exports within ALADI as percentage of total	7.7	9.0	9.9	13.5	13.1	14.1
Exports within ALADI as percentage of exports to Latin America	-	-	79.9	79.7	81.4	85.6
Andean Group^c						
Total exports	3 586.8	4 346.0	5 419.1	12 897.8	16 293.4	23 937.5
Exports to Latin America	-	-	569.0	2 055.3	2 404.2	3 412.9
Exports to Latin America as percentage of total	-	-	10.5	15.9	14.8	14.3
Exports within Andean Group	24.5	52.7	91.6	477.1	684.5	1 075.1
Exports within Andean Group as percentage of total	0.7	1.2	1.7	3.7	4.2	4.5
Exports within Andean Group as percentage of exports to Latin America	-	-	16.1	23.2	28.5	31.5
Central American Common Market (CACM)						
Total exports	444.2	762.5	1 105.4	2 309.4	3 974.0	4 462.5
Exports to Latin America	-	-	313.7	645.9	965.7	1 034.2
Exports to Latin America as percentage of total	-	-	28.4	28.0	24.3	23.2
Exports within CACM	30.9	132.8	287.1	541.3	862.8	898.7
Exports within CACM as percentage of total	7.4	17.4	26.0	23.4	21.7	20.1
Exports within CACM as percentage of exports to Latin America	-	-	91.5	83.8	89.3	86.9
CARICOM^d						
Total exports	543.7	750.2	1 000.1	3 028.5	3 190.2	3 908.1
Exports to Latin America	-	-	63.2	259.7	297.6	439.6
Exports to Latin America as percentage of total	-	-	6.3	8.6	9.3	11.2
Exports within CARICOM	21.3	27.1	42.3	216.8	204.7	255.7
Exports within CARICOM as percentage of total	3.9	3.6	4.2	7.2	6.4	6.5
Exports within CARICOM as percentage of exports to Latin America	-	-	66.9	83.5	68.8	58.2
Latin America^e						
Total exports	8 532.5	11 518.6	15 212.2	36 182.8	52 712.2	70 265.6
Intra-regional trade	749.9	1 275.3	1 969.7	5 964.8	8 536.5	11 583.3
Intra-regional trade as percentage of total	8.8	11.1	12.9	16.5	16.2	16.5

(table 12 concluded)

	1980	1981	1982	1983 ^a	1984 ^a	1985 ^a
ALADI						
Total exports	78 237.8	86 636.6	81 262.5	82 235.9	92 293.8	84 936.4
Exports to Latin America	12 314.8	13 424.1	11 688.3	9 005.2	10 281.4	...
Exports to Latin America as percentage of total	15.7	15.5	14.4	11.0	11.1	...
Exports within ALADI	10 935.3	11 348.1	9 762.5	7 016.0	8 174.6	7 010.7
Exports within ALADI as percentage of total	14.0	13.1	12.0	8.5	8.9	8.3
Exports within ALADI as percentage of exports to Latin America	88.0	84.5	83.5	77.9	79.5	...
Andean Group^c						
Total exports	29 428.9	29 284.4	27 434.0	22 703.7	25 723.1	24 130.3
Exports to Latin America	4 282.7	4 859.2	4 428.2	3 123.7	3 219.5	...
Exports to Latin America as percentage of total	14.6	16.6	16.1	13.8	12.5	...
Exports within Andean Group	1 191.0	1 265.4	1 228.2	747.9	729.8	742.8
Exports within Andean Group as percentage of total	4.1	4.3	4.5	3.3	2.8	3.1
Exports within Andean Group as percentage of exports to Latin America	27.8	26.0	27.7	23.9	22.7	...
Central American Common Market (CACM)						
Total exports	4 212.6	3 792.3	3 393.7	3 520.6	3 976.3	...
Exports to Latin America	1 249.8	1 160.5	969.7	907.7	872.8	...
Exports to Latin America as percentage of total	28.3	30.6	28.6	25.8	22.0	...
Exports within CACM	1 118.9	929.4	761.2	738.9	699.3	...
Exports within CACM as percentage of total	25.4	24.5	22.4	21.0	17.6	...
Exports within CACM as percentage of exports to Latin America	89.5	80.1	78.5	81.4	80.1	...
CARICOM^b						
Total exports	5 558.8	5 281.5	4 296.6	3 575.5	3 487.3	3 329.6
Exports to Latin America	601.6	704.2	716.7	438.7	385.4	333.2
Exports to Latin America as percentage of total	10.8	13.3	16.7	12.3	11.1	10.0
Exports within CARICOM	350.2	375.0	390.8	325.0	275.8	278.2
Exports within CARICOM as percentage of total	6.3	7.1	9.1	9.1	7.9	8.4
Exports within CARICOM as percentage of exports to Latin America	58.2	53.3	54.5	74.1	71.6	83.5
Latin America^d						
Total exports	89 726.1	97 381.0	90 273.0	90 604.3	101 080.5	...
Intra-regional trade	14 331.6	15 438.3	13 474.0	10 429.1	11 630.9	...
Intra-regional trade as percentage of total	16.0	15.9	14.9	11.5	11.5	...

Source: ECLAC, on the basis of official figures as at September 1986.

^a Estimates. ^b Comprises only Barbados, Guyana, Jamaica and Trinidad and Tobago.^c Peru: coverage 88% in 1982; 83% in 1983, and 75% in 1984. ^d Venezuela does not include exports of iron ore in 1983 and 1984.^e Excluding Chile. ^f Including eleven ALADI countries, five CACM countries, four CARICOM countries, Haiti, Panama and Dominican Republic.

Table 13

**LATIN AMERICA AND THE CARIBBEAN: ESTIMATED
EFFECTS OF DROP IN LIBOR
INTEREST RATE, 1986**

	Net external debt ^a (balance at end of 1985 in millions of dollars)	Net external debt at floating interest rates as a percentage of column (1)	Effect of a drop of 2.5 percentage points in LIBOR ^b on interest payments (millions of dollars) (1)*(2)*0.25	Import of goods and services 1985 (millions of dollars)	Coeff- icient (3) (4) (percent- age)
	(1)	(2)	(3)	(4)	(5)
Latin America and the Caribbean	335 446	72	6 043	77 677	7.8
Oil-exporting countries	140 136	79	2 774	33 516	8.3
Mexico	93 333	85	1 983	18 806	10.5
Venezuela	24 568	84	515	9 065	5.7
Peru	12 131	45	136	2 667	5.1
Ecuador	6 786	68	115	2 268	5.1
Bolivia	3 318	30	25	710	3.5
Non-oil- exporting countries	195 310	67	3 269	44 161	7.4
Brazil	92 276	75	1 730	16 939	10.3
Argentina	46 150	70	808	5 150	15.7
Chile	17 527	84	368	3 935	9.4
Colombia	11 404	60	171	5 416	3.2
Nicaragua	4 936	15	19	880	2.1
Uruguay	4 741	45	53	1 031	5.2
Costa Rica	3 623	50	45	1 261	3.6
Panama	3 553	25	22	3 147	0.7
Dominican Republic	2 450	25	15	1 286	1.2
Honduras	2 519	14	9	1 140	0.8
Guatemala	2 296	22	13	1 269	1.1
El Salvador	1 839	10	5	1 263	0.4
Paraguay	1 352	30	10	1 144	0.9
Haiti	644	5	1	400	0.2

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

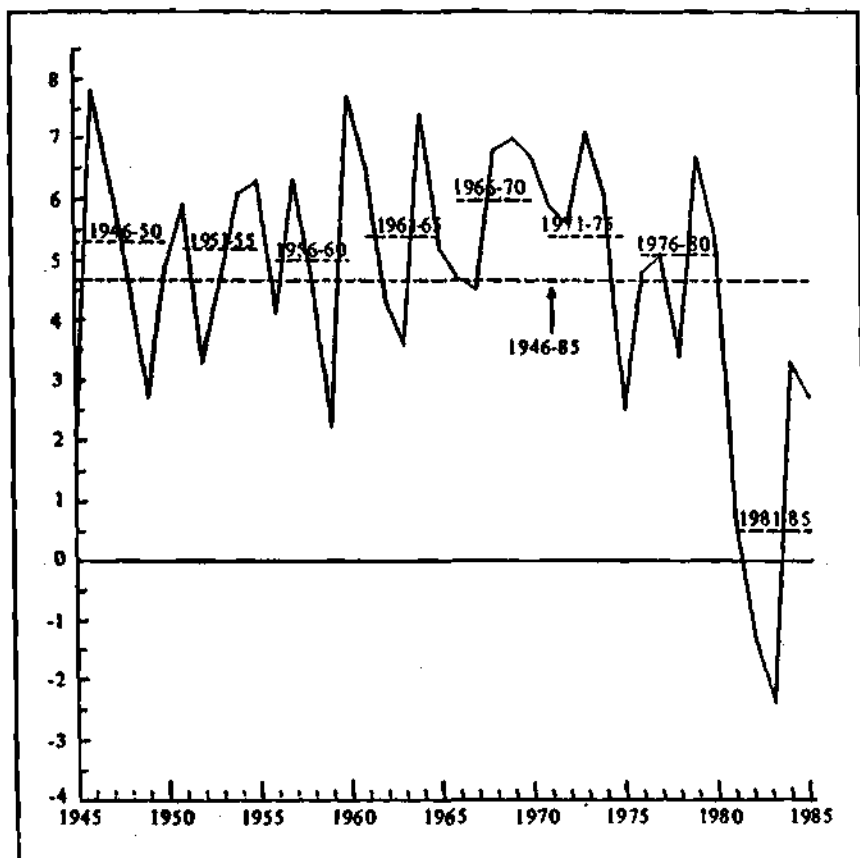
^aThe net external debt equals the total disbursed external debt less the gross international reserves (excluding gold).

^bThe LIBOR rate applicable in 1986 is 7.8% (average between 8.2% for second half of 1985 and 7.4% for 1986), whereas the corresponding rate for 1985 was 10.2%. There has thus been a drop of 2.4 percentage points.

FIGURES

Figure 1

LATIN AMERICA AND THE CARIBBEAN: ANNUAL GROWTH RATES OF THE GROSS DOMESTIC PRODUCT



Source: ECLAC, on the basis of official figures.

Figure 2
LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF AVERAGE REAL
WAGES IN SOME COUNTRIES
(Indexes: 1980 = 100)

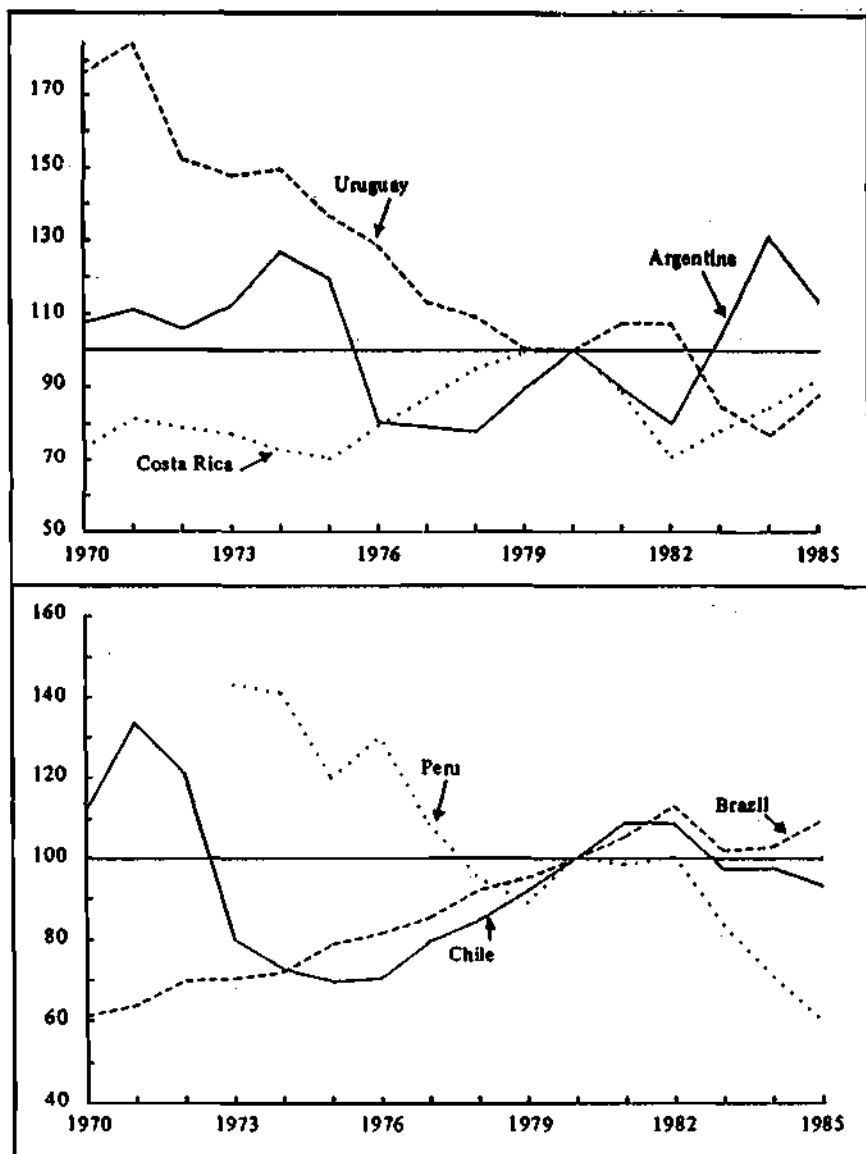
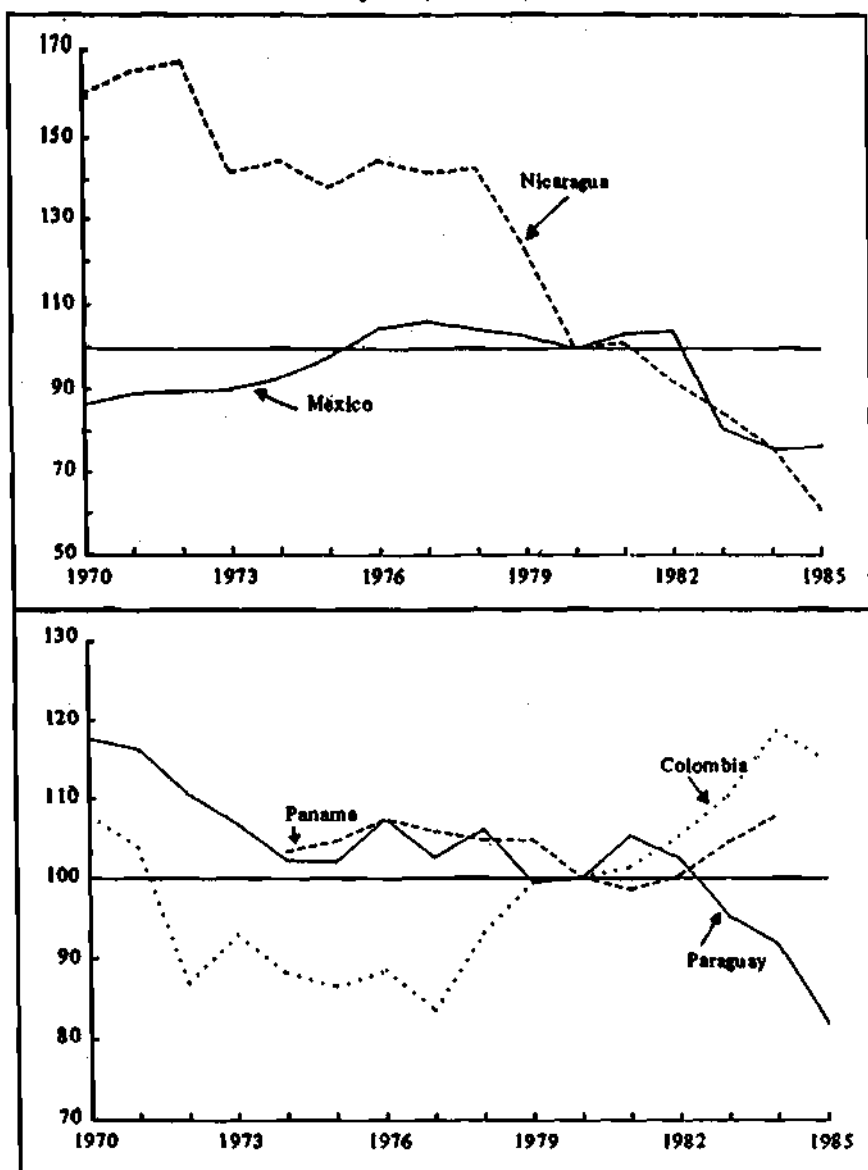


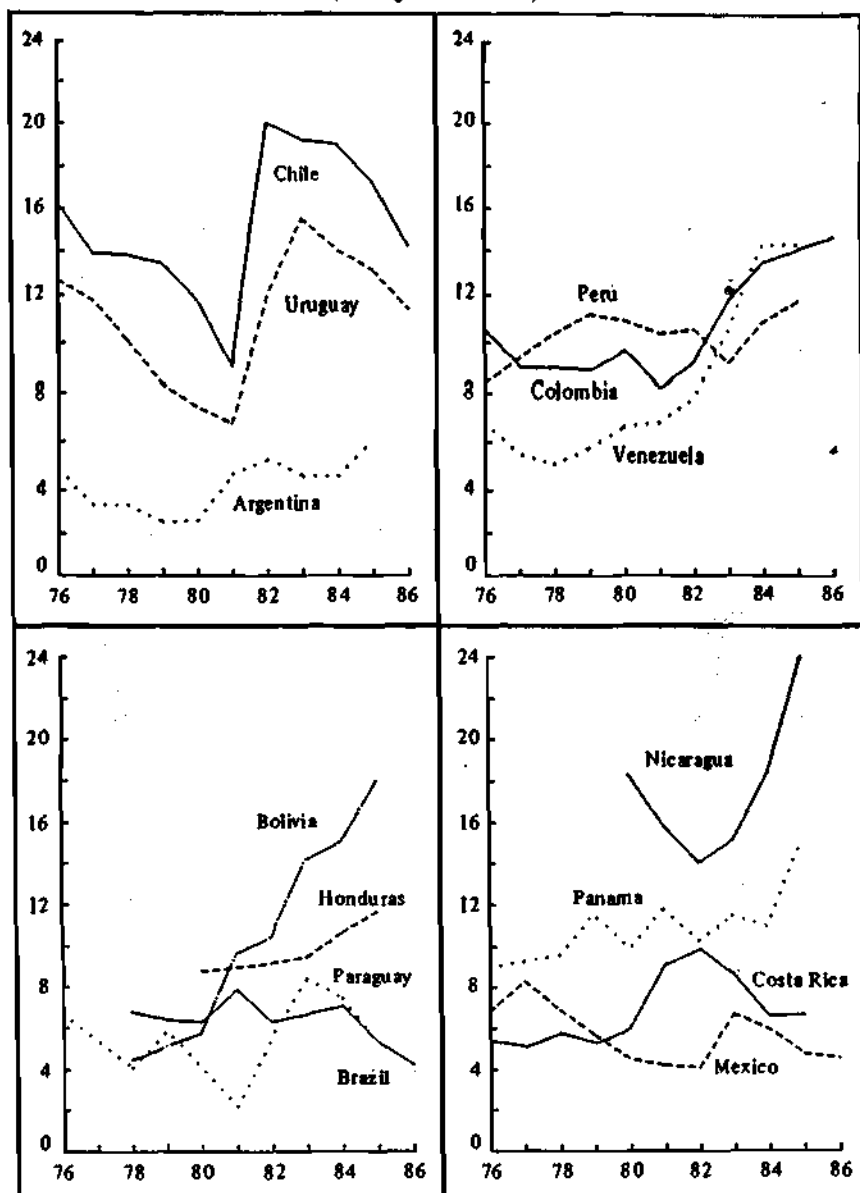
Figure 2 (concluded)



Source: ECLAC, on the basis of official figures.

Figure 3
LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF URBAN
UNEMPLOYMENT IN SOME COUNTRIES*

(Average annual rates)



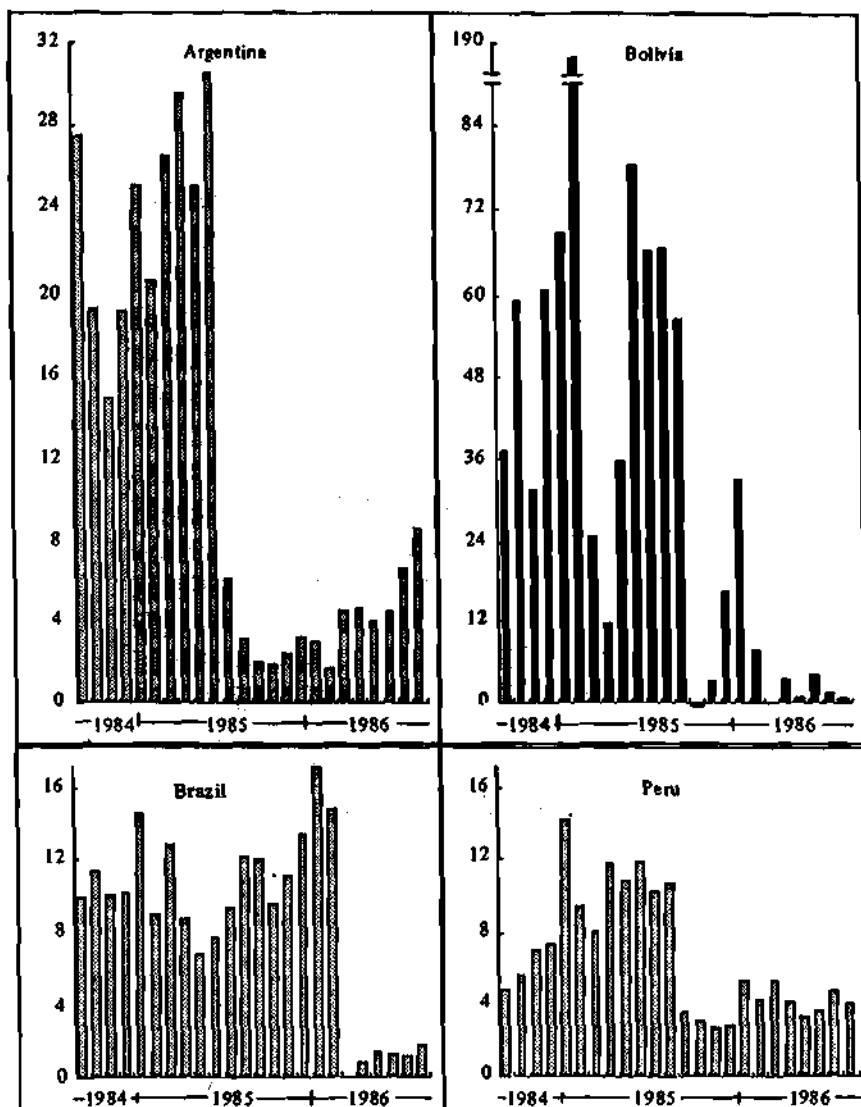
Source: ECLAC, on the basis of official figures.

*The data for 1986 correspond to the first half of the year.

Figure 4

LATIN AMERICA AND THE CARIBBEAN: MONTHLY VARIATIONS IN THE
CONSUMER PRICE INDEX IN SOME COUNTRIES

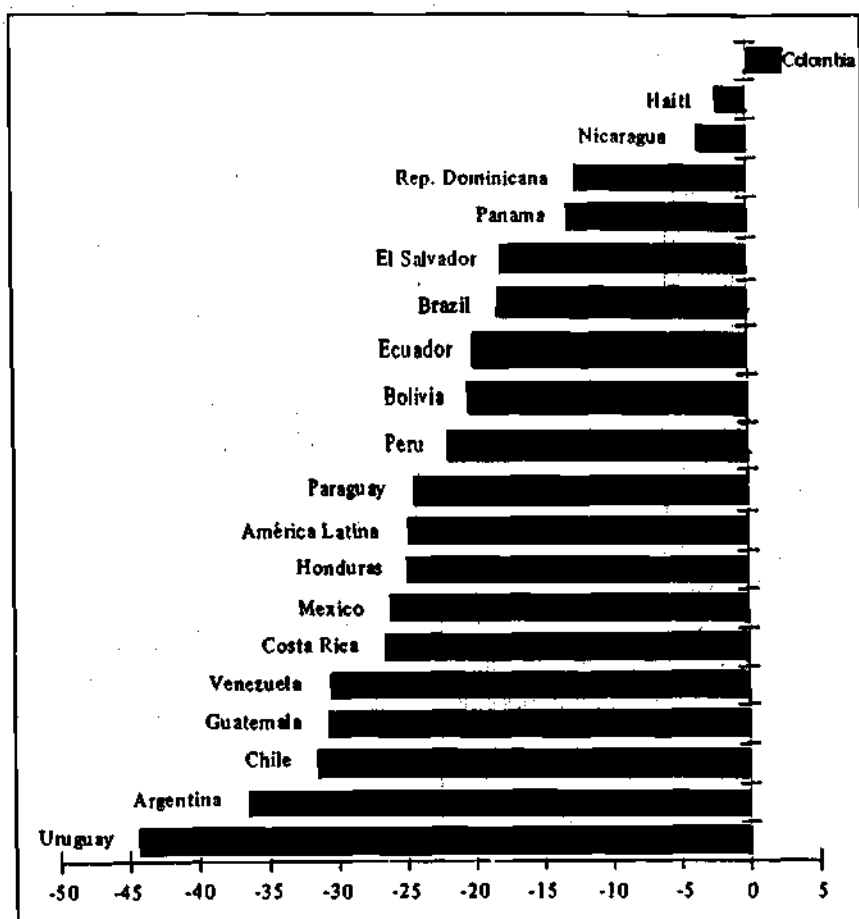
(Percentages)



Source: ECLAC, on the basis of official figures.

Figure 5
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC FIXED
CAPITAL FORMATION

(Average percentage variation 1982-1985/average 1980-1981)

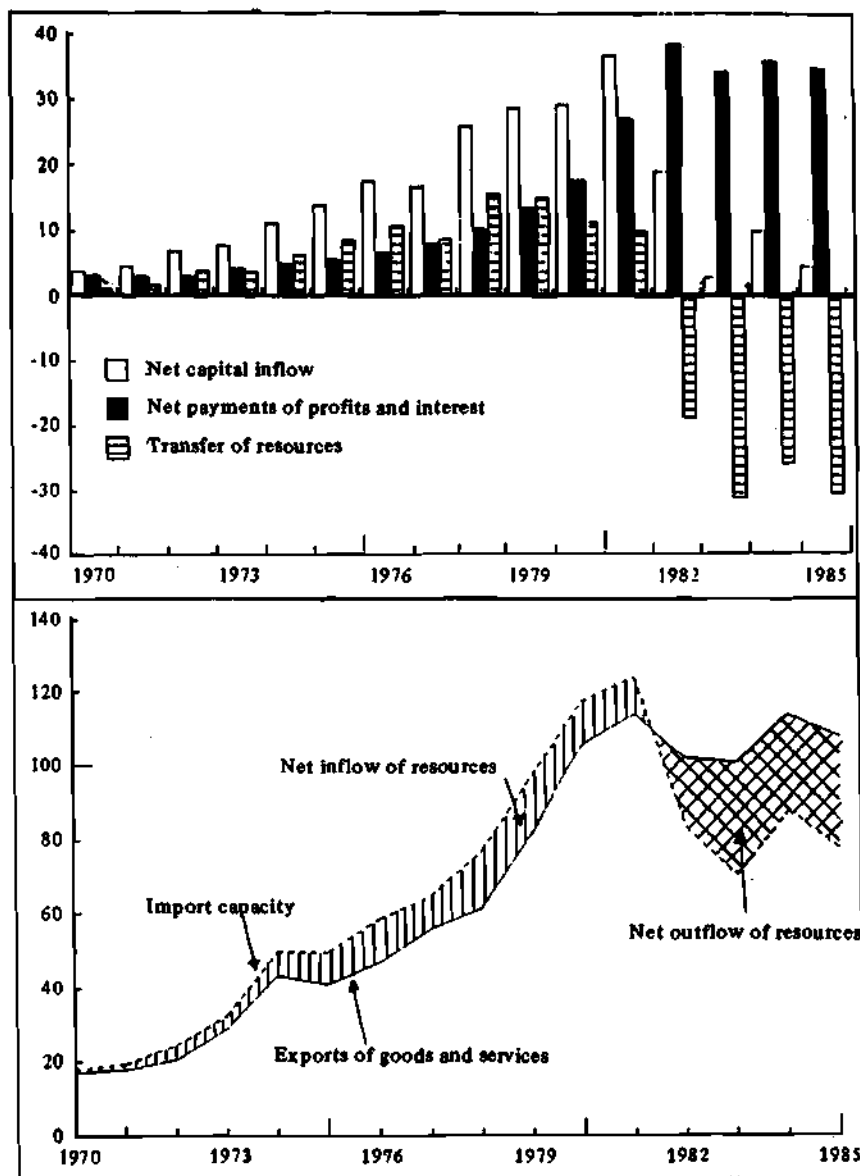


Source: ECLAC, on the basis of official figures.

Figure 6

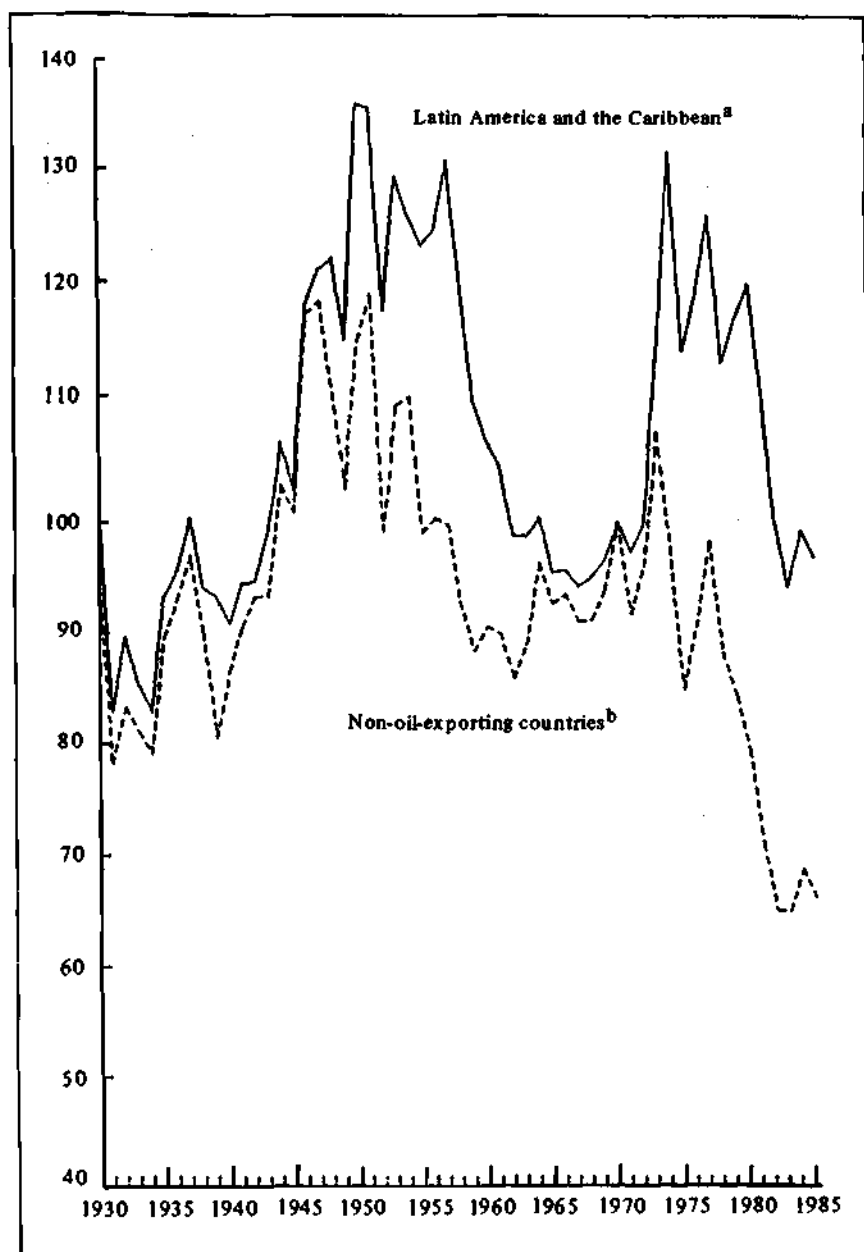
LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INFLOW AND TRANSFER OF RESOURCES

(Billions of dollars)



Source: ECLAC, on the basis of data supplied by the International Monetary Fund and official figures.

Figure 7
LATIN AMERICA: TERMS OF TRADE
(Indexes: 1970 = 100)



Source: 1930-1949: ECLAC, "América Latina: Relación de precios de intercambio", Santiago, 1976.

1950-1985: ECLAC, on the basis of official figures.

^aComprises 19 countries.

^bExcludes Ecuador, Mexico and Venezuela.



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