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# Macroeconomic *policies* for growth

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This article analyses the interrelation between the macroeconomic framework and growth. After reviewing the recent macroeconomic environment, highlighting progress and shortcomings, it focuses on the implications of the existence of gaps between production capacity and its degree of utilization or effective demand; the way in which persistent disparities in this respect affect the speed of expansion of the production frontier is illustrated by examples from the 1980s and 1990s. It then reviews economic policies that affect the degree of proximity between the production frontier and effective demand, with particular reference to the cases of anti-inflationary policies and external shocks. The article concludes with some considerations and recommendations on the quality of macroeconomic policy and "right" macroeconomic prices, especially exchange rate and interest rates, and emphasizes the need for effective measures to ensure that capital inflows enlarge productive investment.

# I

## Introduction

Macroeconomic balances are not objectives to be pursued for their own sake, but they are crucial for achieving more dynamic development with equity. This is why it is so important to see how these balances are obtained, how sustainable and comprehensive they are, and how compatible they are with macro-social balances.

Several Latin American countries have suffered from hyperinflation: a phenomenon which tends to occupy such a dominant place that anti-inflationary policy often becomes the leading and absolute objective of the economic programme applied. This article, however, goes beyond this situation or other catastrophic events, since what interests us in particular is the interrelation between macroeconomics and growth.

From the productive point of view, efficient macroeconomic policies must help to: i) raise the level of utilization of production capacity, labour and capital in a sustainable manner; ii) stimulate gross capital formation, and iii) increase productivity by furthering improvements in factor quality and in the

efficiency of factor allocation. These are the three cardinal elements that determine the economic growth rate. Latin American and Caribbean countries have had a poor record in this respect in recent times.

Reconciling the levels of aggregate demand and supply, attaining a suitable mix between tradables and non-tradables, and achieving appropriate macroeconomic relative prices such as interest rates and exchange rates are key variables for attaining macroeconomic policy objectives.

If these policies are to make the most effective contribution to development, it is necessary to take a comprehensive overall view in the economic dimension, which systematically takes account of their effects on productive development, which reconciles the macroeconomic and macrosocial balances in a similarly integrated manner, and which gives rise to trends which are sustainable in time. Capital formation and the effective productivity of that capital are vitally dependent on the quality of those balances.

# II

## The recent macroeconomic environment

### 1. The achievements

Latin American countries have significantly improved their macroeconomic policies, having managed to correct a number of imbalances which caused most distortions in the 1980s.

By late 1994, hyperinflation had disappeared, and many countries of the region were registering single-digit rates of inflation, with more balanced budgets and greater fiscal savings (ECLAC, 1995b, table A.6). Expansions of the money supply to finance public expenditure had become weaker or

simply disappeared. Export volumes were rising fast (average export growth in the region in the period 1990-1994 was over 7%), and many countries were building up significant international reserves (equivalent to 6.5% of the regional GDP in the three-year period 1991-1993).

Likewise, there was increasingly general recognition of the importance of achieving macroeconomic balances. However, three types of problems were arising. First, certain balances had been obtained at the expense of imbalances in some other macroeconomic variables (such as the level of utilization of installed capacity) or in mesoeconomic aspects (neglect of areas important for competitiveness and equity, such as investment in infrastructure and teachers' wages). Second, a policy which is appropriate

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in certain circumstances may cease to be appropriate as the situation changes, so macroeconomic policies must adapt to such changes in a gradual and timely manner. Third, despite the massive popular support generated by the solution of cases of hyperinflation and economic anarchy, failure to achieve an appropriate balance between the various objectives of society may cause broad sectors of the population to feel great dissatisfaction with the public policies being applied and their results in terms of income distribution and participation. In our view, this dissatisfaction is partly connected with shortcomings on the first two fronts.

## 2. Persistent or emerging imbalances

In the 1980s, currency devaluations helped fuel inflation. In the 1990s, in contrast, the success achieved in reducing inflation was partly due, in a number of cases, to exchange rate appreciation: in fact, the vast majority of the countries revalued their currencies in real terms between 1990 and 1994, by a weighted average of 24%. Renewed access to external finance made possible or actually encouraged successive real revaluations, which acted as an anchor for the domestic prices of tradable goods (table 1). At the same time, in the early 1990s many countries registered high rates of under-utilization of their productive capacity, and this, in conjunction with the renewed access to external finance and currency revaluations, helped a number of countries to increase their rates of resource use while at the same time reducing inflation.

The first revaluations started from very depreciated exchange rate levels resulting from the widespread external debt crisis of the 1980s. As time went by, however, very significant levels of exchange rate appreciation were built up, which, while they consistently helped to slow down inflation, also gave rise to growing current account deficits in the 1990s (table 2). Indeed, exchange rate appreciation contributed to the rise in the overall current account deficit of 18 countries of the region from an average of US\$ 9 billion in the period 1983-1990 to US\$ 53 billion in 1994. Together with trade liberalization (ECLAC, 1995a, chapter V), this caused the recovery in aggregate demand, both of individuals and of firms, to be increasingly concentrated in imported goods. Thus, for example, between 1990 and 1994 the regional GDP grew by 15%, whereas imports of goods and services rose by 69%.

TABLE 1

**Argentina and Mexico: Evolution of relative prices<sup>a</sup>**  
(1986=100)

	Argentina		Mexico
	Wholesale/ retail	Industry/ private services	Tradable goods/ non-tradable goods
1980	87.1	90.2	67.7
1981	83.3	90.5	66.4
1982	116.9	139.4	69.9
1983	126.1	143.6	81.5
1984	119.0	131.7	89.8
1985	114.6	120.0	90.1
1986	100.0	100.0	100.0
1987	94.9	99.7	116.5
1988	109.6	126.7	95.4
1989	124.3	155.1	73.2
1990	94.6	85.9	58.6
1991	67.6	61.0	55.8
1992	58.0	47.4	52.7
1993	52.5	37.0	50.3
1994	53.7	34.2	...

Source: For Argentina: prepared on the basis of data from the Central Bank of Argentina, the National Institute of Statistics and Censuses (INDEC), and Situación Latinoamericana (1996). For Mexico: prepared on the basis of data from the Ministry of Finance and Public Credit of Mexico.

<sup>a</sup> Quotients of price indexes.

Indeed, real imports expanded on average by 15% per year between 1990 and 1994, whereas exports grew by only 7% annually. Imports thus went from a low level kept down by recession to an excessively high level, particularly in the case of consumer goods.

In the countries which went furthest in terms of appreciation, with bigger and faster-growing external deficits caused or maintained by financial flows, price stabilization processes tended to be more rapid. They also became more vulnerable, however, as the gap between domestic spending and production grew wider and external liabilities grew apace. As was to be expected, external creditors became increasingly sensitive to political and economic "bad news".

Thus, some countries suffered traumatic setbacks in the fight against inflation (Mexico, for example) or sank into recessions (Mexico, once again, and Argentina). When timely corrections were made, however, the necessary adjustments could be carried out without major upsets (as in Brazil in 1995, to some extent).

TABLE 2

## Latin America (19 countries): External deficit, investment and exchange rates

Countries	Current account deficit (Millions of dollars of each year)					
	1983-1990	1991	1992	1993	1994	1995
Argentina	1 413	647	6 546	7 031	9 311	2 277
Brazil	1 554	1 443	(6 140)	592	1 689	17 784
Chile	1 101	287	1 065	2 421	1 045	270
Colombia	668	(2 363)	(925)	2 130	3 033	4 055
Mexico	592	14 995	24 919	23 496	29 514	736
Peru	932	1 649	2 143	2 092	2 605	4 197
Latin America	7 956	18 801	36 915	45 656	50 730	33 314
Latin America less Venezuela	9 653	20 670	20 670	43 663	53 180	34 864

  

Gross fixed capital formation (% of GDP at 1980 prices)						
Argentina	16.5	15.4	18.6	19.9	22.0	19.4
Brazil	16.5	14.2	13.2	13.7	14.6	15.7
Chile	15.3	17.2	19.6	21.7	21.6	22.3
Colombia	15.7	12.6	13.7	17.7	19.1	21.1
Mexico	17.1	19.6	21.1	20.7	21.7	16.3
Peru	17.6	17.3	18.0	18.8	22.4	...
Latin America <sup>a</sup>	16.8	16.3	17.4	18.0	18.6	17.5

  

Real exchange rate indexes <sup>b</sup> (1987-1990 = 100)						
	1983-1986	1991	1992	1993	1994	1995
Argentina	78.5	67.3	62.6	60.1	63.3	70.3
Brazil	117.2	93.2	100.5	90.8	73.1	55.5
Chile	68.8	100.1	96.6	97.9	97.8	93.6
Colombia	65.1	112.1	99.3	96.6	83.0	83.1
Mexico	96.0	81.3	74.8	71.2	73.1	108.0
Peru	136.4	54.0	53.2	54.8	55.7	56.3
Latin America <sup>a</sup>	97.4	87.1	86.0	81.1	74.8	76.4
Latin America (simple average)	85.8	96.4	95.0	93.7	92.1	94.7

<sup>a</sup> The average real exchange rate for Latin America was calculated on the basis of the relative shares of the various countries' GDP in the regional total (excluding Panama). The 1995 figures exclude Haiti and Nicaragua as well as Panama.

<sup>b</sup> Corresponds to the annual average of the real exchange rate indexes (main official rates) of each country's currency in relation to the currencies of its main trading partners, weighted by the relative importance of its exports to those countries. The weightings correspond to the average for 1989-1992. The indexes, built on consumer prices indexes, were obtained from ECLAC, Economic Survey of Latin America and the Caribbean.

During the emergency situations caused by the debt crisis, in many countries there were generalized cuts in public spending. There were cuts not only in redundant and bureaucratic expenses, but also in areas where spending was already insufficient, thus slashing expenditure which was essential for changing production patterns with social equity. In such areas as infrastructure, education and labour training, investment—whether public or private—is often far below the levels appropriate for economies undergoing major processes of reform and change.

Maintaining excessive cuts in expenditure on these essential items for many years undermines efforts to improve factor quality and impedes the full utilization of installed capacity, thus lowering the efficiency of the changes in production which are under way in the region. Thus, economies operate with less dynamic production frontiers and in positions markedly below those frontiers. That is, their production capacity is under-utilized and tends to grow more slowly because of the lower level of investment, with consequent negative impacts on effective productivity, employment and profitability.

### 3. Recent economic trends and necessary adjustments in macroeconomic policies

The revival of capital inflows to the region at the beginning of the 1990s provided the finance needed to take fuller advantage of the available productive capacity of each country and freed governments from the pressures of the frequent debt negotiations, which distracted attention from the task of solving more basic, structural problems. At the same time, however, it raised the challenge of ensuring the sustainability of macroeconomic balances.

Net capital inflows recovered from 1990 on, reaching an annual average of some US\$ 62 billion in 1992-1994, mainly from private sources. For the region as a whole, the renewed inflow of capital had positive Keynesian-type effects: it eliminated the binding external constraints which had prevailed before, making possible higher use of productive capacity and thus leading to a recovery in output, income and employment (and even investment, as noted later in this article). The elimination of external constraints between 1990 and 1994 aided the resumption of economic growth, which rate increased from 1.6% per year in 1983-1990 to 3.6% in 1991-1994 (table 3, line 15).

The increased availability of external savings made it possible to finance the bigger imports associated with an increase in aggregate demand and in the utilization of existing productive capacity. The expansionary effect was felt over most of the region, but was particularly marked in countries such as Argentina, Chile, Peru and Venezuela. There were some exceptions, however. Thus, although Mexico received a particularly large inflow of private capital, it did not register a substantial recovery in growth during the period in question. Towards the end of the 1980s, that country was operating close to its production frontier; investment in 1990 and 1994 was only moderate, and the exchange-rate lag led to some degree of under-utilization of its productive capacity in the tradable sector, so that this sector was able to react promptly to the 1995 recession with maxi-devaluation.

The degree in which the inflow of external funds is reflected in GDP growth is strongly determined by i) the initial gap between effective GDP and the production frontier; ii) the nature of the domestic economic policies implemented, especially the macroeconomic ones; iii) the expectations of the economic

agents; iv) political events; and v) external factors such as the behaviour of the terms of trade.

The speed with which the capital inflows eliminated external constraints and generated a surplus of funds led to a trend towards exchange rate appreciation, rapid reduction of trade surpluses and an increase in the current account deficit (ECLAC, 1995a, chapter XI); domestic spending rose more than domestic output and national income, and from 1992 onwards a trade deficit was registered at current prices, the first such deficit in the region since 1981. Initially, these trends reflected the return to "normal" levels of aggregate demand, imports and the real exchange rate, all of which had been depressed by external constraints during the previous period. However, the continued abundance of inflows prolonged these trends in time and tended to generate unsustainable imbalances, since national savings were displaced by external savings, as reflected in the fact that the growth of total investment was less than that of external savings (table 3, lines 3 and 12).

Thus, it was only in 1992 that the investment ratio rose above the average for the period 1983-1990. It must be added that only in some countries of the region, which have received large capital inflows (Chile, for example), have such inflows been accompanied by any significant increase in the investment ratio. Even so, if the period 1983-1990 is compared with 1993-1994, it may be noted that while the external savings used (net capital inflows less accumulation of reserves) rose by more than three percentage points of GDP, the investment ratio grew by less than two points.<sup>1</sup> The remainder was used for consumption and to make up for the deterioration in the terms of trade, together with a decline in the domestic savings coefficient (table 3, lines 11 and 14). This "imbalance" was very marked in cases like Argentina and Mexico.

In a process of this kind, it is not surprising that domestic savings are adversely affected, as indeed happened, especially in the countries with the biggest revaluations, such as Argentina and Mexico.

<sup>1</sup> These figures are expressed in 1980 dollars. In the new national accounts series prepared by ECLAC in 1990 dollars, the investment coefficients of most of the countries of the region are higher, although the shapes of the curves are similar. Consequently, their investment rates in both the 1980s and the 1990s continue to be well below those of the 1970s.

TABLE 3

**Latin America (19 countries): Macroeconomic indicators**  
(In billions of dollars and as percentages of GDP)

	Billions of 1980 dollars								Percentages of GDP							
	1976-1981	1983-1990	1991-1992	1993-1994	1991	1992	1993	1994	1976-1981	1983-1990	1991-1992	1993-1994	1991	1992	1993	1994
1. Net capital inflows	32.7	9.0	41.6	45.9	31.8	51.4	56.4	35.4	4.9	1.2	4.8	4.9	3.7	5.8	6.2	3.7
2. Changes in reserves	6.6	1.3	19.4	7.8	16.2	22.5	18.6	-3.0	1.0	0.2	2.2	0.8	1.9	2.6	2.0	-0.3
3. External savings (1-2)	26.1	7.7	22.2	38.1	15.6	28.9	37.8	38.4	3.9	1.0	2.6	4.1	1.8	3.3	4.1	4.0
4. Terms-of-trade effect <sup>a</sup>	5.5	30.0	48.0	54.2	46.9	49.1	54.3	54.0	0.8	3.8	5.5	5.8	5.5	5.6	6.0	5.7
5. Trade deficit	4.3	-53.7	-46.8	-38.1	-53.4	-40.1	-39.4	-36.8	0.6	-6.9	-5.4	-4.1	-6.2	-4.5	-4.3	-3.9
6. Factor services	16.9	34.6	28.1	29.3	28.7	27.6	29.4	29.2	2.5	4.4	3.2	3.1	3.4	3.1	3.2	3.1
7. Unrequited transfers <sup>b</sup>	0.6	3.2	7.1	7.3	6.6	7.7	6.5	8.2	0.1	0.4	0.8	0.8	0.8	0.9	0.7	0.9
8. Current account deficit (4+5+6+7) = 3	26.1	7.7	22.2	38.1	15.6	28.9	37.8	38.4	3.9	1.0	2.6	4.1	1.8	3.3	4.1	4.0
9. GDP	671.3	782.6	869.1	931.8	855.9	882.2	911.0	952.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10. GNY (Y = 9-4-6+7) <sup>c</sup>	649.5	721.2	800.1	855.6	786.9	813.2	833.8	877.4	96.8	92.2	92.1	91.8	91.9	92.2	91.5	92.1
11. Consumption	514.4	598.5	673.1	721.5	662.0	684.4	706.4	736.9	76.6	76.5	77.4	77.4	77.3	77.6	77.5	77.4
12. Investment	161.2	130.4	149.2	172.2	140.5	157.7	165.2	178.7	24.0	16.7	17.2	18.5	16.4	17.9	18.1	18.8
13. Excess expenditure over GDP (11+12+10) = 5	4.3	-53.7	-46.8	-38.1	-53.4	-40.1	-39.4	-36.8	0.6	-6.9	-4.5	-4.1	-6.2	-4.5	-4.3	-3.9
14. Excess expenditure over GNY (11+12+10) = 3	26.1	7.7	22.2	38.1	15.6	28.9	37.8	38.4	3.9	1.0	2.6	4.1	1.8	3.3	4.1	4.0
15. Growth rate of GDP (%)	4.6	1.6	3.3	3.9	3.6	3.0	3.3	4.5								
16. Growth rate of exports of goods and % of GDP	4.2 <sup>d</sup>	5.5	6.3	7.4	5.2	7.4	6.5	8.3	12.2	15.9	18.6	20.0	18.2	19.0	19.6	20.3
17. Growth rate of imports of goods and % of GDP	5.1 <sup>d</sup>	2.3	18.8	10.8	17.4	20.4	9.2	12.4	11.8	9.6	13.6	16.0	12.5	14.6	15.4	16.6

Source: ECLAC, on the basis of balance of payments and national accounts figures of 19 countries.

<sup>a</sup> Resources needed to cover the losses resulting from the increase in the prices of imported goods over the prices of the goods exported by the region, at 1980 prices.

<sup>b</sup> Corresponds to private inflows in the form of donations and other not official operations registered.

<sup>c</sup> GNY = Gross National Income.

<sup>d</sup> Corresponds to annual growth rates between 1981 and the averages for 1973-1975.



In these countries, foreign savings tended to crowd out domestic savings, strongly stimulating expenditure, especially on imported consumer goods, whose prices had fallen due to exchange rate appreciation and trade liberalization. As is very well known, the tariff and non-tariff liberalization measures were much more marked in the case of consumer goods, which had previously been heavily protected.

This excess of expenditure over domestic production or income was concentrated in the private sector, since the public sectors of many countries registered a marked improvement in this respect, with fiscal balances making big progress between 1983-1990 and 1991-1994 (Held and Uthoff, 1995). In contrast, private sector surpluses went down or deficits widened still further. A sample of eight countries shows that the public deficit went down from 4.2% to 2.2% of GDP, whereas the private sector surplus went down from 1.2% of GDP to a level close to zero (-0.1%).

Various policy options were available for tackling this situation (ECLAC, 1995a, chapter XI; Devlin, Ffrench-Davis and Griffith-Jones, 1995). However, most countries opted for permissive policies towards the heavy inflow of foreign capital.<sup>2</sup> This tended to generate unsustainable imbalances, since there was excessive exchange rate appreciation while the external deficits grew too fast: furthermore, the stock of short-term foreign liabilities also rose very sharply. It should be noted that these variables should be regulated so as to reflect medium-term equilibrium conditions on the domestic goods and monetary markets, as well as the sustainable supply of foreign savings.

In the period of reactivation between 1990 and 1994, which was mainly propelled by the disappearance of external constraints, macroeconomic policy management faced fewer demands than when the economy is already at its production frontier. In fact, a passive policy can give positive net results in such a situation. The inflow of foreign capital increases domestic spending capacity: directly in dollarized economies, through the monetization of such inflows in economies with a dollar standard or "currency

board" system, or through exchange rate appreciations. Aggregate demand for domestic and imported goods expands in a context of improved expectations fuelled by access to foreign funds. The supply of domestic goods and services can respond to the greater demand thanks to the available installed capacity, while the resulting increased imports are covered by the inflow of capital.

When the reactivation is completed and the production frontier is reached, any additional aggregate demand will require fresh productive capacity to satisfy it, and hence additional investment to cover this. Consequently, even in order to sustain the modest growth rates registered by Latin America in the first half of the 1990s (3.6% in 1991-1994) higher levels of investment are required,<sup>3</sup> while in order to return to the average growth rate of 5.5% attained by the region between 1950 and 1980 several tens of billions of dollars of extra investment would be required every year, in addition to the rather more than US\$ 300 billion gross domestic capital formation recorded in 1994. It may be noted that the growing flow of foreign direct investment to the region only came to some US\$ 17 billion per year in 1993-1994 (approximately a quarter of the total net capital inflow), which highlights the magnitude of the challenge of increasing capital formation in Latin America.

The other noteworthy point is that when the production frontier is reached, more active policies are needed to regulate aggregate demand. Thus, it is essential to keep the rate of expansion of demand in line with the growth of productive capacity (and also sustainable external finance). Otherwise, if passive macroeconomic policies are adopted in situations of positive shocks of external origin (lower interest rates, improved terms of trade or increased availability of capital) or of a domestic nature (a boom in the construction sector or in the demand for durable goods or, in some countries, stocks and bonds), then the economy will be subject to inflationary pressures and/or a growing gap between expenditure and output; in all events, a need will be generated for a future adjustment in the opposite direction.

<sup>2</sup> See Calvo, Lederman and Reinhart (1995) regarding the origin of the increased supply of funds to Latin America. Ffrench-Davis and Griffith-Jones (eds.) (1995) present an analysis by the main source markets: the United States, Europe and Japan.

<sup>3</sup> After the big declines in GDP in Argentina and Mexico in 1995 and the first quarter of 1996, the gap between utilization and capacity grew wider, so that a bigger increase in the effective GDP is feasible in the near future, feasible until the margin of under-utilization is exhausted.

The region should be able to leave the years of generalized recession behind. Consequently, as the production frontier is neared, there will be a greater need for more active and efficient macroeconomic policies. Indeed, this was the situation in 1994 and 1995 in a growing number of countries, although not many of them took prompt steps to adapt their policies to the new conditions.

The effects on productivity and volume of investment mean that less social well-being and less productive employment (and/or lower wages) will be generated. From a historical standpoint, this is similar to the contrast, in the industrialized world, for example, between the automatic adjustments of the nineteenth century and the 1920s, on

the one hand, and the adjustments of the period 1950-1980, on the other. In this latter period, the rate of utilization of installed capacity (or proximity to the production frontier) was much greater, as also was the investment ratio (Ffrench-Davis, Muñoz and Palma, 1994). As a result, the growth of per capita GDP in 1950-1980 was two or three times higher than in the other periods (and there was also a markedly greater increase in social well-being).

In the new circumstances of the region, it is necessary to further improve the capacity to implement macroeconomic policy in order to reconcile the proximity of the economy to the production frontier with sustainability and with price stability.

### III

## Operating on the production frontier

The magnitude of the gap between effective demand and production capacity has important static and dynamic effects.

Greater utilization of installed capacity increases the effective or *ex post* productivity of the resources available. The rate of utilization is closely linked to macroeconomic variables: "right" prices of foreign currency (the exchange rate) and of capital (interest rates), and predictability of aggregate and effective demand. This raises the profitability of capital and/or labour income.

In the dynamic dimension, higher rates of utilization and the consequent increase in effective productivity tend to stimulate investment in new capacity (Servén and Solimano, 1993b; Schmidt-Hebbel, Servén and Solimano, 1996). For the supply of investment to expand effectively, investors must perceive a real improvement in the short term and foresee that this improvement will be sustainable in the future. The dynamic effect will be all the more significant if solid expectations are generated among the economic actors that public policies will be applied that will keep effective demand close to the production frontier.

#### 1. Analytical effects of a higher rate of utilization of installed capacity

Keeping aggregate demand and supply in line with each other and maintaining a suitable mix between

tradables and non-tradables –both of which are associated with macroeconomic relative prices, such as interest rates and the exchange rate, and the predictability of effective demand– are variables which decisively affect success or failure in achieving macroeconomic policy objectives.

One of the most fundamental macroeconomic balances relate to the rate of utilization of productive capacity. In economies with inflexible price systems, rigidities and incomplete factor markets, both positive and negative shocks provoke successive adjustments. The results are greater disparity between supply and aggregate demand, with a consequent gap between potential productive capacity and the use made of it, as well as a tendency towards negative effects on equity, since the low-income sectors, with less human capital, and small and medium-sized enterprises have less capacity to react to continuous unpredictable changes: they progress more slowly in boom times and have less chance to convert to other activities at times of recession. Instability is a significant source of inequity, and it rewards speculation at the expense of productive activities.

Unstable demand, in a stop-and-go setting, inevitably means less average net use of productive capacity and an average level of effective productivity below that of a situation of stable proximity to the productive frontier. All these variables affect the

quality of project evaluation and the *ex post* productivity and profitability of the projects implemented.

Higher rates of capital utilization mean that the average level of employment is higher and that the labour force combines with a larger stock of physical capital in use. The distribution of the fruits of higher productivity between labour and capital depends on various elements. However, higher effective productivity does mean that the potential well-being of both labour and rentiers can improve at present, and that its future growth can be enhanced.

As private investment is also presumably directly correlated with expectations of the dynamic stability of aggregate demand and macroeconomic prices, its proximity to sustainable equilibrium levels should increase productive capacity and facilitate entry into a virtuous circle that could lead to systemic competitiveness.

## 2. Performance in the 1980s and 1990s

In the 1980s, the region faced a severe crisis caused by the heavy indebtedness built up in the 1970s and the deterioration of the international trade and financial markets in which it operated. Together, these problems led to an acute shortage of foreign exchange which gave rise to an intense recession in the Latin American economies. The rate of utilization of the available productive resources also went down markedly.

At the same time, investment was discouraged by the shortage of external finance, the recessionary climate on external markets and the domestic adjustment policies adopted (based mainly on the restriction of aggregate demand and weak switching policies). As a result, capital formation went down all over the region in the 1980s (table 3).

The setbacks in production in Latin America meant that installed capacity was under-utilized. Labour, land and industrial plants were used on a smaller scale. The adjustment which took place in the main macroeconomic variables may be quantified by using as a base the two-year period 1980-1981, which marked the peak of per capita production, use of installed capacity and investment in most of the countries of the region.

The average for the subsequent recessionary period, 1983-1990, reflects the disappearance of the vigorous growth which had been exhibited (with a few exceptions) by Latin America and the systematic

decline in investment (table 3). At the domestic level, there was a sharp decline in economic activity. It had been estimated that the gross investment registered during the adjustment period would make it possible to keep the level of per capita production more or less constant, but in 1983-1990 average effective production was 6% below that of 1980-1981. This output reduction effect, equivalent on average to some US\$ 40 billion per year at the then current prices, was the result of policies that restricted demand excessively and weak switching policies. This confirms the importance of price inflexibility, factor immobility, incomplete markets and flaws in information during adjustment processes in the real economy.

In an "ideal" adjustment process, in a perfectly flexible and well-informed economy, excess aggregate demand is eliminated without any drop in production (or, more exactly, in the growth rate). In an economy where there is under-utilization of the capacity in the tradable sector, an adjustment with a balanced dose of production and expenditure-switching policies can raise output. Finally, in the typical context of an economy with inflexible prices and imperfect factor mobility, the implementation of neutral demand-reducing policies can lead to a significant drop in production, because such policies reduce demand for both tradables and non-tradables, thus giving rise to unemployment in the latter sector.

In the real world, in adjustment processes intensive in demand reduction, there usually tends to be a drop in production which gives rise to a lower rate of utilization of installed capacity and depresses the rate of capital formation. The addition of switching policies which act on the composition of production and expenditure can cushion the reduction of economic activity. Reallocation policies are inherently selective, but they may be global –such as those affecting the exchange rate– or they may be more selective. The East Asian countries provide examples of very varied levels of success with selective policies, and also of notably effective adjustment processes (Amsden, 1993; Bradford, 1992; Reisen, 1993). A good combination of expenditure-reducing policies and switching policies should tend to make possible an outcome closer to a constant rate of utilization of potential GDP (Ffrench-Davis and Marfán, 1989; Ffrench-Davis, 1994).

Per capita consumption went down sharply in the 1980s, but the biggest impact was suffered by

capital formation. In this adjustment process, investment and imports of capital goods fell to levels substantially lower than those registered before the crisis. Per capita fixed capital formation went down by a third between 1980-1981 and 1983-1990, with consequent negative effects on the expansion of productive capacity and generation of employment.

Capital inflows dropped to a quarter of the level it had registered in the two-year base period, while payments of interests and profits rose by nearly 40%. The drop in net transfers of funds accounted for some 60% of the total reduction in resources compared with pre-crisis levels caused by external shocks in 1983-1990 (8 points), reflecting the magnitude of the financial upsets and their prolonged effects. The remaining 40% was due to a marked deterioration in the terms of trade (Devlin and Ffrench-Davis, 1995).<sup>4</sup>

The combined effect of these external shocks meant that a given volume of domestic production translated into a lower level of domestic expenditure: per capita GDP went down by 6% between the two periods, while domestic expenditure dropped by 14 points and its investment component slumped by a third. These two figures also mark a notable break with the trends of the 1970s as regards the annual

increases in production (5.6%), consumption (6.1%) and investment (7.3%).

In brief, both the recessionary domestic context and the marked uncertainty and restrictions which hindered public and private management and investment capacity, contributed to the lower demand for investment funds. The repression of effective demand led to serious under-utilization of installed capacity, which naturally reinforced the decline in investment.

By the 1990s, however, thanks largely to the inflow of capital, aggregate demand recovered and gave rise to an increase in economic activity, while the gap between installed capacity and its utilization narrowed steadily. It may be estimated that approximately one-third of the increase in GDP was due to greater utilization of installed capacity, while newly-installed capacity tended to be fully used. This was particularly marked in countries like Argentina and Peru. Thus, there was a reversal of the generally negative situation of the previous decade.

The progressive movement towards the production frontier was one of the variables which stimulated the gradual recovery of the investment rate. Its effect was particularly marked in Chile, especially from 1993 onward.

## IV

### Economic policies which affect the degree of proximity to the production frontier

As has already been noted, one of the fundamental macroeconomic balances is the rate of utilization of productive capacity. During the 1980s, Latin America was far behind the international production frontier because of the prevailing external constraints, caused by the need to generate a net transfer of resource abroad. The way anti-inflationary programmes are approached can also significantly affect that macroeconomic balance. Anti-inflationary and

adjustment policies designed to face external shocks affect the macroeconomic context and the rate of utilization of available resources, and the latter, in turn, affects profitability and the rate of formation of new productive capacity (Schmidt-Hebbel, Servén and Solimano, 1996).

In contrast with more stable markets, cyclical markets tend to give rise to negative results in these variables, and traditional anti-inflationary and adjustment approaches usually give rise to procyclical behaviour (Ramos, 1991). The essential features of such approaches are: i) they use only one or a few variables to tackle each problem; ii) they are applied in an indiscriminately uniform manner (in all countries alike); iii) they are broad rather than selective; and iv) they are linear (they always advocate bigger

<sup>4</sup> The deterioration in the terms of trade was associated with the increase in the region's traditional exports to external markets, where demand registered only feeble growth (for a detailed analysis of this subject, see ECLAC, 1995a, chapter III). Since 1994 there has been a substantial, albeit only partial, recovery in export prices.

doses of the same medicine, regardless of the conditions being faced).

In the case of prolonged external shocks –such as the debt crisis– the automatic adjustment approach is characterized by the fact that it multiplies the effects of the external recession at the domestic level. In other words, the automatic adjustment adds a further drop in domestic production to the reduction in national income generated abroad by deterioration in the terms of trade and reduced access to real and financial markets; such an adjustment may well be very effective in narrowing the external gap, but it gives rise to serious macroeconomic inefficiencies because of the low rate of utilization of productive capacity and the lower rate of capital formation.

In order to avoid this destructive multiplication caused by the automatic adjustment, active monetary, credit, fiscal and trade policies are required, along with a specific productive development policy. Basically, the objective is to coordinate the development programme and short-term policies with the aim of modifying the structure of expenditure and production so as to keep up a higher rate of utilization of domestic productive capacity and strengthen rather than weaken capital formation.

In order to achieve these objectives, it is necessary to use direct and indirect public policies to regulate the overall level of aggregate demand and influence the structure of expenditure and production through selective instruments to reallocate resources and develop markets which are incomplete or non-existent (ECLAC, 1992 and 1995a, chapters VII and VIII).

### 1. Anti-inflationary policies

The policy mix used may involve the removal of hindrances to sustainable development, but it may also add to them. This latter phenomenon is not unusual, especially when priority is given to price stability for its own sake, or it is seen as the main ingredient for spontaneous economic growth. Approaches of this type, which seek “stabilization at any price”, may result in stabilization accompanied by stagnation, or short-lived stability followed by instability.

Conventional price stabilization policies are based on the deliberate restriction of overall demand (in the case of the Friedman-style closed-economy monetarist model) or on exchange-rate freezes and a passive monetary policy (linked to the availability of

international reserves, in the so-called monetary or “currency board” approach to the balance of payments). This latter approach is of course equivalent to the automatic adjustment of the gold standard, and its aim is to make the evolution of domestic aggregate demand on the external prices of tradable goods, or both, determine the domestic behaviour of prices. They can indeed do this, but only with significant lags and the loss of the ability to use exchange-rate policy as an active instrument for adjusting relative prices. Consequently, automatic adjustment processes usually result in significant rates of under-utilization of available resources.

In order for stabilization programmes to have lasting effects and to contribute to development (which they undoubtedly do very effectively when they are well designed), they must constantly take account of the hysteresis of the adjustment process: the way the basic components of growth (investment, training, technological innovation, etc.) evolve and are managed, and the way they affect the capacity and opportunities of the various sectors of society. Stabilization programmes can have progressive or regressive effects, depending on their characteristics.

#### a) *Single-anchor programmes*

Programmes based on a single variable for leading the stabilization process (single-anchor programmes) usually give rise to procyclical results: they are short-lived and generate little growth in productive capacity. The two most typical types of single-anchor programmes are those based on fixing the exchange rate or controlling the money supply alone.

Fixing the nominal exchange rate obviously helps to check inflation in the short term. In certain circumstances this approach may be irreplaceable as a means of regulating destabilizing or anarchic expectations. Although they can fulfill such a positive function, however, their stabilizing effect is noted most forcibly and rapidly on tradables, whereas the prices of non-tradeables react only sluggishly (table 1). The typical result of this is significant exchange-rate appreciation, as observed in Argentina and Chile in 1978-1981 and in Argentina and Mexico in 1991-1994. These countries succeeded in bringing down inflation, even to negative rates (this happened in Argentina in some months of 1995 and 1996 and in Chile in a few months of 1982), but at the cost of unsustainable distortions in the external sector.

For conjunctural or political reasons, the generation of such imbalances may sometimes be unavoidable. What is essential is to be aware of these effects and to seek an effective way out before the necessary corrective measures are overdue and traumatic.

Something similar occurs when a single anchor based on the money supply is used. Except in cases of incipient inflation and economies without any history of indexation, exclusive use of monetary restrictions as a means of reducing inflation usually leads to prolonged under-utilization of productive capacity, even when the initial level of utilization is already low.<sup>5</sup> This was partly what happened in Chile between 1974 and 1976, when a serious recession coincided with persistent high inflation. In such cases, the inertial inflation component, which is contained in aggregate supply, continues to push up price levels for some time, even though there is growing unemployment and under-utilization of domestic productive capacity (Fanelli and Frenkel, 1994); Ramos, 1991.

Relying exclusively, or too much, on a single monetary variable can lead to excessively high real interest rates. This favours the financial dimension at the expense of production and tends to place the economy behind the productive frontier. For both of these reasons, it discourages capital formation and the generation of productive employment.

#### *b) Multi-anchor programmes*

In order to achieve success—that is, sustainable stability with high rates of utilization, and growth with equity—it is necessary to coordinate a set of variables or prices: in this way, it is more feasible to avoid a situation where some important variables—public and private-sector wages, the exchange rate, the prices charged for public services, the money supply, interest rates, the fiscal balance and the expectations of those who set private-sector prices—lag behind or advance too quickly. Efforts to achieve a social agreement among the main economic actors,<sup>6</sup>

even though they may be of limited scope, may be important for reaching, through a coherent set of policies, more sustainable balances and higher effective productivity, associated with the possibility of operating closer to the production frontier.

Naturally, it is not necessary to coordinate all the important variables. Once a concerted and harmonious critical mass is achieved, the other variables will tend to follow its average evolution in due course. The essential thing is to break the inertial component. This is very difficult to achieve, however, with the use of a single anchor or something similar, where the variable or variables used for the purpose (exchange rate, public- or private-sector wages or effective demand) will tend to lag behind the equilibrating adjustments that may be required.

The coordinated use of a set of policies will help to reduce uncertainty among investors and avoid the appearance of prices which are significantly out of line: the so-called “outliers”.<sup>7</sup>

## **2. External shocks**

In economies with price rigidities, resource inflexibility and incomplete factor markets, both positive and negative external shocks give rise to adjustment problems. As a result, there are bigger disparities between aggregate supply and demand, and the gap between the production frontier and the actual utilization of installed capacity grows wider.

In spite of the diversification which has taken place in the region's trade, fluctuations in the terms of trade still play a significant role. As noted earlier, the deterioration in export prices suffered in the 1980s was equivalent to 40% of the total effect of the three negative shocks which affected Latin America in that decade.<sup>8</sup>

When passive economic policies are applied, positive shocks translate into an increase in income and, hence, in domestic expenditure. Economic activity can respond to this insofar as installed capacity is

<sup>5</sup> Even in such cases of “new” inflation it is possible that more instruments than mere control of the money supply may be needed in order to change expectations (for an analysis of the role played by nominal interest rates in Costa Rica in the early 1980s, see Castillo, 1986).

<sup>6</sup> As in Israel in 1985 (Bruno and Piterman, 1988), Mexico since 1987 and Chile since 1990 (with agreements on the readjustment of minimum wages and tax reforms).

<sup>7</sup> It may be noted that this proposal for the use of multiple anchors is consistent with, rather than contradictory to, the option of sequential structural reforms. In this respect, see for example Dewatripont and Roland, 1995.

<sup>8</sup> Fortunately for the region, the 1994-1995 negative financial shock coincided with a substantial positive shock in the terms of trade.

available. This is what happened in Chile between 1986 and 1989, after a spectacular improvement in copper prices. Once the production frontier has been reached, however, if the shock still persists it will cause demand pressures that give rise to higher domestic prices and/or an increase in the external deficit. As variations in external prices are largely transitory, however, if the economy accommodates to that abundance, the subsequent adjustments will be traumatic. The lesson learnt in their respective economies led Colombia and Chile to establish stabilization funds –for coffee and copper, respectively– which sterilize price rises considered to be transitory and make resources available later, when the commodity prices go down (Ffrench-Davis, Agosin and Uthoff, 1995). The aim is to reduce the destabilizing effects on aggregate demand caused by transitory shocks in the terms of trade.

Another source of external shocks are changes in international interest rates. These variations affect domestic rates to a certain extent and their effects are thus transmitted through relative prices to aggregate demand; they influence the volume of net capital inflows, affect national income –since a rise (fall) in external interest rates reduces (increases) the national income of a net debtor country–, and they affect the availability of foreign currency and hence the foreign exchange market.

Finally, a third source of external shocks, which has strongly influenced the macroeconomic instability of Latin America since the 1970s, are sharp fluctuations in capital movements, which have been analysed in depth elsewhere (see, for example, Ffrench-Davis and Griffith-Jones, 1995). In this respect, private capital flows other than foreign direct investment are particularly noteworthy because of their volatility.

As shown by the experience of the countries which successfully surmounted the financial crisis set off in late 1994 in Mexico, systematic efforts are needed to ensure that the funds received can be absorbed efficiently, that they are associated with investment in productive activities, and that a suitable proportion of that investment goes to the production of tradables. All this calls for active foreign exchange policies, strict arrangements for prudential supervision of the financial system, and regulations governing capital movements, especially of short-term capital (ECLAC, 1995a, chapters IX to XIII).

The heavy inflows of external capital –much of it of a short-term nature– registered by a large number of Latin American countries in recent years has made it more difficult to perceive the weaknesses that still persist in the real economy: low investment in productive activities, low rates of saving, low-quality education, broad sectors suffering from extreme poverty, and growing external deficits.

Just as the Mexican crisis was incubated for a long time, so the economic strength of Chile was built up over a number of years. This strength is due fundamentally to the fact that in recent years Chile has adopted cautious policies with regard to the abundance of external funds. Instead of receiving and spending all the external resources offered and allowing the peso to appreciate still more, the authorities opted to restrict the inflow of short-term capital, while also maintaining strict prudential supervision, actively sterilizing the monetary effects of external-sector activities, and applying an active exchange-rate policy. Chile also achieved a fiscal surplus; in this latter respect, Chile's behaviour was somewhat similar to that of Mexico. With regard to capital inflows, in 1991 the Chilean authorities established a tax and a heavy non-interest-bearing reserve requirement on both external credits and foreign-currency deposits, thus effectively discouraging the inflow of speculative capital (Agosin, 1996).<sup>9</sup>

Fiscal policy could also make a bigger contribution to the regulation of aggregate demand, especially by incorporating compensatory taxes. These taxes would be raised in boom periods, for instance of high export prices, with temporary sterilization of the revenue thus obtained, while at times of recession they would be lowered to stimulate the private sector, and the public sector, could use the funds built up in the expansionary periods.<sup>10</sup>

<sup>9</sup> This is the main reason why, towards the end of 1994, Chile had a moderate external deficit and similarly moderate level of short-term indebtedness, domestic investment was the highest ever, and in 1994 the exchange rate was in better shape than in most other Latin American countries (table 2). For a comparative examination of the cases of Chile and Mexico and the scope of the contagious effects of the Mexican crisis, see Ffrench-Davis, 1997.

<sup>10</sup> Chile recently established that a certain proportion of the Value Added Tax may be varied by the economic authorities in line with the evolution of the domestic economic situation.

# V

## Conclusions and lessons

Intensive reforms aimed at increasing economic growth have been implemented in most of the countries of the region. There is no doubt, however, that GDP growth has generally been very limited in the 1990s. Although some countries have registered high growth rates in one or more years, the gap between potential and effective GDP in the early 1990s tended to be very substantial in all but a few cases.

Out of the average growth of 3.6% registered in the region between 1990 and 1994, nearly a third corresponded to greater use of productive capacity. This higher level of utilization was closely linked to the capital inflow, which recovered and gathered speed in this period. Actual growth in productive capacity is therefore estimated to have been only about 2.5% per year.

What is the reason for these unsatisfactory results? To begin with, the investment rate has been very low. Gross capital formation has been recovering, but only slowly, and from very depressed levels; the ratio for 1983-1990, measured in 1980 dollars, was only 17%, which is very low compared with the level of 24% registered in 1976-1981.<sup>11</sup>

It is not feasible to attain a high economic growth rate with a low investment ratio. What is needed is both a high rate of investment and improvements in productivity, since these two factors strengthen each other.

In view of the disparity between aims and actual achievements, it may be concluded that the effects of the reforms are only slow, at least as regards the recovery of gross capital formation and growth. Why should this be so? This is a question that should not be sidestepped. One possible answer is that the process naturally takes time. It should not be forgotten, however, that time is a very valuable commodity in economics. The current value of the effects of any economic policy is highly important, and not just the flows achieved at the end of the adjustment process.

Another possible answer is that the reforms have been very simplistic, against a background of seg-

mented and incomplete markets. Our own reading is that both interpretations are correct, and that the over-simplicity referred to helped to make the lag in the effects of the reforms even greater. An eloquent example was the long adjustment process in Chile, with low average investment rates between 1974 and 1989, average growth of less than 3% (between 2.5% and 2.9%, depending on the sources used), and average real wages which recovered their 1970 level only as recently as 1992.

There are a number of variables which explain the weak performance of investment in Latin America. During the 1980s there was a high rate of under-utilization of the available productive resources. Most of the countries of the region were operating far below their production frontier, and this discouraged gross capital formation in the non-export sectors: that is to say, in four-fifths of total production.

The recovery in activity between 1990 and 1994 (about 6 points of GDP representing an increase of some US\$ 90 billion in the 1994 annual output, compared with 1990) meant that they came somewhat closer to that frontier, but generally speaking this increase has been very recent, coming after many years of a wide gap. Gross capital formation only reacts to this with some delay, and only when there are expectations that this recovery will be sustainable. If this were the only relevant variable, this could explain not only this insufficient recovery, but also the gradual recovery observed up to 1994. The recent events in Argentina and Mexico show that the phenomenon may be only transitory, and this prolongs the lag and reduces expectations.

The main exception, Chile, has managed to stay close to its production frontier in the 1990s. Its rate of gross capital formation gradually began to recover as from 1988, with some ups and downs; it speeded up in 1993, and in 1993-1996 it has been significantly higher than at any time since 1971, having exceeded the average for the 1960s (although it continues to be markedly below the rates of East Asia). This notable progress in Chile, apart from being associated with the country's capacity to reach social and political agreements, seems to be due to a

<sup>11</sup> Note the differences between the figures in current and constant terms in 1980 and 1990 dollars (see footnote 1).



substantial change in its macroeconomic policies, which have become deliberately active in the areas of monetary policy, sterilizing intervention, exchange-rate management, prudential supervision and regulation of capital movements.

The following conclusions may be drawn from this set of reflections.

The weak recovery of gross capital formation in most of the countries of the region is due above all to the gap still existing between the effective GDP and the production frontier, or to the perception that although the gap has narrowed to some extent this is not seen by the market as sustainable. This is a function of the quality of macroeconomic policy.

Secondly, it is due to "wrong" macroeconomic prices, which are also a function of the quality of the policies in question and the development of the domestic capital and foreign exchange markets. The exchange rate, which is an effective stimulant for the production of exportables, began to appreciate markedly in the early 1990s. Between 1990 and 1994 it appreciated in countries of the region which account for 93% of the regional GDP, while current account deficits also rose sharply. The evolution of the exchange rate was obviously not in line with that of the real economy, and so investors noted that as the economy came closer to the production frontier, the exchange rate lagged behind, and in several countries an undesirable inconsistency occurred: against all pragmatic recommendations, rapid liberalization of imports had to coexist with exchange-rate appreciation. Generally speaking, exchange-rate appreciation discourages the production of tradables, and in the particular conditions in question it also discourages the production of importables, thus weakening any positive impulse for gross capital formation (Agosin and Ffrench-Davis, 1993). The lesson to be drawn from this is that it is not advisable to give up the possibility of applying exchange-rate policies by tying one's hands through the adoption of a fixed nominal exchange rate.

The other main macroeconomic price – interest rates – has also behaved in a way that discourages gross capital formation. Although in many cases these rates were not as high as during the debt crisis of the 1980s, very high real rates still prevail (ECLAC, 1995a, table IX.14). This is not an intrinsic result of the market, but rather of the way the financial reforms have been carried out; the contrast with the financial reforms effected in East Asia is very

marked (Bradford, 1992), since in the latter case the predominant feature is the creation of markets for the long-term segment, and moderate interest rates.

The high real interest rates, a market oriented towards short-term operations, and the limited access that small and medium-sized (and even large) enterprises have to that market, form a real obstacle to changes in production of a constructive nature. This indicates that the financial reforms have been very deficient, leaning towards high-risk portfolios<sup>12</sup> at interest rates that are "out of line". A serious effort needs to be made to reform the reforms in order to create, replicate or simulate markets for long-term operations, small and medium-sized enterprises, technology and human capital.

It is important to ensure that capital inflows go to productive investment; excessive diversion to purely stock-market investments and to consumption of imported goods leads to bubbles and unsustainable imbalances.

The fact that exports may be growing rapidly is no guarantee of sustainability. A persistent increase in imports at a faster rate than exports is cause for concern and should be corrected promptly in order to avoid an unsustainable build-up of debt and other foreign liabilities.

Indiscriminate opening of the capital account can do great harm to productive development and the well-being of the bulk of the population. Foreign exchange and macroeconomic instability, usually associated with unrestricted opening, is always very costly to the productive sectors and to the cause of equity. We have seen, however, that effective and efficient regulation is perfectly possible, as Chile and Colombia have shown in recent years (Devlin, Ffrench-Davis and Griffith-Jones, 1995; Folkers-Landau and others, 1995). The application of suitable foreign exchange and monetary policies is an essential step, but insufficient on its own. In order to achieve effective macroeconomic management they must be accompanied by efficient regulation of capital movements and stabilizing management of aggregate demand. There has been some interesting progress in these fields in various countries of the region (ECLAC, 1995a, chapter XI).

<sup>12</sup> Paradoxically, these portfolios have turned out to be risky in spite of the fact that small and medium-sized firms have little access to them. The root of the problem lies in the abundance of cross-linked loans, excessive interest rates, adverse selection of borrowers, and the instability of aggregate demand (ECLAC, 1995a, chapter XII; Held, 1994).

Finally, in order to generate sustainable economic and social development it is also necessary to take measures for the effective promotion of investment in people. Pragmatic management of macroeconomic aspects and capital flows facilitates this task. Education, health and labour force training are indispensable ingredients, as noted in the ECLAC proposals on changing production patterns with social equity. Adjustment processes must not sacrifice such investment, because it is crucial for building a better future with equitable growth. However, mesoeconomic shortcomings which hinder microeconomic actions have continued to be a significant obstacle.

Investment in infrastructure has been weakened and is still at a relatively depressed level. The long-term segments of the capital market are stunted. Efforts to upgrade labour skills are few in number and often outdated. In short, because of their poor quality and lack of pragmatism, the macroeconomic adjustments have often sacrificed balances which are highly important in the longer term, such as a balanced current account and a competitive exchange rate, and have held back mesoeconomic action. The result tends to be a mixture of unsustainable balances and limited growth.

(Original: Spanish)

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