

# CEPAL

## Review

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Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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## Review

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## Neo-structuralism versus neo-liberalism in the 1990s

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This article is a critical reflection on the long-term development strategies currently being proposed by the neo-liberal and neo-structuralist schools. Obviously, a given theoretical programme can turn out to be substantially different when put into practice and can be conditioned by the particular characteristics of each country. Nevertheless, we choose to limit our consideration to the proposals themselves in order to place the discussion on the most objective and most realistic level possible.

After a brief introduction, the basic elements of the neo-liberal proposal for structural adjustment and growth are summarized; these are based on recent versions representative of the orthodox line of analysis. The second section presents the neo-structuralist response to the neo-liberal proposal, centring the analysis on the basic policy guidelines arising from the new proposed strategy for development "from within".

Finally, a critical comparison is made of the basic principles underlying the two proposals, in the type that they will afford positive guidance for tackling the major problems of economic policy and development in Latin America.

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## Introduction

When the problem of the external debt arose in 1982, with Mexico's moratorium and the consequent abrupt cut-off of the flow of external capital, an economic and financial crisis of huge proportions was unleashed in most underdeveloped countries, especially in Latin America. This crisis, owing to its magnitude and its dramatic effects, has been called by most economic analysts the worst crisis since the depression of the 1930s.

Faced with the impossibility of financing the heavy external deficit in a context of severe deterioration of the terms of trade, high international interest rates and no access to voluntary external credit, all the Latin American countries have negotiated periodically with the multilateral credit agencies, especially the International Monetary Fund and the World Bank. The purpose of these negotiations is to reprogramme the debt service and ease the restricted access to new financial resources, in order to soften the destabilizing domestic impact of these deficits on the external accounts.

As is well known, these agencies have granted new credits on the condition that the debtor countries initiate a series of economic, political and institutional reforms along marked neo-liberal lines. Because of their extensive short-term and long-term effects, these reforms are known as "structural adjustment" programmes. Their explicit objective is to recover the macroeconomic balance and the potential growth rate, in order to ensure the balance of payments over the middle term (Michalopoulos, 1987).

However, whatever strategy has been followed until now, the negative effects of the external-debt crisis have not been overcome. Moreover, most of the countries of the region have not recovered sustained growth; on the contrary, the basic disequilibria have become noticeably worse. Latin America's per capita income stagnated throughout the 1980s and remained much below the levels attained at the end of the 1970s. This trend continues in most of the countries, producing regressive social effects and severe political conflicts, with unpredictable consequences for the recently restored democracies. Faced with this gloomy picture, economists have described the 1980s as a lost decade for Latin American development.

The situation has prompted a serious effort to grasp the real nature of the economic problems in all their complexity, in order to elaborate alternative solutions for the twofold challenge facing the Governments of the region. They must overcome the crisis and return to the path of solid and sustained growth, in a democratic spirit and with equity. This effort has taken shape, for example, in the recent

proposals on "changing production patterns with social equity" (ECLAC, 1990) and "development from within" (O. Sunkel, in press). Such proposals are especially but not exclusively inspired by the Latin American school of structuralist thought, renewed and reformulated by the neo-structuralist contribution of the last decade.

## I

### Structural adjustment and growth: the neo-liberal response to the crisis of economic growth in Latin America<sup>1</sup>

Neo-liberal analysts agree that one of the immediate causes of the economic crisis in Latin America is the international recession of the 1980s, especially the sharp declines in export prices and the severe rises in real international interest rates, causing a huge deficit in the region's external accounts. The situation worsened when the flow of private external financing, at one time abundant, was abruptly and severely reduced. However, the neo-liberalists feel that the debt problem only revealed and intensified much deeper problems which were already present in the Latin American economies and indeed which had been identified before the crisis (Balassa *et al.*, 1986).

Some of the reasons that led these authors to such a conclusion were the rapid recovery of other developing countries at least as seriously affected as those of the region, and the deterioration of the relative long-term economic situation of Latin America. This deterioration was apparent in the capital flight from some countries caused by loss of confidence in their development possibilities; in high rates of unemployment and underemployment; in periodic outbreaks and surges of inflation; and in the appalling income distribution characteristic of most countries.

For Balassa and his collaborators, these problems arose especially from mistaken and unsustainable domestic policies and institutions. Important among these are the notable tendency of the Latin American economies towards inward-looking growth, and especially their readiness to allow their currencies to be overvalued and to continue with highly protectionist policies. They failed to provide incentives to save, both domestically and externally, and allocated inefficiently the savings that did exist.

Completing this bleak panorama were the excessive importance and suffocating role of the State in the economy and the subsequent weakness of the private sector.

Even though these authors do not explicitly call for structural adjustment of the same magnitude as we know today, their pioneering efforts to design a new development strategy, which they define as "urgently necessary and of proven feasibility" for recovering growth, aptly represent the current direction of the new orthodox proposals on adjustment and growth. From this standpoint, the economic challenge that the countries of the region must confront is to find some efficient way of recovering self-sustained growth which would guarantee productive employment to a growing population and re-establish the confidence of the external financial markets by serving the debt "without fail and on time". In the same way, the new policies should have an immediate positive social impact, in order to recover previous living standards, strengthen the incipient and widespread return to democracy, and favour private initiative. In addition, and in a spirit of global economic interdependence, the developed countries should complement the new development strategies with their own efforts to have sustained and sustaining policies.

In more specific terms, the proposal of Balassa and his collaborators presents four strategic action areas for the Latin American countries:

<sup>1</sup> This section is essentially based on three works that are representative of the recent literature on structural adjustment: Balassa *et al.* (1986), Michalopoulos (1987) and Selowsky (1989). Within this same perspective, see also the works of Barandiaran (1988), Rodríguez (1989) and Williamson (1990).

a) They must *orient their economic policy toward the exterior*, giving particular attention to exports and to the efficient substitution of imports by maintaining competitive exchange rates, avoiding excessive protection on imports and providing incentives for internationally accepted exports.

b) They must *increase and allocate domestic savings efficiently to investment projects*, on the basis of positive (but not excessive) real interest rates; a fiscal policy that encourages saving instead of consumption; the reduction of budgetary deficits because of their effects on inflation and their displacement of productive investment; and incentives for the entry of foreign private capital, particularly in ways that do not create debt, such as direct foreign investment and efforts to reverse capital flight;

c) They must *reform the role of the State in the economy*, by a considerable degree of market deregulation as an impetus for entrepreneurial dynamism; a reduction of the State's function as a producer of goods and services (privatization), and the concentration of its action on the provision of social services and the establishment of a stable overall framework for growth with supportive macro and micro-economic policies;

d) They must *obtain international support for this strategy*, especially from the United States and the industrialized countries, through a commitment on their part to maintain world economic growth rates of at least 3% a year, by adopting measures to liberalize world trade that avoid new restrictions on imports and subsidies for exports; by supporting the reduction of the United States budget deficit and lower margins for the creditor banks in order to ensure lower real interest rates for debtor countries; and, finally, through a substantial contribution of new funds for Latin America of around US\$20 billion a year, from the private sector, the Inter-American Development Bank and the World Bank.

The changes these authors suggest would make for greater international competitiveness, encourage growth and the creation of sources of productive employment, and would increase export revenues for servicing the debt. The stimulation of private initiative would more than compensate for the job losses caused by reducing public enterprises and lifting government regulations. At the same time, a successful move towards the exterior would generate economic benefits that would offset the losses arising

from the gradual elimination of non-productive activities. Existing resources and the recovery of investment would move towards the more productive sectors, with higher wages and a more intensive use of labour.

Finally, Balassa and his collaborators state that a key element for guaranteeing the success of this strategy is continuity of policy, in order to generate a reasonably stable economic scenario for long-term plans and the confidence of private investors. The necessary adjustments, to the extent that they change external conditions and those derived from national development, should not affect the coherence nor the continuity of the purpose and direction of the new strategy.

Domestic challenges aside, external support is vital for the success of the strategy for adjustment with growth. However, since foreign creditor banks are unwilling to renew the voluntary flow of credit, our countries have become overly dependent on negotiations with the multilateral financial agencies, the International Monetary Fund and the World Bank. These agencies conditioned access to new financing on the application of a new programme of reforms in the indebted economies, which because of their wide-ranging scope have been called "structural adjustments".<sup>2</sup>

The proposals contained in a structural adjustment programme are generally similar to those of the strategy outlined by Balassa and others (1986). Even so, the structural adjustment programmes include new, more sophisticated elements that adapt them to a changing reality, especially with respect to the depth, speed and sequence of the economic reforms that have to be introduced, as well as the macroeconomic policies appropriate for the transition towards a less distorted economy (Michalopoulos, 1987).<sup>3</sup>

<sup>2</sup> The financial assistance programmes of the International Monetary Fund and the structural adjustment programmes of the World Bank are the most representative practical examples of the new face of neo-liberal orthodoxy. Moreover, both agencies are expected to develop even closer relations and coordination of their stabilization and adjustment policies (Meller, 1988).

<sup>3</sup> Michalopoulos' article is especially representative of the current line of thinking of the international financial agencies, particularly the World Bank. Consequently, and as stated in the introduction, our presentation of these issues closely follows the development of Michalopoulos' own study.

The World Bank's view, as presented by Michalopoulos, gives high priority to the task of confronting significant and prolonged domestic aggregate disequilibria (inflation and balance-of-payments deficit), because of their inevitable negative effects on long-term growth. Otherwise, the delay in re-establishing minimum macro-economic stability will worsen the impact of the subsequent adjustment on the short-term product. As part of the stabilization efforts, it is recommended that domestic consumption be reduced to levels compatible with the potential growth of the product and the sustainable deficit on current account. The World Bank also points out in passing that declines in activity over the short term are practically a prerequisite for the success of a stabilization programme, since that success depends on the application of contractive measures to the economy as a whole.

The key to adjustment with growth, according to the World Bank, lies in the right combination and balanced handling of the instruments of monetary, fiscal and exchange policies, which, for a given level of external financing, fulfil objectives of stabilization, promote structural change and cost less in terms of growth over the short run. On the other hand, if the general macroeconomic imbalance has one particular cause (the "fiscal deficit" in Latin America), all the actions of the policy package should be directed to solving that problem, but without concentrating on public investments in physical and social infrastructure that compromise the possibilities of future growth. Also, every stabilization programme should avoid introducing distortions that could ruin the success of the adjustment. Specifically, if a country needs to eliminate a bias against exports and allocate resources to the production of tradeable goods, the real exchange rate should not be raised nor should taxes be levied on exports as instruments for stabilization.

Since stabilization alone does not guarantee growth, the specific components of a policy package for promoting structural change and growth need to be considered. Although the starting points are different in each country, the policies that require priority attention are as follows:

a) To increase public saving by reducing expenditures and increasing revenues to broaden the tax base, and by improving tax collection. This can be done by privatizing public enterprises or improving their management by drastically reducing subsidies for prices or public utility services for the middle

class, and consequently by directing the distributive action of the State towards groups in extreme poverty or highly vulnerable groups.

b) To increase private savings, which requires strengthening domestic financial institutions and maintaining a stable and predictable economic policy.

c) To achieve greater economic efficiency and improve private investment by eliminating micro-economic distortions such as price controls, highly differentiated incentives in the area of external trade, subsidized interest rates, credit rationing, and impediments to labour mobility and adjustments of real wages. In a highly regulated economy, the allocation of resources and productivity can be improved by eliminating price controls and simultaneously deregulating the domestic labour market. In addition, the deregulation of financial markets (subject to appropriate regulations for bank supervision) improves the allocation of credit and distributes investment more efficiently.

d) To allocate public investment more efficiently by redistributing public resources towards activities that merit greater positive externalities, such as the development of human resources and physical infrastructure.

e) To increase the supply of tradeable goods, which calls for two important policy measures: the maintenance of an appropriate real exchange rate and a correct incentive structure, giving equal treatment to production for the domestic market and production for export. This last point demands, as a minimum, the elimination of the bias against exports prevalent in many countries by liberalizing and rationalizing the system of external trade, which includes removing quantitative restrictions, reducing tariffs and eventually making them uniform, and diminishing or eliminating as far as possible taxes on exports. Obviously, liberalization will cause a contraction in inefficient sectors, which will eventually be replaced by the corresponding expansion of efficient sectors, giving shape to a new productive structure better adapted to the demands of international competition and better prepared to face external shocks.

Michalopoulos, in another part of his article, emphasizes that, despite the broad consensus about the nature of the reform package in question, disagreements abound once implementation begins, since less is known about how the reform actually works; that depends partially on the conditions in place at the beginning of implementation and partially on the political situation of each country. As

mentioned above, three important elements must be introduced at this point in the discussion: the sequence of the reforms, their speed and the appropriate macroeconomic policy package.

The debate about the sequence of economic reforms involves two questions. First, what is the correct sequence between measures for achieving stabilization and those for structural adjustment? Second, how can we establish the appropriate order for eliminating distortions in regulated markets? As regards the first question, there are only minor disagreements about whether structural adjustment is easier if it takes place in a stable macroeconomic context, especially when inflation is under control. The basic reason is that, when both programmes are applied simultaneously, the net contractive pressure on the productive apparatus can be too strong and lead to bankruptcies, transitory unemployment and other costs, such as a growing political opposition, that would seriously compromise the viability of the reforms.<sup>4</sup>

As regards the question of the order of measures for eliminating domestic market distortions related to the liberalization of international economic relations, the experience of different countries gathered by the World Bank shows that the deregulation of the domestic labour market should precede other reforms, in order to guarantee the necessary mobility of labour and thus achieve the benefits of the reforms in the goods market. In the same way, it is considered important to undertake at an early stage the reform of the domestic financial markets that operate in a context of credit rationing; interest rates on loans should be liberalized first and then those on deposits. As regards external accounts proper, it is considered better to first liberalize the current account of the balance of payments, leaving the opening of the capital account for later. The argument for this position is that it prevents capital from flowing towards inefficient sectors that enjoy an artificially

high profit margin due to protectionist measures. More important, it prevents the more rapid adjustment of the capital market from starting a huge movement of capital with undesirable effects on the real exchange rate.

As to the speed of the reforms, the debate centres on whether the trade opening should be achieved in a short period or take from five to 10 years, and whether price controls should be eliminated immediately or gradually. It is important to consider here the crucial role played by price expectations, and therefore, the importance of credibility for any reform package. Reform initiatives, for these reasons, should be programmed with a realistic time frame which allows them to achieve their objectives. These will differ from one kind of policy to another and from one country to another. Thus, the greater the initial imbalance, the faster the pace for implementing the reforms, and the more conditions of political feasibility are ignored, the greater will be the costs of the transition provoked by the structural adjustment programme, causing a serious risk of failure and a loss of credibility for future adjustment efforts. In any case, a delay in applying the policies will retard the development of export activities and interest groups that support them. Needed reforms in the allocation of resources will not take place unless the signals given are sufficiently strong and clear to make the changes credible.

Finally, in the area of macroeconomic policies that accompany the adjustment process, numerous and complex tasks are suggested for the moment when external accounts are liberalized. These are to achieve simultaneously an appropriate and stable level of the exchange rate, a lower rate of inflation and a sustainable position in the balance of payments. At the same time, other macroeconomic instruments should be designed to support liberalization. These include a monetary policy compatible with current exchange regulations and with inflationary expectations, thus avoiding a crisis of confidence that could ruin the success of the whole package. Fiscal policy should be conducted in such a way that budget deficits are kept at levels consistent with the levels of expansion of domestic credit and with the availability of external financing.

Selowsky presents a very innovative and representative vision of this new approach by the World Bank (Selowsky, 1989).<sup>5</sup> In this study, the

<sup>4</sup>According to the author, this is because of the links between stabilization and liberalization of the trade system. On the one hand, successful stabilization depends on the application of contractive measures in the aggregate, and on the other, the rationalization of trade policies aims to reduce the activity of highly protected import-substitution industries. This does not mean that other aspects of structural adjustment, such as the rationalization of public expenditures, for example, cannot be approached at the same time as stabilization, especially when recognizing that the success of stabilization can depend on such action being undertaken early in the process.

<sup>5</sup>Also see Rosales (1990).

author identifies a logical sequence of three stages in the adjustment process through which the Latin American countries must pass in order to recover growth and reduce their levels of external indebtedness. An important point in Selowsky's analysis, which deserves to be highlighted, is the strong complementarity that he postulates between improvements in domestic policies and support from external financing. Even though he states that the precise way in which that complementarity functions is different in each stage of the adjustment, the author recognizes that domestic economic reforms without additional external financing are risky for the whole process, making the adjustment socially and politically rather costly. Nor would it be helpful to have external support and fail to undertake the necessary reforms, since the funds would ultimately become part of capital flight or finance unproductive government consumption or investment projects with little social benefit.

The main objective of each stage of the adjustment is to create the preconditions, or the atmosphere, which stimulate a high level of socially productive investments by the private sector, both local and international, which is identified as the motor of growth. For the author, the solution of the over-indebtedness of the Latin American countries will also contribute to this climate. In many cases this involves a significant reduction of the debt rather than a continuous reprogramming of payments on the principal and interest.

The basic goal of the first stage is to achieve a solid foundation for macroeconomic stability by reducing inflation and the real interest rate. This demands action on two fronts: to generate a sustained growth of the primary fiscal surplus (revenues minus expenditures, except for interest payments), and to achieve a critical level of external financing or lower net transfers of resources, which will mitigate the recessive effects of such a fiscal adjustment. A particularly new element in the policy recommendations made by Selowsky for this stage of the adjustment is his recognition of the less recessive character of some measures contained in the heterodox plans for stabilization. These are related to transitory agreements governing wages and prices in a way that guarantees the rapid convergence of the

inflation rate at a level compatible with the new rate of monetary expansion.

Once a minimum level of macroeconomic stability is achieved, the second stage begins with the implementation of profound structural reforms aimed at increasing both external and domestic competitiveness in goods, inputs and financial markets, together with the rationalization of the overall system of regulations and institutional reforms that promote a sustained increase of public saving. The policies seek an efficient reallocation of resources and the recovery of import levels and full productive capacity. They include trade reforms that give the same incentives to exports as to import substitution; deregulation of interest rates and the decompression of the financial system; and open-door policies for foreign investment. In sum, the incentives should be based on transparent rules of the game and on market signals instead of the discretionary allocation of resources by way of public policy. Finally, it is hoped, that at this stage additional external financing will be used to import intermediate inputs, making possible a better use of installed capacity.

The third stage consolidates the reforms. The main objective is the sustained recovery of investment levels. Here the preconditions for sustained growth are in place and they can be seen in the desire of private local investors to invest within the country because of its high levels of social and private productivity. The only constraint to growth is the rationing of external financing despite high interest rates and a strong demand for investment funds. Consequently, at this stage external financing is not only crucial for increasing domestic private investment; it is also essential to reduce the level of external overindebtedness of the Latin American economies, in order to mitigate the climate of uncertainty, increase the confidence of local investors and ensure that external shocks or prolonged negotiations of the debt do not threaten the structural reforms already achieved.

In this brief summary we have tried to present as objectively as possible the main lines of the proposal for structural adjustment and growth, put forward by the international financial agencies. At the end of this article we will deal with the central aspects of this proposal which merit criticism.

## II

### Development from within: a neo-structuralist response to the problems of Latin American development<sup>6</sup>

From a specifically Latin American perspective, the present advocates of neo-structuralism affirm that the main economic problems and the underdevelopment still prevalent in our countries are due not so much to distortions induced by economic policies as to historical causes of an endogenous and structural nature. In the opinion of Rosales (1988), the truth of this theory is revealed in three crucial characteristics of the Latin American economy at the end of the 1980s: a) a continuing pattern of external insertion which, given the trends in international trade and the international financial system, leads to an impoverishing specialization; b) the predominance of an uncoordinated production apparatus, which is vulnerable and highly heterogeneous, concentrates technical progress, and is incapable of absorbing productively the growth of the labour force; c) the persistence of a very concentrated and exclusive income distribution, which reveals the system's incapacity to reduce poverty.<sup>7</sup>

Consequently, our countries must do more than carry out marginal adjustments to the change curve—a reflection of their exclusive preoccupation with the efficient allocation of productive factors. They must generate a dynamic process that gradually moves the economy towards the curve of production possibilities and continuously and accumulatively pushes this curve towards new productive frontiers. In particular, this movement must be capable of generating a dynamic insertion into the international economy and of responding to the need to increase the production of the poorer sectors. Hence growth demands more than a policy of liberalization designed to promote correct prices for an optimum allocation of productive factors in a static situation and in conditions of an extremely unequal distribution of income. On the contrary, the interplay of the market should be significantly complemented by dynamic action on the part of the State. Apart from its classical functions (public property, macroeconomic equilibria, equity), the State should include within the range of

its administrative capacity: a) the promotion or simulation of markets that are lacking (long-term capital markets, currency futures markets); b) the strengthening of incomplete markets (technology market); c) the elimination or reduction of structural distortions (the asymmetrical character of external insertion, heterogeneity of the productive structure, the concentration of property, the fragmentation of the capital and labour markets); d) the elimination of, or compensation for, the more important defects in the market arising from output at different scales; e) externalities and the learning process (in the industrial or external sector), among others.

These are the basic policy guidelines behind recent efforts to present a renewed strategic proposal for the recovery and consolidation of development in Latin America (ECLAC, 1990 and Sunkel, ed., 1990). In line with the initial neo-structuralist analysis, both alternatives provide concrete propositions for shaping a productive structure that allows for dynamic growth, ensures an efficient insertion of our countries in the world economy, increases the generation of productive employment and reduces structural heterogeneity. In this way, income distribution will be enhanced and the extreme poverty of most Latin Americans will be alleviated.

As regards the general guidelines outlined by Sunkel, the strategy of development "from within" seeks to take up once again and go beyond Prebisch's original challenge to industrialize. The aim is to generate an endogenous accumulation process that absorbs and generates technical advances—including the use of foreign private investment. This process will give a country its own decision-making capacity for dynamic growth. Such a strategic concept is not biased *a priori* in favour of import substitution, which would ultimately lead it into a blind alley. On the contrary, this proposal leaves open the options to orient industrialization from within to the priority domestic and external markets which are more promising for the long-term development strategy. In these markets our countries already have or can acquire levels of relative excellence which would guarantee them a solid insertion into the world economy.

<sup>6</sup> This section is based on Ramos and Sunkel (1990).

<sup>7</sup> A more profound analysis and background documents which support this kind of analysis are found in the works of Ocampo (1990), Tokman (1990) and Lustig (1990).

In other words, it is not so much a question of demand. What is vital is a dynamic effort on the supply side: accumulation, quality, flexibility; the combination and efficient use of productive resources; the deliberate incorporation of technical progress, innovation and creativity; organizational capacity, social harmony and discipline; frugal private and public consumption and emphasis on national savings, and the acquisition of the capacity to insert the national economy dynamically into the world economy. In short, our countries must make a deliberate effort "from within", with the active participation of the State and private economic agents, to achieve self-sustained development.

Some elements of ECLAC's proposal for changing production patterns with social equity (1990) come very close to this conception. Development "from within" is clearly identified with the criterion of genuine competitiveness which seeks to progress from the "perishable income" derived from natural resources to the "dynamic income" derived from the incorporation of technical progress into productive activity. Likewise, both proposals stress the systematic character of this competitiveness, and therefore, the integral effort demanded by a dynamic insertion into world markets. They recognize that in the economies that compete in those markets the individual firm is integrated into a broad network of linkages with the educational system, with the technological, energy and transport infrastructure, with employer-worker relations, with public and private institutions and with the financial system.

Another important element in both proposals is the commitment to re-establish and maintain basic macroeconomic equilibria as a necessary condition for achieving the sustainability of the development process. One of the ways of doing this is to reduce external transfers as debt service. However, such a reduction will be insufficient if it is not accompanied by domestic stabilization policies which regain control of fiscal accounts (including increased public revenues and not just reduced expenditures) and which serve as a guide for expectations through a suitable management of prices and income in order to minimize the recessive impact of greater fiscal discipline. Adjustment policies should stimulate the reallocation of resources towards the production of tradeable goods with particularly strong incentives during the first few years, especially for exports. In the interests of social efficiency, the adjustment should be gradual; in the case of high inflation, shock

policies are more appropriate and inevitable. In practice this approach differs from the traditional recommendations of the International Monetary Fund, which are usually too drastic as regards adjustment and too gradualist as regards inflation (Ramos, 1990).

An essential objective which affects every aspect of the *neo-structuralist agenda for development* is to achieve equity and social justice and to strengthen democratic institutions. In the context of the constraints imposed by the economic crisis, top priority must be given to problems of extreme poverty and to policies designed to alleviate and eradicate it once and for all. Once back on the road to stable growth, basic medium- and long-term changes to achieve greater equity can be introduced to overcome the high degree of heterogeneity prevalent in the productive structure.

For this purpose, the State must concentrate on three priority aims: a) to minimize the impact of external shocks on the poorer and more vulnerable groups by supporting their production and productivity as well as their income levels and social services; b) to lower the costs of relocating manpower associated with the structural reforms inherent in the adjustment; c) to facilitate the eradication of poverty and the excessive concentration of income and wealth, once growth has been recovered (Lustig, 1990). Also, in order to improve the functioning of the labour markets and the absorption of manpower, it is imperative to adopt a new strategy that takes serious account of the informal sector. As a result of the recent crisis, this sector has expanded and contains a high concentration of poor people. There is increasing evidence that only a small amount of resources is needed to promote their activity. There are two schools of thought on this point, which are not necessarily contradictory, but have a different emphasis and involve different proposals. The first attempts to solve the structural problems affecting the existence, duration and operation of the informal sector; the second deals with the institutional aspects and centres its analysis primarily on the current juridical order, transferring the cause of the problem, in a certain sense, from the structural to the juridical level (Tokman, 1990).

ECLAC's proposal (1990), accentuating this tendency to emphasize production more than social assistance, suggests that the changes in production patterns should be accompanied by complementary measures for redistribution. These include

programmes of technical, financial and marketing services that support microenterprises, own-account workers and small farmers. The proposal also emphasizes the urgency of reforming different regulatory mechanisms that prevent the formation of microenterprises with the capacity to change.

Notwithstanding the importance of defining this general strategic framework, any attempt to formulate a modern and influential neo-structuralist proposal also acquires a realistic approach in order to pinpoint the most important problems and work out practical proposals to solve them. In order to observe the neo-structuralist contribution to economic policy, we examine below how the advocates of that school of thought would tackle certain basic economic problems at this time, and what proposals they would suggest to deal with the structural and institutional problems, as well as the problem of prices.

### *1. Changing and modernizing production patterns*

Already in the 1960s there were warnings that import-substitution policy was creating a lopsided structure of incentives, favouring production for the domestic market, and that it needed to be reformulated (ECLAC, 1961). It is logical to suppose that, if the incentives for generating foreign exchange through export expansion were equal to the incentives for saving foreign exchange through import substitution, exports would respond more. And if another special incentive were needed, it would be for insertion into the external market –the real “infant industry” of the future. In this way, instead of import tariffs, it would be more important to subsidize the exports of pioneer enterprises that introduce new products and open up new external markets. Owing to the process of import substitution in the past, imports today consist almost entirely of capital inputs and goods; tariffs should therefore be reduced and rationalized to facilitate exports and competitive substitution. The output of the multinational corporations established in the region should also be exported; advantage should be taken of their international marketing network; and export commitments should be negotiated in exchange for the purchase of inputs at current international prices. Basically, what is proposed is a selective intervention that seeks to establish dynamic comparative advantages in international markets, since exporting is the natural next step to take in order to benefit from the industrial base already in existence.

Within this logic of restructuring and reforms aimed at modernizing production patterns, it is important to consider the changing international context and the strategic conditions it imposes on Latin America's external economic policy options. There is an interaction between structural factors (associated with technological and organizational innovations in the countries of the centre and their recent acceleration and the expectations of institutional changes in economic blocs and of an unstable evolution in the short-term world macroeconomic situation. This interaction has been decisively changing the determinants of the strategic decisions of governments and transnational corporations. Undoubtedly, such transformations in the international environment have an important influence –both positive and negative– on the ability of the Latin American countries to find their place in the new international division of labour now emerging, and to reformulate effectively their long-term development policies. Moreover, the many theoretical and empirical studies on the evolution of the terms of trade for the region indicate that the pronounced deterioration has spread from the characteristics of exported products to the characteristics of the exporting country, thus including the export of manufactures (Fritsch, 1990; Ocampo, 1990).

These points, if confirmed, would require us to ponder the specific modalities of international insertion and the patterns of productive specialization, and consequently, the importance of industrial and trade policies in promoting levels of competitiveness which are acceptable in the more dynamic branches of international trade. A neo-structuralist frame of reference for industrial policy implies the more efficient utilization of market signals, of entrepreneurial perception, information, coordination and initiative, and of international competition. Here, the State's responsibility is to create an institutional environment which stimulates the creativity and dynamism of the productive agents (employers and workers) and their capacity for agreement and coordination among themselves. In turn, specific sectoral options should not be imposed by government technocrats but should be a flexible result of those initiatives and of that coordination. It is basically a question of options that make maximum use of the information offered by domestic and external markets and technological, institutional and organizational trends (Muñoz, 1990).

By following this new path of industrialization our countries should also overcome the false dilemma about postponing agricultural development. It is recognized that the structural nature of the agricultural problems to be solved demands the action of the State on two levels. On the macroeconomic level, emphasis is given to the State's role in providing incentives aimed at taking advantage of potential domestic demand, but recognition is also given to the importance of safeguarding the stability of the economy. In the sectoral area, as a means of dealing with the risks and uncertainties characteristic of agriculture, the neo-structuralists advocate policies which guarantee prices and price ranges; technological innovations which promote the development of high-yield varieties resistant to pests and weather variations; institutional innovations aimed at creating and strengthening post-harvest services, futures markets and agricultural insurance markets; and the introduction into rural areas of activities to industrialize agricultural products (Figueroa, 1990).

Finally, in this whole series of proposals for productive restructuring to fight against the scarcity of foreign exchange, the environmental challenges involved in these reforms cannot be ignored. Our countries must recognize, on the one hand, the structural origin of environmental problems, and on this basis elaborate alternatives and policies aimed at environmental sustainability. On the other hand, they must admit that natural resources will constitute an exceptional asset for the future development of Latin America to the extent that there is constant public concern and action to ensure that rational exploitation preserves, replaces and even expands the potential of this rich patrimony.

Such objectives demand the attention of the highest levels of government. The question of the environment is highly controversial and requires a profound adaptation of economy policy in general and by sector. For example, on the general level, priority must be given to policies dealing with science and technology, with institutional organization and with education, which encourage the incorporation of an environmental component into development strategy. In this way, our countries should create a model for generating, adopting and disseminating technology which is environment-friendly and reduces the ecological cost of transformations generated in the development process. They should set in motion agencies which coordinate environmental actions by sector and location and which

encourage forms of sustainable and profitable environmental development through permanent economic activities (re-training, treatment of residues, forests for energy, etc.). And they should elaborate on all levels policies for environmental education. In the sectoral sphere, they should promote the development of the forestry and agricultural sector with a proper regard for the behaviour and attributes of the living ecosystem and the extent of its transformation by man. On that level, particular attention should be paid to solving the problems of rural poverty which frequently lead to overexploitation of the environment (Gligo, 1990).

## *2. Technology and innovation*

In retrospect and considering the historical realities of the time, we may criticize the Keynesian strategy for growth followed in the region in the past. It consisted mainly in ensuring the demand and integration of the domestic market, but it ignored productive efficiency. In fact, the security of the market deadened innovation, giving rise to a business attitude concerned only with profits. Our countries should have adopted a Schumpeterian approach in which incentives for production stimulate technological learning and innovation and mobilize an increasing number of entrepreneurs.

Such a change requires a new conception "from within" of technological progress in support of institutions that promote scientific and technological activity for development, since one of the reasons for the innovation gap in the countries of the periphery appears to lie in the institutional diversity of their agents of technological change. Consequently, and as an example, systematic and organized research and development should be promoted and public policies should be established that spread among society some of the risks of that process. Likewise, an important factor for closing the technological gap is the creation of a highly developed scientific and technological infrastructure coordinated with productive sectors in the context of decisions regarding long-term specialization. The successful completion of this operation will provide access to original research and will thus make it possible to obtain comparative advantages in strategic and vanguard sectors in external markets.

The reconquest of international markets with products of higher technological content constitutes a series of challenges for public policy. For example,

the government should encourage the participation of small and medium-sized enterprises in this modernization process. It should establish subcontracting agencies and organizations to supervise quality control; it should promote the innovative capacity of different sectors of the economy by means of technological management programmes and the dissemination of innovations; and it should provide financing to projects of technological innovation in priority areas.

Finally, the consequences of the third technological revolution require profound changes in the social organization of production with the explicit objective of obtaining maximum benefit from the new technology. The road to development demands a consensus between the public and private sector, between worker and employer organizations, and between enterprises of the same sector, to guarantee flexibility and the capacity to adapt to the speed of technological change (Rodríguez, 1990).

### 3. Capital formation and the use of productive capacity

As a consequence of the debt crisis, one of the distinctive features of the Latin American economies during the 1980s was the low rate of capital formation, together with a low rate of utilization of productive capital. There was a corresponding decline in *ex-post* productivity because both factors and their obvious interrelations play a decisive role in incorporating technological innovations and in entrepreneurial operations.

It is well known that both the volume and the quality of investment are affected by the prevailing macroeconomic climate. In Latin America, emphasis on trade balances and stabilization ignored capital formation and the regulation of the level of economic activity. This seems to be a serious deficiency which—together with the crisis—helps explain the marked reduction in the formation of new capital and in the utilization of installed capacity recorded during this decade.

The neo-structuralists seek to regulate capital movements, the exchange rate, trade policy and the interest rate, in order to build a stable macroeconomic framework which, as a source of confidence in future economic policy, promotes capital formation and the acquisition of comparative advantages as a means of taking advantage of and increasing investment and innovation opportunities.

On the other hand, they also recommend direct public actions that affect the development of comparative advantages and complement private investment initiatives (French-Davis, 1990).

### 4. The renovation of the State<sup>8</sup>

Today the State is clearly overwhelmed by demands and its financial position is weak, especially after the debt crisis. Governments have had serious difficulties in fulfilling their basic economic functions of supervising macroeconomic equilibria, promoting equity and avoiding stagnation with regard to foreign exchange, savings and investment. The neo-structuralists recognize many of these problems and, following a pragmatic approach and using the lessons of experience, are seeking to build a consensus as regards the new role of the State.

According to this consensus, where the question is not so much the size of the State as its capacity for management and concerted action, its main economic function can be defined as follows: it must formulate a strategic vision of the development process; it must reorder and maintain economic incentives and relative prices in a manner coherent with this strategy; and through constructive dialogue and concerted action, it must ensure that all social and political sectors are committed to this strategy. A State efficiently organized in this way around a central function, i.e., a State based on concerted action, would represent a new stage in Latin American development, characterized by an emerging democracy and the need to adjust the development strategy.

Considering these necessary adaptations and redefinitions, the neo-structuralists maintain that the role of the State needs to be strengthened in its classical functions (providing public goods, maintaining macroeconomic equilibria and equity, etc.); in its basic functions (minimum transport and communications infrastructure, health care, housing, education, etc.); and in its auxiliary functions (support for structural competitiveness of the economy by promoting or simulating markets not yet in existence, development of the scientific and technological infrastructure, elimination of or compensation for the defects of the market, etc.). These functions are more important than its entrepreneurial and productive functions which were critical in the past but today are

<sup>8</sup> See Salazar (1990).

less necessary. The State should reorganize its finances, especially by consolidating its sources of revenues through tax reform. As for expenditures, it must establish investment priorities and rationalize the public investment programme, it must also reduce subsidies, except for those that are truly redistributive. Actions to increase the efficiency of public enterprises are also important. For example, the State must limit their objectives to those that are productive. It must make them more competitive by granting them greater financial and managerial autonomy, by allowing them to charge prices similar to those of a private enterprise, by fixing "social" prices only in a limited and exceptional fashion, by subcontracting and inviting bids for auxiliary services and by privatizing "non-strategic" productive enterprises.

Given the need for development "from within" for the support of an efficient State, it is essential that an optimal strategy for intervention should be designed. Neo-structuralism emphasizes the following elements for such a strategy.

First, since the administrative resources of the public sector are limited, its action cannot attempt to attack the innumerable distortions of the economy, but only the most important ones. Therefore, priorities must be established for State intervention.

A second and urgent requisite is to decentralize and depoliticize public administration, since the more conflicts are resolved by the political system (as opposed to the market), or on a central level (as opposed to regional or local governments), the greater the burden of social demands on the central government, all of which creates problems for and

overwhelms its capacity for action. Thus, if it can decentralize and depoliticize conflicts, this will help in an indirect but real way to reduce the overload and improve its efficiency. This rule is obviously not valid in the case of those defects and conflicts which would be poorly resolved on decentralized levels or by the market.

Finally, another important issue is that of providing institutional counterweights to asymmetrical pressure in favour of intervention. Since those who benefit from an increase of intervention are few (those who exert pressure) and those who benefit from reducing it are many (and therefore exert less pressure), intervention has a unidirectional character: it tends to increase rather than diminish. Therefore, automatic mechanisms should be created which anticipate this situation and which serve as counterweights. For example, a policy of differentiated tariffs will produce growing and rising disparities between sectors; tariffs not only become different but they also have a higher average value. Thus, when a differentiated policy is established, an average tariff can be established: every time one tariff rises, another one has to be lowered in compensation. This provides a kind of institutional counterweight against a natural rising trend.

We end here the synthesis of the more important aspects of the neo-structuralist agenda for Latin American development. In the following and final section, we will analyse to what extent neo-structuralism comes close to or departs from its neo-liberal counterpart, which was summarized, at least in its main lines, in the previous section.

### III

#### Neo-liberalism versus neo-structuralism: a critical balance

As already mentioned, this final section presents a critical examination of the proposals we have analysed, in order to draw positive lessons for economic policy and development in Latin America. It would appear that on the basis of pragmatic considerations and the lessons of experience correctly interpreted, our countries are moving towards a compromise between the less extreme neo-liberal positions and the traditional economic conceptions of Latin American development, duly reformulated.

This compromise between the two proposals is derived perhaps from frustrating experiences in one camp or the other, from the crisis conditions which continue painfully and interminably, and from the less ideological and more pragmatic attitudes that are beginning to dominate in these first years after the cold war. However, this does not modify the basic difference in the axiomatic and philosophical premises underlying both proposals. This is not the place to delve into this question, since it belongs to

another level of abstraction. Nevertheless, it should be recalled, however briefly, that liberalism and structuralism and their corresponding "neo" versions conceive of and explain in very different ways the behaviour of the individual in society.

The Liberals, as the heirs of individualism and utilitarianism, presuppose the existence of the abstract categories of freedom of choice and the rational calculations of the individual economic agent in the market, be he producer or consumer. This assumption gives shape to the most efficient forms of action. On the basis of this generic concept of individual conduct, they postulate the elimination of any interference that limits the people's freedom of choice and flexibility, especially from the State, which they consider to be the originator and ultimate guarantor of any kind of interference.

The Structuralists, in turn, at least in Latin America, interpret the economic behaviour of individual agents according to historical contexts, especially of a socio-economic and institutional character, in which such agents formulate their options and develop their conduct. They consider that individuals form themselves into organized social groups in a multitude of public and private institutions, which develop over time a series of values and rules of behaviour. These forms of social organization constitute, in turn, veritable cultures which limit and orient individual conduct. Thus, because of their different national historical experience and international relations, Latin American societies and economies have their own distinctive structural and institutional characteristics, which proposed development policies have to take into account. Hence, even though the general lines of development policy may be very similar, considerable differences can persist in the sphere of action and in policy instruments, especially, of course, with respect to the role of the State.

Against this background we can now discuss development proposals themselves. However, first we must clarify some points concerning the real roots of the current economic crisis in Latin America. We should recall again that already in the 1960s ECLAC was warning about the deep structural problems of Latin American development: excessive protectionism, narrowing of the reducible margin of imports, huge external and fiscal imbalances together with a loss of economic dynamism and growing unemployment. Many countries of the region accepted the structuralist recommendations and

elaborated economic policies aimed at correcting the excessive distortions by gradually and constantly adjusting the exchange rate, reducing and rationalizing tariffs and promoting exports. However, the overabundance of cheap external financing during the 1970s, the concomitant financial permissiveness and the mistaken signals from a deregulated financial market obviated the need for adjustment policies and exacerbated the disequilibria by covering them over with the veil of external indebtedness.

In this regard, the real lost decade, from the perspective of opportunities and possibilities, was the 1970s. Resources were available then for gradually improving the productive and financial apparatus on the basis of an explicit policy of restructuring and development. The present situation is exactly the opposite. External indebtedness and liberalization policies have made the disequilibria worse: unmanageable external debt, critical levels of domestic indebtedness, severe fiscal imbalance, runaway inflation, vertical fall in the investment rate, etc. None of these problems was so acute in the early 1970s.

Having made these clarifications, we can now begin the actual debate on structural adjustment in Latin America. A perusal of the proposals outlined in the preceding sections shows that both the neo-liberals and the neo-structuralists agree on the immediate need for profound changes in the economic structure of our countries. Nevertheless, there is considerable disagreement about the policies needed to introduce those changes, and about the size of the role played by the State and the market in the strategy of recovering and consolidating development.

Originally, the neo-structuralists wanted to provide an alternative to the orthodox neo-liberal view of adjustment. They sought less recessive and less regressive solutions to the problems of inflation and trade imbalance through the stabilization and heterodox adjustment programmes of the 1980s (Lustig, 1988). Like that of the neo-liberalists, theirs was an essentially short-term approach. But, to the extent that many of the adjustment plans of either side failed and the crisis persisted, the neo-structuralists returned for inspiration to the positive legacy of a specifically Latin American doctrine: the structuralism of the post-war decades. Despite this close identification with the original structuralist arguments and as a consequence of the change of historical circumstances in which they were formulated, the neo-structuralists revised some of their assumptions and tried to remedy their deficiencies. These included

an excessive confidence in the value of State intervention, an exaggerated and overly prolonged pessimism about external markets, and an incautious management of short-term economic policy which failed to provide timely and practical answers to conjunctural problems, particularly by underestimating the monetary and financial position (Rosales, 1988). Thus, they recognized explicitly that recommendations cannot be made for the long term without a clear picture of the possible repercussions of structural change and without devising methods of handling problems arising from the transition (Lustig, 1988).

From this new standpoint, which shows an undeniable concern for development in its broadest sense, the neo-structuralists have criticized neo-liberalism mainly because of the extreme nature of its policy agenda. They consider it to be closer to the old sayings about the moral superiority of the market than to economic rationality and empirical corroboration of its practical successes in the real world. This impression is clearest in the discussion about the State's role in the economy. In particular, the neo-liberalists avoid any discussion of the effective capacity of State administration and its ability to change economic incentives and the mechanisms and institutional processes for decision-making. What they want in practice is the automatic reduction of the size of the public sector with no clear theoretical backing for its relation to economic growth.

This attitude is clearly reflected in proposals like that of Selowsky (1989) which seek to achieve a fiscal surplus by reducing expenditures in a context of reforms designed to reduce taxes, all of which constantly undermine the financial capacity of the public sector. Besides the indispensable modernization of the system for collecting taxes and controlling tax evasion, the tax structure would have to be reorganized so as to give greater relative weight to income and property taxes. To some extent, this would be a return to the progressive taxation which the crisis and neo-liberal policies have been reducing (Rosales, 1990). Similarly, the justification for privatization is based especially on criticisms which emphasize the poor performance of public enterprises, the negative fiscal effects of unprofitable enterprises and the defects and inefficiencies supposedly inherent in public administration. However, the structure of the markets is just as important –or even more so– in explaining the comparative performance of enterprises, not to

mention management objectives in themselves which escape conventional norms for evaluating a private enterprise. Moreover, the fiscal impact can be negative when profitable public enterprises are privatized (Salazar, 1990).

Consequently, because of this ideological assumption that the origin of every imbalance lies in the public sector, neo-liberal policy-makers are very sensitive to any imbalance in this sector, while almost completely ignoring the possibility that the private sector might have a destabilizing influence.<sup>9</sup> The neo-liberal experience in the Southern Cone during the mid-1970s revealed that private interests could seriously destabilize the economy, either because they made mistakes in their inflationary expectations or because they created financial bubbles out of collective euphoria and monetary permissiveness. They forgot that these private interests could follow anti-social or even counterproductive policies in a context of a serious and widespread lack of competition and of broad disequilibria (Ramos, 1984).

Nevertheless, we must heed the neo-liberal warning of the dangers of the limitless expansion of State management, which results when the government tries to satisfy the interests of the more organized groups in society rather than the common good. For this reason, the neo-structuralists stress that the public sector must be modernized, depolitized and decentralized; that an optimum intervention strategy must be designed for deliberately promoting development; and that selectivity, competitiveness and professionalism must be the main guidelines for the social efficiency of public action (Ffrench-Davis, 1988).

On the other hand, the neo-liberals argue quite logically that markets should be liberalized and price mechanisms rationalized. But they have become unilaterally obsessed with exogenous or government-imposed distortions and fail to observe how the economic system behaves when a market plagued with endogenous or intrinsic distortions is liberated, a basic concern of the neo-structuralists. Clearly, there is no basis in economic theory for a policy that tries

<sup>9</sup> They also ignore the complementary character or the crowding-in of public and private investment, especially as regards infrastructure, technological promotion and the level of public social expenditure, all of which leads us to question their desire to cut off resources to the public sector and limit its capacity for action in areas as relevant as the development of our economies and public investment.

to limit all the distortions imposed by the government, whether in the trading system or on the home front, while ignoring endogenous distortions and the specific structures of the markets.<sup>10</sup>

The neo-structuralists feel that structural distortions are the main cause of economic problems and largely explain the persistence of the region's underdevelopment. But they also recognize that these distortions give rise to defects and errors in economic policy. Hence, they want to complement the action of the market with vigorous and selective State action in order to remedy the serious structural imperfections which are still prevalent in our economies. However, owing to the asymmetrical nature of the pressures for State intervention—in favour of more and not less intervention—the neo-structuralist suggestion about defining automatic institutional counterweights is particularly relevant for preventing this situation.

In addition, in the formulation of a commercial strategy, the neo-liberalists tend to establish a strict equivalence between export-promotion policies and free-trade policies based on the principles of static comparative advantages, the absence of State intervention in the price system, and in some cases, *laissez faire*, and the marked absence of an active and promotional role for the State. Therefore, even though the neo-liberal critics of development strategy are right to insist on the importance of utilizing external markets as dynamic sources of demand, we may question their tendency to assign equal importance to outward-looking policies, free trade and the absence of State intervention (Salazar, 1990).

The neo-structuralists have a substantial interest in devising the best means of promoting external competitiveness. The reduction of trade barriers can be considered an indispensable initial step, but even so, it is clearly insufficient. Indeed, if they are to improve their trade insertion over the medium term, our countries must achieve a competitiveness reinforced by technological innovations and productivity increases going far beyond the short-term earnings which can motivate the rationalization of price incentives. Such a challenge involves the more

structural elements of the economy which are related to technological policy, industrial policy and the educational system and which are systematized in the norms of international competitiveness now in effect. In this regard, the concern with trade liberalization is only part of a broader problem: how to coordinate and modernize the productive apparatus and make it more competitive (Rosales, 1990).

In another area it is interesting to note the extent of the agreement between the two proposals that there can be no definitive solution to the crisis without reversing the net transfer of resources from Latin America to the exterior. The difference lies in the degree of confidence which the advocates of structural adjustment have in a solution proposed by the international banks, the multinational credit agencies and the governments of the industrialized nations—a solution which the debtor countries would have to support with an open-door policy for foreign investment.<sup>11</sup> The neo-structuralists want the Latin American countries to adopt a more decisive attitude and recommend a negotiated total or partial suspension of external transfers, provided that they undertake to channel the resources thus released into a national fund for productive restructuring and social development to finance projects mainly designed to increase the efficient production of tradeable goods and to tackle the most serious social problems (Sunkel, 1990).

Finally, we should ponder the dramatic recessive and regressive effects of the neo-liberal experiments in structural adjustment. The emphasis on reducing aggregate expenditure in order to achieve minimum macroeconomic stability and manageable external imbalances has led to a sharp decline of the product, high unemployment and sharp cuts in real wages. Moreover, in the fiscal counterpart of this recessive adjustment, the reduction of public expenditure was concentrated in social services and investment. As a result, the poorer sectors have become much worse off and the possibilities of future growth have been seriously threatened.

<sup>10</sup> As Anne Krueger recognizes, the analysis of the effects on well-being of alternative trade policies (and of others) becomes excessively complex when it is assumed that it is impossible to eliminate all distortions. When attention is centred on the effects of changing a policy instrument, while keeping in place the distortions in other parts of the system, the general theory of the second-best indicates that anything can happen (Salazar, 1990).

<sup>11</sup> In Rosales' opinion (1990), it remains to be seen whether or not the debtor countries can count on *ex-ante* external support which would facilitate stabilization and structural reforms. For the author, external financing has not functioned in this way for many of the Latin American economies, and the failure of the Baker initiative and Mexico's difficult negotiations to begin to reduce the debt under the Brady initiative are good examples of this. In fact, the conditionality arising from the debt crisis is considered to be the main instrument for exerting pressure in favour of structural adjustment, which would ultimately open the doors to capital and private external financing.

It is no surprise, then, that the neo-structuralists share the concern for policies which re-establish basic macroeconomic equilibria, but at the smallest possible recessive cost. Theoretical considerations and well-grounded empirical observations provide evidence that heterodox adjustment programmes may prevent a recession or at least minimize its effects. Such programmes—whose less recessive character has already been recognized in studies representative of a more orthodox line (Selowsky, 1989)—call for policies that not only control aggregate demand but also, as regards adjustment, provide a sharp initial stimulus to the reallocation of resources towards the production of tradable goods, and as regards stabilization, influence expectations through price and income policies. The consideration that equity is a prerequisite for, rather than the result of the

sustainability of every development process explains the greater emphasis given to productivity instead of aid in the social efforts of governments. Undoubtedly, if they follow these criteria, they will have a better chance of achieving an adjustment with growth and more equity.

There must also be a permanent concern for the political and social implications of each economic change. This special aspect of structuralist policy makes it impossible to treat these issues with the idea of joining forces to counteract opposition to the reforms. Rather, the State must call for concerted action to promote cooperation instead of conflict between the social partners so that they decisively commit themselves to a more equitable and democratic vision of national development.

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