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An assessment of the structuralist paradigm for Latin American development and the prospects for its renovation

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The promotion of export-led development is usually accompanied by strong criticism of the modalities assumed by import-substitution industrialization (ISI) in Latin America. The premise underlying the criticism revealed at ISI by the neoliberal school is that these modalities have conformed more or less closely to the theoretical recommendations of ECLAC and the structuralist approach deriving therefrom.

In this article the author examines the validity and currency of the main proposals of the ECLAC school of thought. In so doing, he underscores the latter's ongoing concern with the questions of productive efficiency, selectivity in import substitution, and a proper complementarity between industry and agriculture, as well as the early emphasis it placed on the promotion of industrial exports and on the articulation of industrial development with regional integration. This contrastive analysis of the well-known neoliberal criticism of ISI and the proposals made by Prebisch and ECLAC demonstrates that the former is to a large extent unjustified.

The author goes on to examine the real flaws in the structuralist proposal, pointing out the weaknesses in its view of short-term economic policy management, its failure to attach sufficient importance to monetary and financial aspects and its excessive confidence in the virtues of economic interventionism.

The article concludes with an assessment of the prospects for the revival and renewed relevance of the Latin American structuralist paradigm.

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Introduction

The failure of orthodox policies to cope with the problem of the external debt has led to a gradual modification of the proposals made by international financial institutions. In fact, as Sachs recently pointed out (1987), even after six years of orthodox remedies, the majority of the economies under IMF supervision have still not recovered their capacity for growth and the danger of a collapse has still not receded.

The orthodox school of thought within international financial circles was quick to alter its proposals in response to this fact. Thus arose the idea that debt-burdened economies should undergo a "structural adjustment" to enable them to increase their exports and improve the quality of their growth. However, as the recent experience of Latin America demonstrates, not just any kind of increase in exports will contribute to development.

The specific characteristics of this proposal for structural adjustment (which will be considered in an article now under preparation) are in some ways opposed to certain precepts of the notion of structural change, a proposal that is more deeply rooted in the tradition and revival of the Latin American paradigm of economic development.

Indeed, the experience of various developing countries shows that a strong export performance is closely associated with the export of manufactures and, consequently, no sustained export policy can be considered in isolation from the design of industrial policy. In this regard, an urgent need exists for a new kind of industrialization in Latin America in order to improve the competitiveness, establish an equilibrium in its industrial balance and attach greater weight to the promotion of technology and to innovation, which are the mainstays of competitiveness in the medium term.

The neoliberal reading of the experiences of South-East Asia, which, in all truthfulness, pays scant regard to the historical evidence, has created the myth of the "South-East Asian model". This model supposedly constitutes an empirical test of the effects of a strict application of the neoliberal paradigm: a small and passive role for the State, the liberalization of imports, a realistic exchange rate, the allocation of resour-

ces in accordance with the signals conveyed by a distortion-free price system and by the comparative advantages manifested in the market and, finally, the almost exclusive role of the market as an instrument for the allocation of resources, of the private sector as the leading agent of development, and of integration into the world economy as a stimulus for demand.

The customary counterpoint to this model in the neoliberal approach is Latin American Industrialization based on import substitution (ISI) and its theoretical underpinnings, i.e., the structuralist approach to development, which has been strongly influenced by ECLAC studies.

In the discussion that follows some of the main features of the Latin American structuralist approach will be examined on the basis of a number of studies by ECLAC, with emphasis on what, in the author's opinion, appear to be its strong and weak points. A critical analysis of structuralist proposals will be presented, and a more systematic examination will be made of the most significant ones.

The question of the current validity of such structuralist proposals for Latin American development will then be considered. The conclusion reached in the course of this discussion is that the main body of ECLAC's work will continue to be fully relevant —provided that its limitations in setting forth with sufficient clarity the instruments of economic policy are overcome, that greater importance is attached to monetary and financial questions and that a more in-depth exploration is undertaken of the requirements for a more effective type of State intervention.

It is clear, in any event, that over the next few years the economies of the region will have to come to grips with an inevitable structural adjustment involving substantial changes in the production structure and in the management of economic policy. However, depending on whether public development policies are passive or active, aggregate or selective, the economic and social consequences may be very different.

It is undeniable that the region's economies will have to allocate more of their resources to exports and to efficient import substitution. This may take place as part of a favourable scenario, i.e., within a context of growth, of an upswing in investment and of a diversification of

the export structure. Structural adjustment—in the sense of changes in the production structure— may also take place, however, in a situation marked by stagnation, declining investment and an increasing specialization in primary exports.

The latter scenario leads to an impoverishing sort of specialization, to a regressive adjustment which increasingly disrupts the production structure and engenders a dependency on short-term balance-of-payments adjustments, thereby setting the stage for a reduction of domestic demand and its inevitable recessionary aftermath.

It is therefore clear that the region must face up to the challenge of improving the quality of its international specialization by seeking a more active insertion in the dynamic spheres of international trade. This, first of all, presupposes putting a halt to the drain on its resources represented by the current net transfer of capital abroad. Otherwise, the idea of a sustained recovery, much less a transformation of the production structure, cannot be seriously entertained.

1. *Substitutive industrialization and the analytical framework of ECLAC*

Faced with the depression of the 1930s, the countries of Latin America tended to adopt policies providing for devaluations and cuts in expenditure in the hope that the crisis would be a passing phenomenon. As it became evident that the problem was of a more medium-term character, the countries began to place direct controls on imports and exchange controls on exports. These measures, which were designed to do no more than to contain the outflow of foreign exchange, were of an improvised nature and reflected the countries' inexperience in these matters (ECLAC, 1975). As pointed out on many occasions, this was a process of "unintentional industrialization" in the sense that an incidental effect of these economic policy decisions, which were intended to redress the disequilibrium in the balance of payments, was to modify price relationships and levels of protection in ways favouring domestic production.

The appearance of deliberate substitution policies was associated with the perceptive

studies carried out by Prebisch in the 1950s, when he began to articulate what subsequently became known as "the ECLAC approach".

According to this view, the world economy is composed of two major segments which interact with each other: the centre and the periphery. Their production structures are dissimilar, since in the periphery they are heterogeneous and specialized, while in the centre they are homogeneous and diversified. These differences determine the types of trade and technology transfer that take place in the world economy. In the long run, the economic evolution of this system causes the periphery to lag behind in both productive and technological terms and leads to a deterioration in its terms of trade (Rodríguez, 1980).

The school of thought associated with ECLAC thus gradually coalesced around the following elements:

a) *Criticism of the traditional theory of foreign trade.* Such criticism was prompted by the observation that the kind of specialization which arose out of the international division of labour led the peripheral economies to produce foodstuffs and raw materials for the economies of the centre, while importing manufactures and equipment in exchange. According to Prebisch (1950), this pattern was reflected in a more or less continuous deterioration in the terms of trade and in external-sector bottlenecks.

The deterioration in the terms of trade, in its turn, was attributed to the retention of the benefits of technological progress in the central economies, inasmuch as increases in productivity in such economies were distributed between labour and capital rather than being transmitted, through lower prices for manufactured goods, to the periphery, as predicted by the classical theory of foreign trade. In contrast, increases in productivity in the exporting enclaves situated in the periphery were transferred to the central economies because of the weakness of trade unions in the peripheral countries.

Other reasons given for this deterioration include: i) the low income elasticity of primary products; ii) the widespread substitution of synthetics for commodities; iii) the reduction in the amount of primary commodity inputs per pro-

duct unit brought about by technological change; and iv) the protectionist policies adopted by the central economies (Prebisch, 1950 and 1951).

According to this approach, the disparity in income between the centre and the periphery could be corrected through industrialization, which could enhance the efficiency of production and facilitate access to technological advances, and through proper social legislation, aimed at producing a gradual increase in real wages that would be commensurate with increases in productivity (Prebisch, 1950).

b) *Arguments in favour of industrialization.* Industrialization was regarded as the only valid means available to the countries of Latin America of deriving benefit from the advantages of technological progress. It would permit them to achieve a more dynamic and autonomous type of development that would be less vulnerable to external influences, to absorb an increasing amount of manpower, raise productivity and gradually improve the standard of living of the masses (Prebisch, 1950).

This argument against the traditional theory of foreign trade and in favour of industrialization had clear implications for the macroeconomic balance, since it posited that the chief limitation to growth was the scarcity of foreign exchange rather than insufficient domestic savings. On the other hand, the characteristics of the external sector were seen as invalidating the option of reallocating resources to the export sector, since it had been demonstrated that static comparative advantages led to a specialization in primary commodities, and this did not guarantee the dynamic efficiency advocated by Prebisch. Trade policy should thus seek to effect a permanent restructuring of relative domestic prices in favour of the industrial sector rather than confining its efforts to the achievement of a temporary equilibrium in the balance of payments (Fishlow, 1985).

In order to promote industrialization, a suitable policy of protection—an instrument that has played a fundamental role in all contemporary cases of industrialization—was considered essential.

"There are two principles, the frank recognition of which would exert a substantial influence on the policy of the Latin American countries as regards their trade relations both with indus-

trialized countries and with each other. Firstly, in differing degrees according to individual countries, industrialization is an inevitable feature of economic development. Secondly, a reasonable measure of protection is generally indispensable for industrialization" (Prebisch, 1954).

However, it was not a question of promoting just any kind of protection. Attention was drawn to the fact that it was necessary to make a choice: "There are two types of protection in developing countries. Firstly a type of protection exists which encourages the structural changes required by economic development without provoking a reduction in imports below the volume corresponding to the capacity for external payment and without either reducing world trade or weakening its rate of growth. Secondly, there is the type of protection which exceeds these limits and adversely affects world trade" (Prebisch, 1954).

Great importance was, then, clearly attached to a programmed selectivity in import substitution, especially with a view to dealing with the economic cycle from a strategic perspective. Prebisch had shown that within the region increases in the inflow of foreign-exchange in the form of export earnings did not lead to an expansion of reserves, but rather to a rapid rise in imports. On the other hand, when foreign sales declined, the Latin American countries usually found themselves faced with an asymmetrical structure of consumption, since consumers, who had become accustomed to a large supply of imports, had difficulty in adjusting to the reduced availability of foreign exchange. This led to an improvised effort at import substitution, which was undertaken only after the corresponding balance-of-payments crisis had already begun.

"Above all, it is essential to adopt substitution measures in advance without waiting until external disequilibrium imposes them, as an unavoidable necessity. It is precisely in the ascending phase, when savings are mounting and there are greater resources for importing capital goods, that special emphasis should be laid on substitution policy" (Prebisch, 1963).

In so far as the import substitution effort tended to be indiscriminate, the result was the emergence of a new type of vulnerability on the

part of these Latin American countries in their relationships with the rest of the world.

It remains a paradox that industrialization, instead of helping greatly to soften the internal impact of external fluctuations, is bringing us to a new and unknown type of external vulnerability... it is essential to formulate a substitution policy whereby the requirements of economic feasibility [the term today would be efficiency] and the aim of endowing the economy with the strongest possible structural resistance to external fluctuations are combined.

Reasons of economic feasibility should induce us again to create a situation in which it would be possible to import a wide range of finished consumer goods for which substitution production would be less economic than that of other goods whose manufacture would enable the reducible margin of imports to be restored in whole or in part, an essential condition of anti-cyclic flexibility" (Prebisch, 1963).

c) *Planning as a development imperative.* ECLAC's analysis indicated that the spontaneous interplay of market forces sharpened the contradictions of industrialization in the periphery: a structural tendency towards external disequilibrium, structural unemployment, and intersectoral productive imbalances (Rodríguez, 1980). Industrialization therefore had to be given a direction, that is to say, it had to be programmed. The development process was seen as being a result of policy rather than as a spontaneous creation of the market. The State should direct the accumulation of capital and infrastructural developments and should at least supervise major industrial projects. It was considered necessary for public enterprises to engage in those activities that were beyond the scope of the private sector and for the activities of the latter to be regulated by the State (Fishlow, 1985). Thus, for example, it was asserted that sectoral plans needed to be formulated in order to deal with the bottlenecks affecting the economy (energy, transport, basic industries), to promote specific industries, and to strengthen the links between agriculture and industry. This, in turn, called for the design of investment plans, which would require financing and which would have both real and financial repercussions on the economy as a whole (Prebisch, 1952). In other words, the rationalization of government action

and the indispensable link between short- and medium-term policies required that development be programmed, particularly in areas such as capital accumulation, external trade and the correction of the excessive social and geographic disparities (Prebisch, 1971).

In another study, Prebisch introduced three new considerations into the debate concerning the scope of economic intervention by the State. He contended that such intervention was essential in order to lessen the vulnerability of the domestic economy to excessively sharp external fluctuations and suggested that the most appropriate form of intervention would consist of strengthening and diversifying the domestic production structure, in accordance with criteria of productive efficiency. By the same token, he argued that government intervention in the banking sector was necessary in order to increase the supply of medium- and long-term credit and of development loans; all of this, far from being detrimental to private activity, would serve as an effective complement to private business activities and as a mechanism for their promotion. Lastly, Prebisch maintained that a forward-looking economic development policy required that the State should play a sustained and far-reaching role in the sphere of technology (Prebisch, 1954).

d) *The functionality of external financing and of direct foreign investment.* Given the need for foreign exchange and the inadequacy of domestic savings, external financing was regarded as a necessary element of the industrialization strategy advocated by ECLAC. However, such inflows were of interest only in so far as the net contribution they made, i.e., contributions in respect of costs, terms and remittances of profits and interest which would actually help to expand the import capacity of the peripheral economies. In any event, recourse to external financing was considered to be an essentially transitory expedient, since it was postulated that in the medium term the national character of development should be reflected in a substantial component of domestic financing.

e) *Regional integration.* The idea of integration played a key role in the analyses formulated by ECLAC. In view of the small size of domestic markets and the need to use technologies requiring large production scales, regional integration

was seen as offering the economies of the region an opportunity for industrial specialization, which would allow them to reduce their underutilization of capital and the inefficiency of the production process. In addition, it would facilitate the diversification of exports and would promote a learning process in preparation for a subsequent effort to penetrate the markets of other parts of the world.

This concern was present early on, as may be seen in a classic study by Prebisch: "The present division of markets, with its consequent inefficiency, constitutes another limitation of industrial growth, in this case one which could be overcome by the combined efforts of countries which, by reason of their geographical position and economic features, would be able to undertake it to their general advantage" (Prebisch, 1950).

Five years later it was observed that the form of industrialization being promoted by the governments was neglecting this key area, and renewed emphasis was placed on the need for integration: "Industrialization is developing in 'water-tight' compartments of national economies, and trade in industrial products between Latin American countries is very rare. While industrialization merely covered those goods for which the national market permitted enterprises of sufficient size to be established, this industrial isolation was no cause for serious concern. But when, to meet the needs of development, industrialization is extended to goods which can only be economically produced by mass production methods which exceed the demand of the domestic market, it is imperative to organize reciprocal trade between the Latin American countries" (Prebisch, 1954).

Three years later these efforts yielded partially satisfactory results. During the seventh session of ECLAC (La Paz, May 1957), the governments of the region requested that this body collaborate in the formation of a regional market. Accordingly, ECLAC convened a commission composed of distinguished Latin Americans who drew up the "Bases for the formation of the Latin American regional market" (see *Boletín Económico de América Latina*, vol. 3, No. 1, March 1958, Santiago, Chile, United Nations). This document restated the arguments previously advanced by ECLAC, i.e., the

need to articulate national industrialization efforts on the basis of an integration scheme which would permit the countries in question to expand their markets and to take greater advantage of the available technological potential.

Since external bottlenecks were seen as constituting a severe restriction on development, a forward-looking attempt was made in the early 1970s to explore three mutually-complementary means of giving impetus to the process of industrialization: a regional integration-based import substitution programme designed to achieve a 20% reduction in the potential external trade deficit projected for the 1980s; a manufacturing export policy aimed at easing external bottlenecks by 37%; and an increase in net external financing, which was expected to lower the potential trade deficit by 10% (these percentages were calculated on the basis of the potential trade deficit corresponding to trend projections (González, 1972). The idea of integration was linked to the notion of a transformation of production which would be in keeping with an increase in efficiency and technological development and complementary to the export of manufactures. The sectors called upon to participate in by this programme were the mechanical, basic chemicals, iron and steel, paper and pulp, and petroleum and petroleum products industries, in other words, those sectors in which economies of scale were significant.

This transformation of production would have to go hand in hand with a change in the structure of demand. Thus, for example, growth in the mechanical industry, which had been based on consumer durables up until that time, would be reoriented towards the production of capital goods with a view to mitigating external bottlenecks, making the process of capitalization more autonomous and promoting technological development (González, 1972).

f) *The need for structural changes and an integral view of the development process.* ECLAC's studies during this period highlighted the inadequacy of traditional analyses, which saw economic development as a by-product of the free market, of the spontaneous operation of the socioeconomic system and of the management of aggregate demand. In the context of the extremely heterogeneous peripheral economies, ECLAC's analyses underscored the need for an

explicit willingness on the part of the government to intervene in the economy, in a rational and systematic manner through the planning process.

However, this did not seem to be enough. Development is not merely a question of growth; it also involves changes in the productive, demographic, occupational and distributive structures, all of which are more than mere automatic by-products of increases in per capita income. Moreover, from its very inception the process of industrialization in the region laboured under the burdensome legacy of the types of specialization and heterogeneity that had originated during the period of externally-oriented development (Rodríguez, 1980); hence, what was required was not just any kind of growth, but rather a form of growth which, as well as diversifying production and increasing the average productivity of labour, would help to strengthen the links among productive sectors, to extend the region's export activities to include products other than commodities and to reduce the technological gap. The existence of a significant degree of structural heterogeneity in the region augmented the importance of these objectives. Indeed, it was observed that the modern sector's capacity for dissemination, rather than homogenizing the production structure, heightened its heterogeneity and produced a "three-way concentration" of the benefits of technological progress: at the social level, at the level of the economic stratas and at the regional level (Pinto, 1973).

An important conclusion was drawn from this fact: the generic formulation of requirements for development (an increase in the investment coefficient, improvements in the system of taxation, the streamlining of financial mechanisms, etc.) did not suffice, because the logic of the model led to an increasing degree of heterogeneity. An alternative was required whose central elements would be based on the advancement and dissemination of technological progress, the expansion of the domestic market, the homogenization of the production system and the attainment of a greater degree of autonomy and self-sufficiency in respect of the dynamics of growth (Pinto, 1973).

The above considerations once again raised the issue of structural reforms, and particularly

agrarian reform, inasmuch as the coexistence of *latifundios* and *minifundios*, as well as various insecure forms of landholding, resulted in a lack of flexibility in agricultural supply and in an oversupply of labour (Rodríguez, 1980). Another no less important task was fiscal reform, particularly as regards the revision of the taxation system so as to make it more progressive and more dependent on income taxes.

The need for these structural transformations constituted an additional argument against an exclusive reliance on the pricing system as the main tool of development. Indeed, the concentrated ownership of land, technological backwardness and the fact that labour was tied to the land for non-economic reasons and was therefore artificially cheap diminished the effectiveness of relative prices as an instrument for determining the allocation of resources (Fishlow, 1985). Merely increasing the relative prices of agricultural products would guarantee neither an expansion of the supply of foodstuffs nor a greater demand for industrial goods, much less the modernization of the sector, as long as the agricultural sector continued to be technologically backward and to be concentrated in the hands of a few.

These redistribution initiatives —which sought to alter the distribution of assets (land) and of income flows (taxes, fiscal expenditure, income policies)— soon ran up against the rigidity of the distributive structures concerned, which in turn reflected the power structures existing in the societies of the region. This meant that an additional step had to be taken: development had to be viewed as an integral process encompassing economic elements, the political and social structure and institutional determinants.

g) *Emphasis on the social dimension of development.* From the very start ECLAC was concerned about the structural heterogeneity of the region's economies, its tendency towards structural unemployment and its failure to adapt incoming technologies, inasmuch as these factors accounted for the fact that vast sectors of the population were unemployed or underemployed and for the low levels of capital and of productivity (Prebisch, 1950). These factors were at the very root of rural and urban poverty, of migration phenomena and, indeed, of the processes of

fragmentary modernization and limited social participation characteristic of ISI.

In the light of these circumstances a number of pioneering studies were undertaken on the distribution of income and poverty, at the same time as diagnostic studies were being prepared on social deficits in areas such as housing, health and education. Subsequently, these studies were complemented by ILPES studies on social policies and by research on employment carried out by PREALC.

The approach taken by ECLAC was aimed at modifying the position of the regional economies in the international division of labour and advocated a type of industrialization which would be based mainly on the expansion of the domestic market with a view to providing substitutes for imports or meeting new demands as they arose with locally-produced goods and services. This process relied on the action of the State as a major executing agent which would co-ordinate its efforts with the private sector and it underscored the importance of the public sector in matters related to finance, investment, infrastructure and technological development.

The rationale of this type of industrialization lay in planning, which was assigned an important role in directing the process of investment and financing so as to overcome the bottlenecks hindering the achievement of a more sustained form of development.¹

This kind of industrialization was aimed at promoting a more autonomous sort of development within whose framework domestic agents should assume an increasingly greater role in the provision of financing. This in turn, created a need for major reforms in the financial and taxation systems. By the same token, a number of structural transformations in the landholding and educational systems would have to be made and new policies on foreign investment would have to be formulated in order to safeguard national interests.

¹An assessment of planning in the region falls outside the scope of this article. It should be noted, however, that this inclination towards large projects and the "real" sector of the economy led to an underestimation of the financial impacts of government action. This had the effect of gradually relegating planning to a position of secondary importance, in which it became characterized by rigidity and formalism, since its limited links to short-term policies prevented it from responding in a timely manner to economic problems as they arose.

Added to this was the realization that, despite the high rates of growth being registered, the economic system was incapable of reducing the scale of marginality and social exclusion. In the light of this fact, the concern felt about the social development effects of industrialization gave rise to a complex analysis of social actors, alliances and hegemonies and of the political viability of proposals under consideration.

This area may constitute the weak link in the proposals put forward by ECLAC. Although these proposals took into account the sociopolitical complexity of the tasks of development, they tended to place great emphasis on one agent—the State—and to assume that this agent was endowed with the capacity to distance itself from the sociopolitical environment which had produced it and to modify this environment to suit the industrialization programme. An indepth consideration of the role of the State as an economic agent and as an arena for social and political conflicts was conspicuously absent from these industrialization proposals. While they did indeed characterize the State as a leading agent of development, and as a vehicle for the technical rationality manifested in planning, as well as attributing to it a scope of action greater than that suggested by Keynesianism (since the State would be called upon to undertake structural reforms), they failed to include a rigorous examination of the possibilities and limitations of the Latin American State in carrying out these tasks (Gurrieri, 1987).

This sociological tendency may, to some extent, be accounted for by the fact that ECLAC's thinking was historically conditioned by the concrete processes of industrialization and development examined by its analysts. In this connection, the experiences of Brazil, Mexico and Chile, in particular during the 1940s and 1950s, provided examples of active States which were supported by relatively broad social alliances and which had to their credit an encouraging record as regards good industrial showings and the promotion of new economic activities. Where these proposals erred was probably in their linear extrapolation of this trend in time and in space, as if it were necessarily permanent, and in their failure to take account of the experience of other Latin American societies.

Thus the characteristics of the production structure, of the technological profile and of the resulting demand structure combined to create a concentrative pattern of distribution and, in the case of the more dynamic economies, an excessively diversified pattern of consumption in relation to average national income.

Moreover, the location of industry, the type of demand which manufacturing activity sought to satisfy and the nature of its intersectoral relations with agriculture led to an excessive urban growth, to an overexpansion of services—most of them of low productivity—and to continuous rural-urban migration which increased unemployment and urban marginality. The persistence of large landholding structures and the economic and sociopolitical exclusion of the peasantry constituted the framework for this process, whose net result was to curb the supply of agricultural commodities. At a later stage, when ISI moved on to more complex phases involving the substitution of intermediate and capital goods, which required the use of more resources, this discouragement of the production of foodstuffs was aggravated by policies designed to hold down agricultural prices with a view to safeguarding the purchasing power of urban wages, which was threatened by the limited effectiveness of ISI in the area of job creation.

In short, although the ISI model successfully promoted the expansion and modernization of the production structure, with marked effects on employment and income, this growth—more than 5% per annum over three decades—was not manifested in any significant reduction in poverty. This provided categorical proof that while growth was essential to overcoming the bane of poverty, it alone was not enough, since the nature and content of this process and the effectiveness and scope of social policies were also determinants.

Thus, despite its considerable contribution to growth, by the end of the 1950s the ISI model had been shown to have serious shortcomings in respect of the balance of payments and technological dynamism, as well as a marked inability to resolve the problems of employment and poverty in Latin America.

“Import substitution policy, while reflecting an inevitable structural change, has been carried out with very serious flaws. Very often consider-

ations of economic feasibility have not been given their due, and it was not until recently that an attempt was made to break the confining bonds of national markets by means of the gradual economic integration of our countries. First and foremost, this policy has been applied in a discriminatory way, without promoting a corresponding expansion in exports, and thus it has been carried farther than it might have been under other circumstances."

The cost of substitution has thus been exaggerated to the detriment of mass consumption, particularly when the increase in productivity has been small in the rest of the economy. (Prebisch, 1961).

Consequently, the results of this model were unsatisfactory. This form of "industrial development is taking place in watertight compartments, under the strong protection of high tariff barriers and of restrictions and prohibitions that eliminate external competition and hamper the assimilation of technological progress and the efficient use of the factors of production... Industrialization on these lines is inefficient and costly for the all-too-well-known reasons: markets are small and the spur of competition is lacking. The process bears within itself the seeds of its own loss of dynamism, since industrial development takes place within a closed circuit of costs and prices which, because it has no contact with the world market, discourages exports of manufactures; and these are really essential, for industry needs to stretch outward in order to develop inward in depth" (Prebisch, 1971, pp. 193-194).

2. ISI, structuralism and economic policy

In taking stock of the situation, it becomes relatively clear that economic policy was one of the areas that was neglected by the structuralist formulation. Its emphasis on the structural characteristics of socioeconomic phenomena led to a kind of unconcern for short-term instruments of economic policy. One of the failings of structuralism has probably laid in its extrapolation, without deeper analysis of the characteristics of development processes in the Southern Cone to the rest of Latin America. Valuable instruments of analysis thus lost their relevance through their somewhat mechanical application to other

contexts, inasmuch as one of the principal characteristics of the region is the great heterogeneity of the various national experiences. For example, the debate on inflation and growth might have taken on other dimensions if developments in Central America had been followed more closely. The integration process in this zone represented a significant source of dynamism for industrial exports, and the average growth rate during the period 1950-1980 of more than 5% per annum was accompanied by a marked degree of financial, fiscal and price stability, even though all this was achieved at the cost of a pattern of development that was more exclusionary than that of South America.

i) In the case of *inflation*, the structuralist position was at first ambiguous. Inflation was at times considered to be a more or less unavoidable by-product of growth; at other times, it was viewed as the result of economic stagnation and of structural pressures on price levels. At all times, at any rate, a major component of distributive conflict was attributed to it. Highlighting, in many cases accurately, the structural environment of the inflationary process —basic inflationary pressures, circumstantial and cumulative pressures, and propagation mechanisms), a noted exponent of the structuralist school stated that: "The underlying sources of inflation in the less developed countries lie in the basic problems of economic development and in the structural characteristics of the production system of these countries" (Sunkel, 1958).

While this assertion in itself cannot be faulted, there is also such a thing as an error of omission, and in this case it should be recognized that the structuralist paradigm underestimated the potential of monetary, fiscal and exchange rate policies to combat inflation (Fishlow, 1985). Similarly, the question of stabilization was virtually absent from the initial agenda of structuralism. It was believed that domestic stability would be achieved through development, in other words, by overcoming the rigidities of the agricultural structure, the taxation system, etc. External stability, for its part, was seen as being attainable only through a form of industrialization which would overcome external bottlenecks. Concerns about stabilization and the transmission of external shocks were thus characterized by a short-term focus whenever these

matters bore no direct and immediate connection to structural constraints.

This in some way helped to create an official—academic and political—tolerance of inflation and fiscal deficits. The Latin American—or South American, to be more exact—structuralist mentality was reflected in a lack of concern about inflation which disappeared only in situations where the rate of inflation surged far beyond the usual levels of the period. At such times, the response that came most readily to mind was to curb prices through an active policy of administrative price controls (Fishlow, 1985).

ii) As regards *protection policies*, the objective of bringing about a permanent change in relative domestic prices in favour of industry led to the widespread introduction of high and differentiated tariffs, which, moreover, were then maintained or, in some cases, gradually raised. This led in turn to greater inefficiency, since industry was guaranteed a profit, while at the same time protection for agriculture and incentives for exports were eliminated. In addition, it led to the proliferation of various controls on foreign trade and on the foreign exchange market as a result of the inability of tariff and para-tariff mechanisms to balance the countries' external accounts. Finally, it also made it necessary to maintain the real exchange rate at an artificially low level as a result of the administrative contraction of imports and, in other cases, of the fiscal authorities' need to absorb a portion of the exporters' surplus which was difficult to secure through ordinary tax mechanisms (as in the case of foreign-owned property of export enclaves and in that of agro-exporting oligarchies).

The emergence of the concept of "effective protection" has brought out other dimensions of the protection policy associated with ISI. This concept demonstrates that an economy cannot protect all of its sectors, since when economic policy favours one of them, it necessarily discriminates against the rest. It also shows how import restrictions end up by limiting exports and how, a very moderate structure of nominal tariffs can lead to a system of excessive and economically unjustified net incentives (Corbo, 1985).

Actually, protection should be measured in terms of its impact on the value added, since the

relevant concept of protection does not refer to the nominal tariff protecting a final product, but rather to that resulting from a comparison of this nominal rate with the weighted rate applying to the inputs used in the good's production (Corden, 1971). As long as there are high tariffs, and differentiated tariffs, an entrepreneur will naturally seek to maximize the difference between the protection of the good he produces and the protection of the inputs which he must purchase. ISI when it is chiefly based on tariff protection, will therefore tend towards a highly differentiated tariff structure as a result of the pressures exerted by businesses in an effort to improve their relative profitability. The "investment" made in bringing pressure to bear on the public sector thus ensures comfortable profits for such businesses while allowing them to avoid undertaking a more complicated process of technological innovation, cost reduction, penetration of external markets, etc.

The fact that government involvement in the administration of such protection was not based on economic criteria tended to create an opportunity for discretionary actions—exemptions, concessions, tariff surcharges, etc.—which were clearly linked to the manoeuvring skill and relative powerfulness of the social actors involved. Such pressures could hardly be expected to come from the poorer and less organized sectors; as a result, this system of resource allocation ultimately had an indirect regressive impact on the degree of equity existing in the societies concerned.

Since, protection also increased the price of imported goods, it entailed a relative improvement in respect of the factor that was most intensively used in their production (capital), in conformity with the Stolper-Samuelson theory. The choice of technology was also biased in favour of those that served to help meet the demand of high- and medium-income groups, i.e., in favour of a prematurely diversified consumption pattern involving an excessive proportion of luxury items when measured against the average income of the economies of the region.

Prebisch's concern with the question of productive efficiency and his criticism of the characteristics of the type of protection utilized in the region are recurrent themes in his writings and

must therefore be included in any thorough review of this period of history.

"The criterion by which the choice [of which imports to provide substitutes for] was determined was based not on considerations of economic expediency, but on immediate feasibility, whatever the cost of production.

"The tendency has been for prohibitions and restrictions to take the form of customs tariffs. This is a step in the right direction. However, these tariffs have been carried to such a pitch that they are undoubtedly —on an average— the highest in the world. It is not uncommon to find tariff duties of over 500 per cent.

"As is well known, the proliferation of industries of every kind in a closed market has deprived the Latin American countries of the advantages of specialization and economies of scale, and, owing to the protection afforded by excessive tariff duties and restrictions, a healthy form of internal competition has failed to develop, to the detriment of efficient production" (Prebisch, 1963).

Nor did Prebisch fail to see the macroeconomic link between such excessive protection and disincentives to exports:

"The closed industrialization fostered by excessive protectionism, as well as the unduly high customs tariffs applied to some staple agricultural commodities, have created a cost structure which makes it extremely difficult for Latin America to export manufactured goods to the rest of the world" (Prebisch, 1963).

This gave rise to his proposal for trade liberalization based on the expansion of non-traditional exports:

"The customs tariffs in force for the rest of the world must gradually be lowered, both in the light of economic expediency and to ensure that industry is constantly encouraged by external competition to narrow the gap in productivity *vis-à-vis* the major centres" (Prebisch, 1963).

In this proposal Prebisch suggested that the reduction of customs tariffs should be gradual and should be in keeping with the expected increase in exports. In order to modify the cost and price structure affecting exports, he proposed a devaluation proportional to the reduction in customs tariffs, together with a special tax to prevent excessive profits from being earned on traditional exports. This tax, would

also compensate for the shortfall in fiscal revenue caused by the reduction in customs tariffs (Prebisch, 1963).

iii) *Macroeconomic balance*. The ISI model tended to produce a progressive imbalance in external transactions, thereby giving rise to a pattern of growth that entailed a high risk of inflation. The undervaluation of the exchange rate reduced the medium-term exportable supply, the supply of foodstuffs and the availability of foreign exchange, the latter being a crucial element in determining the possibilities for an expansion of industrial investment.

Discrimination against agriculture eroded the surplus available for transfer to industry. To the extent that this surplus decreased, the State had to provide proportionately greater subsidies for industrial investments in the form of *ad hoc* subsidies and various tax exemptions (Fishlow, 1985) due to the higher relative cost of urban labour. The use of these policy instruments, in addition to severely affecting the transparency of resource allocation, placed constraints on fiscal resources because it reduced the possible sources of revenue and increased the pressures for expenditures.

A great deal has been written about the crowding out of fiscal policy on private investment, i.e., about the impact on the credit market of the Treasury's need to engage in domestic borrowing in order to finance its current imbalances, which pushes up the interest rate and ultimately acts as a disincentive to private investment. It would be useful, however, to look further into the economic history of ISI with a view to considering the other side of the coin: the sum total of the pressures brought to bear by entrepreneurs on the public budget with the object of reducing their share of taxes and increasing their share in public expenditures.

Because the dynamic insufficiency of the growth process made it difficult to provide productive work for the entire urban labour force, in various countries the public sector became the employer of last resort, particularly for intermediate sectors and professional groups, in the interests of the sociopolitical stability of the model.

The chronic fiscal deficit associated with ISI may therefore be attributed not only to a poor handling of economic policy, but also to the type

of political and social alliances underlying it and to the role which these alliances assigned to the State in their plans for accumulation.

The monetization of the fiscal deficit produced demand-pull inflation, which made it necessary to increase the "inflation tax" in order to finance the public sector and to sustain investment rates. The resulting inflation eroded real wages and created a need, depending on the political context, for periodic wage readjustments, which fueled inflation further by introducing a cost-push dimension. The effects of inflation on the countries' external accounts led to sudden and unavoidable devaluations, producing in turn further cost-push inflation which did not respond to attempts to reduce it by means of sharp contractions in demand (Fishlow, 1985).

The short-term macroeconomic conditions thus provided a strong stimulus for the creation of a rent-seeking environment. A context of high inflation and substantial fluctuations in relative prices sends out signals which lead the business sector to specialize in obtaining timely information that will enable entrepreneurs to anticipate such changes. In this manner, rational individual behaviour—the reduction of uncertainty—was transformed into a perverse social and macroeconomic behaviour pattern. Entrepreneurial agents devoted much of their efforts, creativity and resources to forecasting economic policy "shocks" and to gearing their asset portfolios to the expected changes. The authorities' manoeuvring room in applying the inflation tax was progressively reduced by the rapid adjustment of expectations, thus pushing inflation up still further. Since the different economic agents' capacity to defend themselves against the inflation tax varied, this speculative factor also contributed to the regressive trend in the pattern of income distribution.

In short, ISI failed to ensure the stability of short-term macroeconomic conditions, thus indirectly discouraging efforts to achieve productive efficiency, technological innovation and long-term investment.

iv) *Structuralism and "real economic policies"*. According to the unrelenting neoliberal rhetoric, the anti-export bias is the direct result of ECLAC studies. However, to the surprise of many, nothing that directly backs this assertion up is to be found in the principal studies of

ECLAC. Indeed, Prebisch consistently expressed a clear concern in this regard: "The more active Latin America's foreign trade, the greater the possibility of increasing productivity by means of intensive capital formation. The solution does not lie in growth at the expense of foreign trade, but in knowing how to extract, from continually growing foreign trade, the elements that will promote economic development" (Prebisch, 1950, p. 2).

The arguments advanced in subsequent ECLAC studies followed the same lines, noting that the specific modality of ISI that was applied displayed weaknesses in: i) the autarkic character of industrial production; ii) the absence of selectivity and, consequently, the absence of economic considerations in the criteria for protection and, iii) the inability to correct external vulnerability, which in practice had led to a situation that discriminated against exports (ECLAC, 1977). The failure to attach sufficient importance to gaining access to external markets precluded the exploitation of economies of scale and made it difficult to achieve more efficient specialization. This excessive and indiscriminate protection of domestic industry took place, moreover, in a context of uncompetitive industrial sectors, so that it may be said that this policy also favoured the development of national monopolies and oligopolies, as well as of branches of transnational corporations (ECLAC, 1977).

In view of the difficulties encountered by the ISI strategy in the 1960s, ECLAC emphasized the importance of a policy of promoting exports of manufactures in order to improve the trade balance and give greater impetus to industrial development. In this regard, three aspects were highlighted: i) the possibility of exporting manufactures depends not only on the sectors that are directly involved, but also on the efficiency of the economy as a whole, ii) a large and dynamic domestic market constitutes an excellent basis of support for export activities, and iii) there is some degree of inter-temporal complementarity between an effective import substitution policy and a policy of exporting manufactures (González, 1972).

According to another widely-heard neoliberal criticism of ISI, the latter had become biased against agriculture, as reflected in the continuing

decline in the latter sector's terms of trade with industry and in the low or negative effective protection levels granted to agricultural products. However, this incorrect sectoral articulation—which, did indeed arise from the industrialization process and which is one of the chief characteristics of Latin American development—cannot, in all honesty, be blamed on ECLAC.

"The industrialization of Latin America is not incompatible with the efficient development of primary production. On the contrary, the availability of the best capital equipment and the prompt adoption of new techniques are essential if the development of industry is to fulfil the social objective of raising the standard of living. The same is true of the mechanization of agriculture. Primary products must be exported to allow for the importation of the considerable quantity of capital goods needed" (Prebisch, 1950, p. 2).

A general criticism levelled by neoliberalism against ISI concerns the inefficiency to which it is alleged to give rise in the allocation of resources among the sectors that produce internationally tradeable goods—exportable and importable—and between these tradeable products and non-tradeable goods. The imposition of a protective tariff leads to higher costs of consumption and production, since it causes domestic oversupply at costs that exceed the international price. This over-production of importable goods reduces the resources available for the other sectors, causing a contraction in the production of exportables and non-tradeable goods. The tariff leads to a lower level of consumption of importable goods, which are then produced domestically at a higher cost, and to a greater consumption of exportable goods, with a price spread higher than it would have been at international prices (Corbo, 1985). On the other hand, the small size of the domestic markets, in terms of the technologies and scales of production adopted, led to an underutilization of the installed capacity and of labour, making it even more difficult to achieve greater industrial competitiveness.

At the risk of being repetitive, but in the interest of an objective debate, it must be emphasized that this concern was consistently reflected in the writings which gave rise to the concept of Latin American structuralism.

"In order to achieve this, the purpose of industrialization must be clearly defined. If industrialization is considered to be the means of attaining an autarkic ideal in which economic considerations are of secondary importance, any industry that can produce substitutes for imports is justifiable. If, however, the aim is to increase the measurable well-being of the masses, the limits beyond which more intensive industrialization might mean a decrease in productivity must be borne in mind" (Prebisch, 1950, p. 3).

And what are these limits? A reading of the above essay by Prebisch suggests the following:

- i) The efficient allocation of capital;
- ii) Attention to the optimum size of industrial enterprises;
- iii) Dynamic efficiency (increase in socially measurable productivity): "It would be a matter of discovering whether the increase in industrial production brought about by the factors diverted from primary production was or was not greater than the amount of goods formerly obtained in exchange for the exports. Only if it were greater, could it be said that there was an increase in productivity, from the standpoint of the community; if it were not, there would be a loss of real income." (Prebisch, 1950, p. 17).

A summary diagnostic study undertaken from the structuralist point of view might point out that although the region attained comparatively high rates of growth, this neither reduced the countries' vulnerability to external influences nor contributed to job creation and social participation to the degree expected. The dynamism of industrial growth was insufficient to establish an autonomous mechanism for capital accumulation, with the result that the leading role in industrialization, which was initially played by the public sector, was gradually transferred to foreign capital, particularly in the more dynamic economies. This was reflected in an increase in the external debt and in a gradual denationalization of the growth sectors.

Furthermore, the inefficiency in the adoption of alternative technologies caused the capital goods sector to fall behind, thus accentuating the considerable technological backwardness of the region's economies. As a result of costly protection policies which were not governed by criteria of selectivity—i.e., which were not

directed towards fostering a learning process and which did not provide for a gradual lowering of protective barriers— industrial activity tended to operate very inefficiently in both economic and technological terms. This was reflected in the diminished international competitiveness of manufactures, which exacerbated the existing external bottlenecks since the pressure on foreign exchange was heightened by the need to import inputs and capital goods. The Latin American industrial sector ended up being a source of demand, in net terms, for foreign exchange, due to its persistent trade deficit, which constituted the structural dimension of the external imbalance of the region. And since the bulk of the machinery and equipment in which the countries were investing was imported, the growth of the industrial sector remained subject to the performance of the primary exporting sector—the only domestic source of foreign exchange—and, at a later stage, to its association with foreign capital or to an increase in the external debt.

Thus arose a singular paradox: while the primary exporting sector suffered the ill effects of the exchange and tariff policies, it nonetheless served as the financier of last resort for industrial investment. In so far as the export sector remained relatively undiversified and continued to concentrate on products whose prices were highly erratic and which were of declining importance in world trade, the dynamism of the industrial sector, and consequently of ISI, came to depend to a crucial degree on the evolution of the value of primary exports. This intensified the economies' vulnerability to external trade shocks, inasmuch as the latter had come to be a determinant of investment and industrial employment, together with public-sector financing, which was highly dependent on the income earned from external trade. In other words, this type of industrialization functioned as a multiplier of external shocks, transmitting the ups and downs of the international economy to industry, to the public sector and to closely related activities such as construction.

Thus in the ISI model the incipient nature of the capital goods producing sector weakened the expansionary effect of investment on the domestic market and negatively affected the balance of payments. The investment multiplier fell as the imported component of investment rose, while,

on the other hand, the instability of export earnings imposed cyclical limits on the expansion of the industrial sector (Kalecki, 1953; Tavares, 1981).

The granting of excessive levels of protection to uncompetitive domestic industry tends to guarantee satisfactory profit levels even in cases where industry's utilization of equipment is low and its technological innovation is limited. A policy of indiscriminate protection thus encourages profit-seeking, instead of promoting innovation, competitiveness and cost reduction. Moreover, such over-equipping of industry is fostered by policies on relative factor prices which subsidize the use of capital (through customs exemptions, tax deductions on the importation of capital goods) and act as a disincentive to the employment of labour (e.g., the charging of the cost of employee benefits as payroll expenses). It is therefore possible to argue that the major differences between neoliberalism and structuralism do not lie in their diagnoses of the specific failings of industrialization in Latin America. Their differences crop up later on, in their overall interpretations of the situation and in their policy recommendations.

However, the renovation of the structuralist paradigm requires that its analytic and economic-policy framework should include an identification of the objective flaws of the industrialization process as a basis for the refinement of alternative proposals to the "structural adjustment" approach which is the essence of the renewed form of neoliberalism. This task lies far beyond the scope of the purposes of this article and the capacities of the author. Nevertheless, by drawing on various studies, a preliminary list of such problems may be suggested:

- i) An underestimation of short-term economic policy management, particularly as regards its monetary and financial impacts;
- ii) Neglect in the management of public enterprises, including an excessive tolerance of their financial deficits and of their conversion into semi-autonomous centres of power;
- iii) Over-confidence in the virtues of government intervention in the economy. The mere observation of market inefficiency tended to be seen as sufficient grounds for government intervention in certain activities, without any studies being carried out or

- any show of concern for the requirements of efficient public management;
- iv) Lack of transparency in the allocation of resources, as manifested in the proliferation of tax exemptions, in *ad hoc* spending and tariff measures, and in cases of huge capital gains as a result of the above;
 - v) The urban-industrial bias of economic policy. The scheme of latent cause and effect implicit in the ISI approach was, in a sense, one of industrialization as the vehicle for attaining growth and modernization. This has perhaps been the chief merit of structuralism: to incorporate into a development project the latent aspiration for modernity of the majority of Latin Americans. Perhaps, however, therein lies its principal weakness as well. The industrial bourgeoisie, the middle classes and the urban proletariat adopted the industrialist approach to modernization in so far as it served their aim of displacing the agrarian oligarchies from power. *But that was the only part of the structuralist message which they adopted*: its advocacy of the incorporation of considerations of economic efficiency and selectivity in decision-making and its concern about the irrationality of excessive protection, the relegation of agriculture and exports to a position of secondary importance, the need for integration, etc., were shunted to the wayside in the quest for industrialization at any cost.

The blame for this situation must be shared, since the significant changes, in terms of the expansion and diversification of production, which began to take place in the Latin American economies, with the aid of an active and interventionist State, as part of their more rapid processes of urbanization and economic growth tempered somewhat the misgivings which the structuralist school should have voiced in respect of the evolution of the countries' fiscal, financial and monetary imbalances.

The structuralism of ISI thus leaves a statist and industrialist legacy which must be revised with a view to the elaboration of a theory of social change that will be useful today, particularly if we aspire to more economically efficient and more socially inclusive models of development.

3. *The validity and revival of the proposal for structural change*

Twenty years ago an ECLAC document cited the following structural factors as basic causes of the insufficient dynamism and the social imbalances typical of Latin American development (ECLAC, 1971):

a) *Unsatisfactory political and institutional conditions*, which included the slowness of the process of political and social change and a resistance to the establishment of new institutional schemes for the promotion of development. The progress of agrarian reform programmes aptly illustrated these conditions. To this must be added the absence of banking, financial and tax reforms; the lack of national policies on foreign investment, with the consequent weakening and foreign acquisition of national enterprises; and, lastly, the obstacles to the expansion of intra-regional trade.

b) *The limited spread of technological progress*, in so far as the incorporation of technological advances constituted a circumscribed and limited kind of modernization, with a modern sector which was increasingly distancing itself from the rest of the economy in terms of productivity and income. The spontaneous dynamics of this process tended to sharpen this differentiation, along with its corollary of a pronounced geographic concentration of economic activity.

c) *Socially ineffective capital formation and a concentrated distribution of income*, whereby the high concentration of income in the region resulted in to a pattern of consumption by the upper economic strata that was excessively diversified in comparison with the average national income.

The concentration of income also affected the structure and sectoral allocation of investment by favouring consumption by high-income groups and depressing the demand for consumer goods by low-income sectors. The allocation, either directly or indirectly, of resources to the satisfaction of the demand of privileged groups reduced the amount of funds available for investment in the traditional industries producing goods for mass consumption and in social services. Moreover, it also reduced the production or importation of intermediate and capital goods which would have permitted an increase in pro-

ductivity in backward sectors and the creation of a larger number of productive jobs.

d) *The backwardness of the agricultural sector*, in which institutional, social and economic conditions prevailed that constituted a serious obstacle to development. These included the system of landholding and low crop yields.

e) *The weaknesses of substitutive industrialization*, notwithstanding its contribution to economic growth and to modernization. Excessive protection, indiscriminate substitution, inefficiency, high costs, plants of an inappropriate size, the waste of capital, low productivity, and the absence of specialization were some of the more significant shortcomings. It was asserted that it would not be easy to remedy these defects and that, in order to give fresh impetus to the process of industrialization, one possibility would be to invigorate domestic markets and to broaden industries' activities to include exporting. In order to expand the domestic market, it was recommended that redundant labour should be incorporated in a productive manner. Emphasis was placed on the need for a policy of income redistribution and on agrarian reform; in connection with the opening of industry to the outside world, it was suggested that integration should be promoted and that a more efficient and aggressive foreign trade policy should be adopted.

f) *The harmful ramifications of chronic inflation*, which in many cases tended to get out of control. With the laudable objective of redressing prior misguided biases, ECLAC expressed support for a determined effort to combat inflation, since, in addition to having the unfavourable effects already mentioned, inflation made it difficult to adopt medium-term decisions on income and prices, exchange rates, taxes and public expenditure, all of which were considered vital to any development policy.

"It must not be concluded from this vicious circle [of inflation and the structural barriers to development] that until certain structural features or deficiencies are remedied no steps can be taken to curb or control inflationary pressures. This is borne out to some extent by the different effects inflation has had on economies with very similar characteristics" (ECLAC, 1971, p. 11).

g) *The lack of an effective policy on external relations*. In addition to reviewing the origin of external constraints on Latin American develop-

ment, ECLAC underscored the need to promote a kind of growth that would be more closely tied in with dynamic international trade activities, and denounced the defensive and sterile character of the region's links to the traditional centres.

This argument concluded with an assertion which, unfortunately, remains fully valid in the late 1980s:

"It is obvious from its action in the international sphere that Latin America has not been strong enough to forestall or influence the adoption of decisions that have proved increasingly prejudicial to its interests, and that it has failed to act with the rapidity and vision necessary to adjust to the changes that have been taking place in international trade as a result of the economic and technological progress of the industrial centres" (ECLAC, 1971, p. 12).

The question now is whether ECLAC erred in its analysis of the 1960s, or, alternatively whether its analysis was correct for that period but irrelevant in the 1980s.

It is true that the region has changed considerably over the course of the last 20 years. However, these changes have tended to deepen the region's problems of structural heterogeneity and distributive concentration. Two decades of socially non-inclusive growth and of delays in implementing structural reforms have not enhanced the economic dynamism of the region, lessened its external vulnerability or reduced the incidence of extreme poverty.

In this regard, ECLAC's analysis remains fully valid in the late 1980s. Moreover, the concern expressed today about the question of structural adjustment actually constitutes a belated tribute to the Latin American structuralist school. This school of thought has always insisted that, in addition to the management of aggregate demand and relative prices, an attempt must be made to overcome the structural obstacles to the development of the region.

An updated structuralist analysis stresses three key aspects of the Latin American economy as of the late 1980s:

- i) The existence of a pattern of trade insertion which, in view of the trends in international trade, leads to a poverty-inducing type of specialization;
- ii) The prevalence of a pattern of production that is unco-ordinated, vulnerable, highly heterogeneous, concentrative in respect of

technological advances and hence incapable of productively absorbing the increase in the labour force; and,

- iii) The persistence of a highly concentrated and exclusionary pattern of income distribution which reflects the economic system's inability to bring about a significant reduction in extreme poverty.

These three aspects are closely related to each other and need to be addressed on an integral and simultaneous basis. This is what the term "structural change" seeks to convey. The question is one of creating a production structure which will enhance the trade insertion of the countries of the region, expand the creation of productive jobs, decrease structural heterogeneity, and thereby improve income distribution and reduce extreme poverty.

In the light of the current challenges facing Latin America, structural change in the region has a domestic facet and an external facet (PREALC, 1987). At the domestic level, the following problems need to be addressed:

- i) The insufficient creation of productive jobs;
- ii) The decline in real wages and in various social benefits;
- iii) The decline of the share of wages in national income;
- iv) The deepening of poverty.

At the external level, structural change must be oriented towards overcoming:

- i) The structural deterioration of Latin America's external trade (its persistent trade deficit in manufactures and its sharply declining surplus in the trade in primary products);
- ii) the growing need for external saving to deal with this structural erosion of trade relations. The substantial trade surpluses achieved in recent years, thanks to significant increases in the volume of primary exports, do not lessen the urgency of the need for changes in the system of production. On the contrary, they highlight this challenge, in view of the poor results of this export effort in terms of prices.

In the light of these challenges, the extent of structural change must not be reduced in order to maximize growth. Special attention needs to be devoted to the nature of this growth, the character of technological policies, the types of invest-

ment to be made, the link between agriculture and industry, the composition of employment, and the kind of financing to be used, to mention only some of the elements which are crucial to a modality of growth that will be compatible with structural change (García, 1987).

At this stage of the debate the following question is relevant: *what has become of the structural obstacles to development in Latin America in the 1980s?* If, as seems obvious, these obstacles have increased, and have been compounded by unprecedented conjunctural restrictions, then it must be concluded that special importance should be attached to the political economies of structural change.

The only valid context for such political economies is one which is characterized by both dynamism and equity. At the political level, the viability of structural change is enhanced by a scenario of concerted social action in respect of a national development effort.

Structural adjustment is thus one component of structural change, and consequently the stability of government policies, the logic governing decision-making in the processes of investment and financing, the tax structure, the region's international insertion and the institutionality of its factor markets, for example, should be examined within the wider framework of the structural changes called for in the economic, social and political spheres.

In any case, if the goal is a type of development whose principal objectives are growth, a transformation of the production structure, the improvement of the distribution of the fruits of growth, the achievement of a greater degree of autonomy, a reduction of external vulnerability and progress towards participatory and democratic societies (ECLAC, 1986), then it would clearly be unrealistic to expect structural adjustments serving the purposes of this strategy from stagnant economies with declining investment levels which are making net transfers of resources abroad.

In a recent document ECLAC highlighted this analytical approach when it stressed that development was not a spontaneous process, but rather one requiring a systematic and deliberate effort by governments and societies. The concept of a plurality of national approaches and the existence of a range of possible strategies were

acknowledged in this same document, but it was also emphasized that the most suitable scenarios for achieving this objective would probably be those that would permit the mobilization of social energies behind projects of social renewal within democratic and participatory frameworks (ECLAC, 1986).

It is for this reason that the debate on structural adjustment and especially the discussion of structural change, are inextricably linked to the

dialogue which is starting to take place in the region in regard to the notions of a more efficient and democratized State, a strengthened society and development efforts that would promote equity, decentralization and social and political participation, as well as flexibility, competitiveness and strategic economic adaptation. Within this framework, the renovation of the structuralist paradigm is surely a promising step.

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