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CONTENTS

An economic policy for development. <i>Norberto González.</i>	7
An assessment of the structuralist paradigm for Latin American development and the prospects for its renovation. <i>Orvaldo Rosales.</i>	19
An outline of a neo-structuralist approach. <i>Ricardo Ffrench-Davis.</i>	37
Neo-liberalism versus neo-structuralism in Latin America. <i>Sergio Bitar.</i>	45
The challenges facing Latin America in the world today. <i>Guillermo Maldonado Lince.</i>	63
International primary commodity marketing and Latin America. <i>Mikio Kuwayama.</i>	77
Urban employment: research and policy in Latin America. <i>Víctor E. Tokman.</i>	109
Small and medium-scale industry in the development of Latin America. <i>Mario Castillo and Claudio Cortellese.</i>	127
Prebisch's ideas on the world economy. <i>Armando Di Filippo.</i>	153
Prebisch: a classic and heterodox thinker. <i>Benjamin Hopenhayn.</i>	165
Raúl Prebisch central banker. <i>Felipe Pazos.</i>	179
Dependence, interdependence and development. <i>Raúl Prebisch.</i>	197
Recent ECLAC publications.	207

Neo-conservatism versus neo-structuralism in Latin America

*Sergio Bitar**

The devastating effect of the financial crisis has rekindled the debate in Latin America on development strategies. The short-term logic of the recessionary adjustment has proven to be unworkable, and in order to find a solution the formulation of a new kind of thinking aiming at structural change is now required.

From the North, the multilateral agencies and the governments of the industrialized countries, as well as certain research centres, have begun to use a language rather like that used in the region in the past, calling for "structural adjustment". What is involved, however, is an approach that tries to produce change through liberalization, privatization and market policies. This conceptual scheme, which in Latin America is termed "neo-liberalism", and in the U.S. and the U.K., "neo-conservatism", is also termed in this paper the "liberalizing/privatizing" approach.**

For a long time, a structuralist approach has prevailed in Latin America which, notwithstanding the different individual expressions it has assumed, has left its stamp on the concepts of economic development in Latin America. With the passage of time, the shortcomings of this approach have gradually been revealed, and it began to show signs of exhaustion, but in recent years this approach has gained renewed vigour, with the emergence of a better-articulated tendency which seeks to rise above the limitations and to make structural changes taking into account the new economic, financial and external and internal trade factors. In this article, this tendency is called "neo-structuralism" or "the mainstream thinking" of the region.

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**In Latin America the term "neo-liberalismo" is used to denominate economic measures aimed at privatization, deregulation, reduction of the role of the State, and greater opening-up to the exterior in the spheres of both trade and finance. In English, however, this policy approach is known rather as "neo-conservatism", part of the reason for this being that in Latin America "liberalism" is understood as referring to economic matters in this sense, whereas in English it is more closely associated with political considerations.

I

The new liberalizing/ privatizing approach

On the basis of a refined version of a model which had been applied in some Latin American countries from the mid-seventies, the World Bank, the IMF and the United States government began during the 1980s to promote a new strategy for the entire region. The purpose of this strategy is to induce a "structural adjustment" which will help to overcome the external debt crisis. This new policy has profound implications affecting the long-term evolution as well as the structure and method of functioning of our economies.

Structural adjustment loans, which were introduced in 1980, closely resemble those made under the "Extended Fund Facility" instituted by the IMF in 1974. When the latter was introduced it triggered off a fundamental change of strategy: trade liberalization, removal of price controls and restructuring of public enterprises (Haggard, 1985 cited in Sachs, 1986). The abrupt changes which subsequently occurred in the international financial system seriously affected such attempt. In March 1986 the IMF began to apply a new credit formula, that of the "Structural Adjustment Facility", which contains features very similar to the "Structural Adjustment Loans" of the World Bank (*IMF Survey*, June 29, 1987, pp. 196-197).

The new approach aims in the short term to reduce the size of the fiscal deficit and of public expenditure; to apply a strict monetary policy to curb inflation; and to keep up positive real interest rates and a "suitable" real exchange rate. The medium-term objectives, for their part, are to transform exports into the engine of growth; to liberalize foreign trade; to make maximum use of the market and reduce government regulations; to concentrate investment in the private sector and reduce the presence of the State sector; and to promote a price structure without "distortions".

The proponents of these measures are openly against import substitution; undervalued exchange rates; high and differentiated tariffs and non-tariff protection measures; negative

real interest rates; managed and artificially low prices for food and other mass-consumption goods; compulsory wage readjustments; tax and/or tariff exemptions; controls and/or subsidies in order to achieve redistribution effects; the shifting of resources to the public sector, etc.

The new orientation displayed by the World Bank was prompted by the Government of the United States. At the joint meeting of Governors of the Bank and the IMF held in Seoul, Korea, in October 1985, the Reagan administration formally initiated a process to correct its policies in respect of the Latin American debt, as it took cognizance of the fact that the new situation prevented the continuation of the strategy pursued since 1982 (Council of Economic Advisers, February 1986).

In the so-called "Baker Plan", the Secretary of the Treasury urged the World Bank to assume a more dominant role. He further stressed the dual need to grant fresh resources and to "correct" the development policies of the debtor countries. As he saw it, the availability of fresh resources in the World Bank would provide an effective instrument for producing such changes.

Among his main proposals were the following:

- Privatization of public enterprises and increase in the efficiency of non-privatized public enterprises, accompanied by less government interference in the economy.

- Greater opening-up of the capital and stock markets.

- Improvement of the "atmosphere" for national and foreign investment, liberalization of investment regulations and measures to reverse capital flight.

- Liberalization of trade and rationalization of import regulations.

- Tax reform to stimulate greater growth.

- Reform of the labour market so as to eliminate the rigidities which prevent a freer play of labour supply and demand.

- Correction of price distortions.

The intentions manifested in Seoul in October 1985 did not come to fruition, and the commercial banks continued to reduce their flows to Latin America. In 1986 their total loans to the region fell by US\$900 million, and they continued to decline in 1987 (data given by the Bank for International Settlements in *Latin American Report*, 31 July 1987). Although the World Bank offset this slide by increasing its loans, the total availability of multilateral loans in the countries covered by the Baker Plan still went down (Morgan Guaranty Trust Company, June-July 1987, page 1).

Furthermore, the growth rate in the industrialized countries has been low. This slowness and the subsequent protectionism led to the deterioration of the terms of trade and a consequent fall in the quantity and price of exports from the debtor countries.

The failure of the commercial banks to meet the demands set forth in the Baker Plan was clearly reflected in the decision taken by Citibank and followed by the major United States and British banks to set aside funds in order to write off their loans to the debtor countries.

After an abrupt change in the initial assumptions had led to the failure of the Secretary of the Treasury's initial plan, he made some changes in it. Firstly, he stressed the importance of the multilateral agencies and tried to increase Washington's degree of control over the World Bank and the IDB. Secondly, he increased the pressure on the debtor countries to make radical changes in their economic policies in the direction of liberalizing them and privatizing State enterprises.

II

Attempts to overcome the structuralist approach

The structural approach, which was in vogue during the 1950s and 1960s laid emphasis on a medium and long-term perspective, the factors of production, and their linkage with the social and political variables. It further stressed State intervention mechanisms for inducing the structural changes considered necessary.

Viewed with hindsight, it is now clear that its main weaknesses were its insufficient incorporation of financial variables of both internal and external origin and its failure to give adequate consideration to the most appropriate economic policy instruments for achieving the objectives sought.

In order to overcome these limitations and to enhance the scope of this approach, several contributions have been made which laid the foundations for "neo-structural" thinking.¹

The vast majority of Latin American economists agree that the external vulnerability of the countries of the region has grown more acute. The financial burden is excessively heavy and is incompatible with a policy of rapid growth. The adjustment processes have been inefficient, in so far as they have not been made a part of a long-term perspective. The productive structures are disjointed, uncompetitive and slow to face the technological changes and the new trends which are emerging in world trade. The technological and productive gap between Latin America and the advanced countries has grown even wider.

Furthermore, the inequality within the countries themselves has worsened. The share of the lower-income strata in national income has gone down, while extreme poverty, open unemployment and underemployment have got worse.

¹One basis for evaluating the present situation in this respect can be found in the documents drafted for the Expert Meeting on Crisis and Development in Latin America and the Caribbean ("CEPAL Técnica"), Santiago, Chile, 29 April-3 May 1985, as well as those prepared during and after that meeting.

On the basis of this diagnosis, a strong consensus has been formed regarding the need:

i) To overcome false dilemmas.

— Import substitution and export promotion do not have to be mutually exclusive options: the real challenge to be faced is how to choose a combination of policies which will optimize the countries' own productive capacity and increase their international competitiveness.

— Nor is there any dichotomy between planning and the market. Planning must be improved by using decentralized methods and by concentrating it only in strategic areas. However, the market must also play an important role in the decentralization of decisions. At the same time, the policy of leaving decisions to the automatic operation of the market must be rejected because of the distortions which it creates in resource allocation and its ineffectiveness in achieving a fairer distribution of income and in protecting national autonomy.

— The traditional antagonism between agricultural development and industrialization is now obsolete. Agroindustry constitutes a form of joint development involving both these sectors. Peasant agriculture must also play an important role because it employs labour, provides mass-consumption goods, helps to raise the level of food security, contributes to higher productivity and is a factor of expansion of the demand for non-agricultural goods in so far as it incorporates new sectors into the market.

ii) To recognize the vital importance of political and institutional factors in the analysis of economic problems.

More attention is now being paid to the processes of democratization, participation and decentralization of power, as strategic objectives that economic policy should seek to attain, and also to the weight of social factors, behaviour patterns, values and attitudes in the formulation of stable policies.

The discussion on the restructuring of the State has also become more penetrating, in an

attempt to redefine its economic functions, enhance its efficiency, combat bureaucracy and, in the political sphere, to foster concertation between workers and employers.

iii) To regard inflation as a social phenomenon. At present, it is subordinated to the expectations of the economic agents, as well as to the conflicts between them and the institutional mechanisms for settling them, especially in the increasingly frequent cases of hyperinflation. Consequently, in addition to monetary and fiscal policies and structural changes, measures should be jointly formulated on the psychological, social and politico-institutional aspects.

iv) To realize that there is an urgent need to increase the level of domestic saving in order to raise the investment rate, since the contraction in voluntary external financing is likely to last for a long time. It is also obvious that individual national and regional capacity must be strengthened in order to grow more rapidly and thus reduce dependence on external factors which are, by their very nature, unstable and unpredictable.

v) To bring down the risks involved in our present form of insertion in the international economy.

To this end, we must reduce our dependency on the "locomotive" of the North as much as possible. The North no longer has enough strength to carry with it the full weight of international trade, and still less to improve the situation with regard to primary commodities, whose real prices have, on the contrary, declined steadily

because of the rapid technological changes which have taken place. It is also essential to reduce economic and social heterogeneity, at the national level and throughout the region.

vi) To strengthen the countries' own productive and technological base and to build up a well co-ordinated domestic nucleus which will be able to secure more autonomous growth and achieve a satisfactory level of international competitiveness in specific manufactured goods.

vii) To inject new life into the Latin American integration process. Although recent experience has been frustrating, skepticism must be overcome in order for the region to survive. Trade, financial relations, technological research and industrialization can be considerably expanded and strengthened if flexible regional integration policies are devised.

viii) To alter the form of adjustment advocated by the IMF, the new conditionality contained in the Baker Plan and the requirements for structural adjustment credits from the World Bank, and to oppose the new orientation in this same direction which the United States is trying to impose on the IDB.

ix) To find formulas of concertation and work towards building up broad-based social alliances which can sustain the new development strategy for long periods. The idea of a "national project" reflecting the interests of the majority sectors is an obvious first requirement. The existence of democracy and progress towards greater equity are essential preconditions for any concertation to be viable.

III

Guiding principles of the neo-conservative and neo-structural policies

The liberalizing/privatizing school of thought takes on different characteristics, depending on who is expounding these ideas. Some versions are more flexible, others more rigid. The neo-structural school of thought, for its part, is only now being put together. However, despite the different features and even some partial convergence, fundamental differences still persist

between the two approaches. The clearest way to explain these is to analyse the stand taken by each approach on some key issues.

With respect to principles, when the general statements formulated by the advocates of the liberalizing/privatizing system are compared, a strong similarity is observed with the positions of the neo-structuralists. Both the "mainstream"

thinking in Latin America and the new structural adjustment theories of the World Bank attach priority to speeding up the growth rate, the eradication of extreme poverty, improving efficiency and competitiveness and increasing exports. However, these overall similarities conceal important differences.

The World Bank and the IMF assign priority to lifting price regulations, promoting openness in the fields of finance and foreign trade, and the liberalization of labour regulations. In their view, the private sector should play the leading role, and they seek to reduce the role of the State. They are in favour of establishing a global, national and international market system governed by automatic regulation mechanisms oriented by a system of signals which are free from "distortions". They place emphasis on fiscal, monetary, tariff and tax policy instruments, while neglecting structural, institutional and political factors.

In the case of Latin America, the criticisms levelled at the liberalization scheme highlight the existence of imbalances and the absence of production linkages, which undermine the efficiency of a neo-liberal approach. Conversely, the criticisms of the dominant thinking attribute the inefficiency of the model based on this to the excessive size of the State. Those advocating liberalization and a free-market system maintain that the private sector is better equipped than the government to determine the activities in which it is desirable to specialize. The market could give more appropriate guidance for the long term.

Despite all this, the IMF's analytical framework for external adjustment and stabilization has proved to be incapable of even partially achieving its most basic objectives. It has not been possible to make the transition from an external adjustment strategy to one of structural adjustment through private and market mechanisms. Experience shows that inducing a change in the structure of production calls for a variety of instruments corresponding to a variety of proposals: in other words, one which is much broader than that of the neo-conservative scheme. In cases where external adjustment is promoted simultaneously with a stabilization plan, the multiple purposes are sometimes incompatible. There are no examples of coun-

tries which have successfully achieved stabilization and external balance at the same time as liberalization, especially if "structural adjustment" is added to the objectives too (Sachs, 1986).

A fundamental criterion in defining policies in Latin America is the effectiveness of each instrument for achieving specific goals. Viewed from this angle, the liberalizing/privatizing approach limits its instruments, since it restricts the possible range to certain guiding "principles" adopted *a priori*. It thus tends to reject a number of regulatory and public participation measures out of hand in trying to bring about changes in the structure. As a result, it has to face a very broad range of objectives with a limited number of instruments.

In contrast, the policy proposals based on the dominant thinking give priority to the medium-term perspective and highlight those aspects connected with the productive base, the equilibrium among the different sectors, technological progress, the development of natural resources, concentration of ownership and the destination of the surplus. In this medium-term perspective, the public sector is assigned a preponderant role in policy implementation. This dominant thinking tends more towards dirigisme, with a State which takes part in the selection of priority activities and uses administrative instruments to achieve its goals. The "mainstream" approach sees development as a deliberate process where social and political energies are concentrated on a national project, and not as the spontaneous result of market forces.

The proposals emerging from the mainstream Latin American line of thinking undoubtedly call for a more vigorous instrumental capacity. The approach of this school of thought has been successful in defining policies of structural change but has proved inadequate for dealing with acute short-term external maladjustment situations. Nor has it been effective in combining the goals of adjustment and stabilization, on the one hand, and those of change in the productive base on the other.

From a Latin American standpoint, it is essential to give increasing analytical and practical attention to instrumental aspects. A more highly perfected neo-structuralist scheme needs to have a bigger range of instruments at its disposal.

1. Differences in the approach to foreign trade

The question of how to change the foreign trade structure of Latin America has become one of the main topics of the debate on development strategies. The inadequacy of the external adjustment applied since 1982 has been due largely to the weak growth of exports. Although the physical volume of exports has expanded, there has been a sharp drop in their international prices, so that the final increase in income has been only slight.

There is an urgent need to secure and increase in the physical volume of exports, as well as an improvement in their value, for which purpose it is also vital to change their composition, which is at present disproportionately concentrated on natural resources with a low level of processing. Thus, in the mid-1980s primary commodities accounted for almost 80% of the region's total exports (INTAL, 1985 and Ibarra, 1986). These are the products most severely affected by the world trade crisis. During phases of expansion, on the other hand, the demand for raw materials scarcely rises, because technological changes have substantially altered the respective demand elasticity. The consumption of raw materials in the industrial countries per unit of GNP has declined, whereas that of manufactures has grown (Kuwayama, 1986 and Malan *et al.*, 1986).

There is consensus among the different currents of thought on this subject. However, there are different views regarding the relative importance of exports as the engine of growth and also the identification of the most suitable instruments for improving the trade balance.

The liberalizing/privatizing viewpoint is strongly against substitution and assigns excessive responsibility for promoting growth to exports. With regard to policies, it focuses its attention almost exclusively on two instruments: low tariffs, and a high and stable exchange rate, in order to facilitate the operation of the market.

It is beyond discussion that growth necessarily means deploying a much more vigorous effort to export, and especially to export manufactures. This goal demands a change in the productive base to heighten its specialization and selectivity. It presumes that there are medium- and

long-term plans for investment, technological development, human resources training and organization for external trade.

These objectives are not feasible within a "neo-conservative" policy. There is no empirical evidence that the developing countries which have succeeded in rapidly increasing their exports have done so thanks to low across-the-board tariffs and a high and stable exchange rate. This has not been the experience of the South-East Asian countries, for example. Korea and Taiwan, two of the most important economies, used differentiated tariff policies and concentrated their efforts on specific activities which were not chosen solely through the action of the market. In addition, the process received determined State support in both these countries (Yung Whee Ree, 1984). Likewise, Brazil's success was the result of a suitable combination of policies, specialization in certain branches, financial support, and incentives, in addition to the existence of a competitive exchange rate.

Having said this, however, there is no question of underestimating the need for exchange and tariff policies differing from those used in the past. Low tariffs are undoubtedly required, but they must be applied in a programmed, selective and discriminating way. It is also essential to have an exchange rate whose real value is relatively stable and serves to encourage exports. These instruments and criteria should be incorporated more positively into development policies.

It is also advisable to work towards equalizing the costs in terms of national resources required to generate one export dollar and one substitution dollar. This involves carrying out a tariff reduction while also establishing equivalent incentives for exports and in particular the non-traditional ones. However, this equalization need not take place immediately nor even in the very short term. Selectivity, learning new skills and the acquisition of new comparative advantages may make it advisable, for a certain length of time, to maintain a bias in favour of substitution or of certain carefully selected activities, and the same goes for exports of certain items.

Transforming the productive base is a slow process, and therefore any abrupt policy which involves intensive and sudden liberalization is a highly inefficient one. The shift from a scheme

primarily based on substitution to one based on exports involves changes in products and processes, as well as investments and technical, human and organizational adjustments which take years and which ought to be gradual.

The size of the tariff reduction will depend on the initial situation, but in any event a policy of programmed reduction of tariffs is preferable. It is also necessary to distinguish between sectors in accordance with the specialization priorities.

Selectivity and specialization, which are indispensable for increasing exports of manufactures, in turn require the establishment of a close linkage between export and industrial policies. It is possible to progress towards better use of natural resources through vertical integration, by identifying activities using such resources where it is feasible to "create" comparative advantages in such areas as inputs, engineering and the production of equipment or services.

The experience of the Nordic countries, because of their small size, their exploitation of natural resources and the autonomy to operate in the world economy, can provide valuable lessons for many Latin American countries. The cases of Sweden, Norway, Denmark and Finland deserve a careful study because they constitute successful examples of industrialization with specialization. It should be recalled that 40 years ago Finland's industrial development was less than that of many Latin American countries.

Services have been increasing in importance in international trade. A policy of indiscriminate liberalization in this field carries with it the risk of losing development potential. There is considerable room for well-articulated growth by the Latin American countries in the areas of transport, financial services, information, insurance, technology and marketing. Brazil's decision to reserve its information processing market for itself is an interesting example (SELA, 1986). Such a step is obviously not a viable option for everyone, because in each case the size of the market and the sector must be carefully considered. The important thing is to formulate suitable measures to enhance competitiveness and avoid lagging behind, because catching up later would be very costly.

In the case of industry and services, the world market has the capacity to absorb more Latin American exports. With regard to raw

materials, however, a policy of simultaneous expansion of production by the Third World countries could be disastrous. Priority must be given to manufacturing and to the establishment of closer links between that sector and agriculture and mining.

In 1983, a mere 0.2% of the industrialized countries' consumption was supplied by Latin American manufactures (Balassa *et al.*, 1986, p. 25), which shows that there is much scope for increasing the sales of this type of product to those markets. The region should set itself the target of reaching a higher exports/GDP ratio, based on manufactures. Furthermore, an export/industrialization linkage exercises a greater pull on the economy than a purely liberalizing policy that fosters the exploitation of natural resources.

Taken to the extreme, the liberalization/privatization system leads to the exploitation of raw materials with little added value and seeks to take advantage of cheap labour as a "comparative advantage". Both these factors will only increase the region's external vulnerability.

The mainstream Latin American thinking has repeatedly maintained that priority should be given to regional concertation. On the other hand, this topic is almost completely ignored in the neo-conservative arguments, although this is not surprising, since the approach favouring liberalization seeks to have each country trying to find its own place in the world economy, without coming to any preferential agreements with other Latin American countries. It is clear, however, that an export strategy based on manufactures will have a better chance of success if it has access to a wider market —namely, the entire region— where investment, technological research, manufacture of equipment, marketing efforts, etc., can all be co-ordinated. The recent complementation agreements between Brazil and Argentina augur well for the reactivation of a process, which for a long time was in abeyance. The pending reviews within the Andean Group and the Central American Market take on particular urgency in this connection.

One of the many obstacles that must be overcome is the excessive fluctuation exchange rates. With such sudden fluctuations it is difficult to keep up a steady effort to increase exports within the region. It is instructive that the European

Community has assigned high priority to the adoption of a common exchange policy.

The neo-structural approach, for its part, offers a suitable basis for expanding exports on the basis of greater productive and technological capacity. The range of instruments it uses must be increased, however, by more active steps to incorporate a policy of low tariffs and a stable exchange rate.

2. *The structure of production*

The requirements of foreign trade are key factors in reorienting the productive structure.

The level of specialization of an economy is reflected in the weight of its foreign trade, particularly in manufactures, with respect to the product. In Latin America, the global coefficient (total exports/GDP) is less than 20%, and if raw materials are excluded it sinks to only about 5%.

The small and medium-sized nations which have managed to create a productive base capable of competing on international markets (South-East Asia, the Nordic countries, and some other countries in Western Europe) register much higher coefficients, especially in the area of manufactures.

Specialization does not mean that some activities are dealt with in isolation from the rest. On the contrary, this process too requires a properly articulated productive base in which various sectors (engineering, data processing, electronics, metal products and machinery, capital goods, chemicals, technological research and manpower training) are interlinked. Specialization helps to orient priority efforts but a solid network, that is, a "critical mass", must first have been established. In the mainstream thinking, the term, "dynamic endogenous nucleus" has been used to express this idea, which can be implemented through the formation of comprehensive productive nuclei which, starting from natural resources, extend to capital goods, intermediate inputs, engineering, data processing, etc. This is a useful concept, but one which needs to be elaborated further in order to make it more operational.

A feature of the dominant Latin American approach is that it has centered its analysis both on the productive structure and on the links between sectors (especially industry, agriculture

and energy and, more recently, technology and services). This structural approach offers a better means of tackling the task of productive change, but it has certain shortcomings.

The goal is not industrialization *per se*, but rather how to increase productivity and competitiveness and create dynamism for change. If this approach is used it may be observed that selective industrialization, properly articulated with natural resources, provides a first-rate channel for inducing technological progress and improving the quality of management and human resources, which are the key factors of growth and competitiveness.

Industrialization and progress in technology and management must not be the monopoly of the large countries. The challenge now facing the small and medium-sized countries is that of specialization. Dispersion and not scale is the obstacle to be overcome.

It is essential that the public sector should play an active role. Effective implementation of this policy calls for less red tape, less centralization, and the removal of a host of petty administrative regulations. The functions of the State should be concentrated primarily on the strategic variables, leaving aside those of minor importance. In this new stage of development, the neo-structural approach understands that those functions will be quite different from the ones that were required during the substitution industrialization phase extending from the end of the last war to the late 1970s.

Natural resources are one of the pillars of specialization. At the same time, once a certain level has been reached the support activities must also be given autonomy. Finland, for example, after expanding its copper exports, was able to export copper technology, engineering and other services and machinery, thus enabling it to earn a higher income than from the mere exploitation of the natural resource.

Microelectronics and data processing are activities which pervade the entire productive structure, so that they should be given priority in any development scheme. The importance of services related to production and activities with a higher level of technological development will continue to grow. Consequently, they must be expressly included in any analysis of structural change.

Strengthening the productive base involves a tremendous technological effort. The amount of money allocated for this purpose by the entire Latin American region is only equivalent to that spent by Italy alone in the same field. Brazil, which accounts for half of the technological expenditure of the region, comes between Belgium and Switzerland in this respect, whereas Mexico only invests amounts similar to those spent by much smaller European countries, such as Austria and Denmark (ECLAC/UNIDO, September 1985, p. 12, c.1). Latin America should at least double the resources allocated to technological research and adaptation, which at present represent only 0.5% of the product.

Radical changes are taking place in the world industrial structure because a new technological pattern has emerged. The "third industrial revolution" now underway is profoundly changing the productive and social base. This transformation centers around a new key factor, microelectronics — an unlimited, low-cost resource which is spreading quickly in every branch of activity — which is taking the place of the cheap energy that provided the dynamic impulse for the previous phase. This change represents a "long wave" and is not just a partial adjustment (Pérez, 1986).

In these circumstances, the Latin American structuralist tradition surpasses the free market approach. It is obvious, however, that periods of radical change call for a much broader range of industrial policy instruments that will have a more forceful impact in the areas of technology, education, organization and investment and will favour the key sectors of the future.

The same can be said about the training of human resources, an area in which the industrialized countries vie with each other for the leading place. The Reagan administration has just submitted to Congress a bill designed to improve the competitiveness of the United States in order to prepare that superpower for the twenty-first century. The bill provides for the creation of federal research centres and massive training programmes in mathematics and computer operation in primary schools. How much more important it is for Latin America to take up this challenge!

The spatial dimension of the productive structure is just as important. This should help

to reduce regional imbalances. The cost of continuing to expand the great Latin American cities is reaching unsustainable levels. Regionalization allows better use of the local resources, potential and markets, while at the same time favouring each region's initiative. Information processing opens up new horizons for decentralization, and local powers must be strengthened in order to make the best use of this opportunity.

These topics are completely overlooked by the liberalizing/privatizing school of thought which is predominantly global, since in most cases it does not go deeply into sectoral analysis, nor does it take account of the pace and sequence of the changes in production. It establishes a framework of market indicators to orient the decisions taken by enterprises and assumes that this alone is enough to lead to the right selection of the most dynamic activities. In other words, its approach is disaggregated as far as economic policies are concerned, but globalistic with respect to sectoral issues.

In its purest expression this approach cannot lay claim to any relevant successes. It is impossible to consider it as a valid option, and still less in countries where the productive structure shows substantial imbalances. Guiding the process calls for a combination of both managed instruments and those governed by the market. What is more, the liberalizing/privatizing approach does not have a consistent analytical framework for assessing the temporal effects of the policies and deciding on a sequence of the most effective measures for obtaining multiple objectives over long periods.

3. Financing, saving and investment

The growth of the region will continue to be conditioned by the severe restrictions prevailing in external financing. The majority of the new proposals seek to deal with this situation by eliminating the net transfer of resources abroad (ECLAC, 1986, p. 101, and table 9). The multilateral agencies, the private banks and the governments of the industrialized nations agree that a positive flow must be restored as a matter of urgency, but they hold that this should be achieved mainly through the efforts of the debtor countries themselves and through changes in

their policies aimed at promoting liberalization/privatization.

This is where the two main approaches diverge fundamentally. The dominant criterion in Latin America maintains that growth must come first, and that the amount earmarked for servicing must therefore be subordinated to the attainment of this objective. As far as the "neo-conservatives" are concerned, the important issue is the payment of the debt, and this means avoiding critical situations which could adversely affect the international financial system.

In the 1980s the rate of saving has gone down. Due to the decline in external saving (reduction of the current account deficit), recovery will have to be based primarily on both public and private domestic saving. Public saving must therefore be increased. Efforts on the part of the State can generate significant volumes of resources and open up the possibility of channelling these funds towards priority projects and areas, establishing close links with investment.

This goal may be incompatible with the underlying principles of the liberalizing/privatizing approach, which envisages a smaller public sector. Even United States authorities have been reluctant to allow the credits available from multilateral agencies to be used by public enterprises. The systematic application of an anti-State criterion can only stand in the way of an autonomous development strategy.

It is undoubtedly essential for the public sector to make unremitting efforts to improve its efficiency and reduce current expenditure, while gradually divesting itself of non-priority functions. To some extent savings can be improved by reducing the deficits or increasing the profits of public enterprises.

However, the indiscriminate sale of well-run State enterprises at low prices makes no contribution to increased saving. It may even reduce it if, for example, the new private owners divert resources to consumption or transfer them abroad, or if over the medium term the income from the sale of the enterprises is exceeded by the loss of profit. Rationalizing the public sector may mean the privatization of a considerable number of enterprises, but it is important not to fall into the simplistic trap of confusing that process with the dismantling of the State apparatus or the imposition of obstacles to the crea-

tion of new public bodies needed to meet the challenges now emerging with regard to technological progress, education and investment which take a long time to mature.

Fiscal income should also be increased by raising the level of tax collection. This level is too low in many countries, and such a move would avoid excessive cutbacks in expenditure. The existence of a light tax burden only favours the higher income groups. Moreover, in some cases the tax structure is far from progressive, which indicates that considerable amounts could be collected for saving.

The reallocation of expenditure can also lead to increased public saving. In particular, the possibilities that a reduction in military expenditure could provide for the Latin American countries should be explored.

Private saving should be encouraged. However, the "liberalization/privatization" approach, which claims that a contraction in the public sector is a condition for encouraging more saving by the private sector, could be counter-productive. There is no proof that any kind of automatic mechanism operates in these cases. On the contrary, the experience in the countries of the Southern Cone shows that a decline in public saving does not necessarily produce an increase in private saving and may even produce the reverse effect. What is observed is rather that public investment and private investment complement each other. If managed selectively, the first can promote the second by providing it with a more secure and stable frame of reference.

Furthermore, the creation of financial savings in the private sector does not guarantee that it will be turned into real saving and investment. Thus, it may well occur that privatization only encourages the transfer of assets or speculation. In fact, while domestic financial saving responds positively to the profitability of financial instruments the same is not true of private saving.

What is needed is a moderate and stable real interest rate. However, this should not be the only policy objective, since this alone is not the most effective instrument for encouraging an increase in the levels of domestic savings and investment. The experience of a considerable number of countries suggests that in certain circumstances the interest rate bears no relation to private saving. In Korea, for example, although

for long periods the real interest rate was negative, rates of saving were nevertheless high. In Chile and Argentina, in contrast, there were periods during which the real interest rates were disproportionately high but saving was even below its historical levels. Consequently, it is necessary to take into account the whole set of policies and not just one in particular.

The actual behaviour of private agents in Latin America is different from what is expected in the privatization/liberalization approach. It is quite true that entrepreneurs adapt themselves to the context in which they are operating and that market signals have a significant impact on their decisions. But there are also patterns of behaviour which are historically conditioned by cultural factors, perceptions of risk or economic and institutional structures. Thus, for example, the adoption of tax measures which will alleviate the burden of businesses ("supply side" measures) does not necessarily lead to higher real saving.

External financing for the developing countries, for its part, shows little elasticity with respect to interest rates. Nor is it a suitable mechanism for containing capital flight, because decisions in this regard are taken in line with a policy of diversifying the risk by national investors.

The region's economists and the international agencies agree that capital flight has been a widespread phenomenon throughout Latin America. They have widely divergent views, however, as to the best policies for reversing this trend. The multilateral agencies contend that the Latin American nations should adopt measures that attract this flight capital back, so that it will decide to return of its own accord. However, neither liberalizing policies nor interest rate differentials are enough to put a stop to this flight, since the phenomenon is influenced by a considerable number of political, psychological and historical factors.

The motives that prompt capital flight abroad can only partially be offset by incentives. Even in periods of strong stimuli (extremely high real interest rates) and political "security" (democratic stability in Venezuela and Mexico and the existence of tough authoritarian dictatorships in Argentina, Chile and Uruguay) capital flight has increased. It would be difficult to

apply measures to win over the persons responsible for this flight, because at the present time the scarcity of foreign exchange and the controls are greater than ever, on account of the deterioration in the international financial situation. Emphasis must therefore be placed on containing the flight. There is no doubt that a stable economic policy with prospects of growth reduces the magnitude of the phenomenon and may even attract some capital back to the country. In addition to this, however, there must also be suitable administrative control measures.

The measures proposed by the World Bank and endorsed by the Baker Plan and the IMF for attracting fresh capital envisage the expansion and opening-up of the stock and capital markets. It may well be that these measures lead to an increase in the capital inflow; however, this inflow will still be only slight. Moreover, in seeking to expand this type of financing, the use of incentives which impair the achievement or implementation of other important objectives should not be eschewed. It may be added that the extension of the capital and share markets is a gradual process and should be based on a set of rules that ensure its stability and protect the small and medium-scale investors from speculative operations. This is particularly valid for the Latin American countries, whose markets are usually small and therefore very vulnerable to manipulation and instability.

The violent fluctuations observed recently in the stock markets of the industrialized countries, which possess huge capital markets, constitute another factor of great uncertainty which affects the Latin American stock markets. This shows the big risks involved in the policy of encouraging humble workers to deposit their savings in such systems.

Finally, the reduction of the degree of concentration of economic and financial power is another essential factor in the development of these markets along sound lines.

Foreign direct investment, channelled primarily through the transnational corporations, may be another spur to regional development. It must be borne in mind, however, that at the present time its behaviour is different from its historical patterns. The percentage of the contribution to primary capital made by the firm itself has declined and the percentage financed with

credits has risen. Furthermore, new formulas involving contributions of technological and production know-how, with little direct investment, have multiplied. Consequently, such investment cannot be regarded as a substitute for external bank financing. In financial terms the contribution is small, and its value lies in the improvement of the technological, managerial and trading capacity (Bitar, 1987; Helleiner, 1986).

The foreign investment policy should be aimed at attracting enterprises in the sectors chosen, in order to strengthen specialization. An attempt should preferably be made to attract medium-sized or highly competitive firms which have not yet extended their operations on a worldwide scale. The indiscriminate granting of incentives in a precipitate fashion in order to improve the "atmosphere", which some banks, multilateral agencies and governments of the industrialized nations are suggesting, could prove to be very costly and give few concrete benefits for the host countries.

The practice of converting debt into equity ("debt for equity swaps") is now growing. The banks see this as an interesting way of lessening their risks through diversification of assets, quite apart from the fact that the management and intermediation operations themselves earn them considerable profits. For the debtor countries, however, the advantages are very doubtful. In some cases, this formula involves new investments, but in others all it involves is the transfer of existing assets to foreign enterprises. Its effects on the balance of payments can even be negative in the short term, if there is no inflow of new capital and the saving gained from non-payment of interest on the debt thus converted into equity is less than the remittances of profits by the denationalized companies.

Furthermore, it should be borne in mind that the current situation will probably lead to a change in debt servicing conditions. Symptoms of this which are already evident are the moratoria which major debtor countries have resorted to and the increase in the funds set aside to cover losses by the creditor banks. In these circumstances, advance payment through the conversion of assets could turn out to be bad business for the national interest. If the discounts on debt paper continue to increase on the secondary markets, it

would be advisable to encourage this decline and to look for repurchase formulas that will benefit the countries and not the middlemen or some foreign shareholders.

Finally, it should be pointed out that the conversion formula advocated by the supporters of liberalization/privatization is negative and even inconsistent with its own postulates, for if it is true that the market should rule decisions, then why not accept the indications of the secondary market of debt promissory notes?

In so far as the financing of investment is concerned, it is obvious that in order to carry out a programmed structural adjustment, funds directed towards and concentrated in certain areas of specialization will be required, on favourable terms and conditions (ECLAC/UNIDO, 1985). This calls for the active participation of the State: it is not enough to adopt general rules and market criteria. It is also necessary for the State to participate in channelling resources towards small and medium-sized enterprises and preventing these resources from being concentrated in the large firms, which would hinder healthy competition.

In the institutional sphere it should be borne in mind, finally, that a considerable change has taken place in the international financial system. Capital movements now greatly exceed the amounts involved in trade. The integration of the global system means that the fluctuations generated in the North spread to the Latin American economies with remarkable speed. The presence of bank subsidiaries integrated into the world banking system may unduly restrict the effectiveness of domestic policies. These considerations cast doubt on the desirability of the external financial openness advocated by some supporters of liberalization. It is necessary to establish regulations and mechanisms to protect the national economies from the vicissitudes originating in the external financing system. This also means that the State must play an active supervisory and regulatory role.

Increasing private saving will inevitably involve greater austerity in the spending of the higher income groups. Conspicuous consumption must be restrained, or at least its rate of expansion must be reduced, especially if it is aimed at the same time to increase the consumption of essential products. Changing the pattern

of consumption requires new fiscal and tax measures.

The adoption of a liberalizing/privatizing framework can become a serious obstacle for any austerity policy, since it inevitably triggers off a greater concentration of income. Consequently, the removal of regulatory measures must only be carried out after a very careful evaluation, and it must be compensated by other measures which promote greater equality.

4. Distribution of income and wealth and extreme poverty

The crisis of the early 1980s heightened the disparities in the distribution of income and wealth in Latin America, which were already very pronounced, and it became urgent to make radical changes in order to reduce concentration. The inequality is so extreme, however, that its correction cannot be left to the trickle-down effect of growth.

The liberalization/privatization school of thought attaches little importance to redistributive mechanisms, since it believes that the market and growth by themselves will favour equity, without any need for direct measures to alleviate the problem. An instructive example of this attitude is the fact that the name of the "employment and income distribution" department of the World Bank has been changed to the "labour markets" department (Annis, 1986). This way of thinking assumes that free competition and the removal of regulations will stimulate growth and thus indirectly bring about a rise in employment levels and real wages. This approach therefore envisages very few direct instruments (Feinberg, 1986, pp. 18-20). Another shortcoming inherent in this approach lies in the underestimation of structural factors in its interpretation of the root causes of this inequality.

The advocates of the liberalization/privatization scheme claim that in crisis periods such as the present one, little can be done to meet unsatisfied basic needs, so that efforts should be directed instead towards growth, since this improves the condition of the poorest through the trickle-down effect. They also recommend that the terms of trade for agriculture should be improved in order to assist the peasant sector: a

measure which will undoubtedly have a greater impact in those countries with a large rural population, but not in the case of the urban agglomerations which are typical of Latin America. In addition, they advocate the termination of indiscriminate subsidies, so that the limited public resources used for social expenditure will be channelled only to the poorest groups, leaving the other sectors to bear the cost of education and health, for example. Finally, they claim that it is the fight against extreme poverty which should have top priority.

This line of thought pays little heed to the structural causes of inequality: the concentration of ownership; the tenuous social and trade union organization, especially in agriculture and in the marginal urban sectors; the spread of consumption habits from the industrialized countries in the middle and upper classes; the low levels of education, and technological backwardness. These distortions cannot be corrected by market mechanisms alone, but call for measures aimed specifically at changing the structural elements which created them in the first place.

We feel that an effective approach must combine the two components: measures to deal with the structural elements, and price, fiscal and tax policies that eliminate rigidities and foster growth.

In particular, the reduction of inequality requires that changes be made in the structure of ownership. Concentration should be reduced in every case where it is not justified on grounds of technical efficiency, and in those cases where it is considered absolutely essential, it must be supervised, regulated and offset by administrative mechanisms. At the same time, broader forms of ownership should be promoted (co-operatives, small- and medium-sized enterprises, etc.).

The concentration of the financial apparatus in a few hands, quite apart from providing political power which can unbalance society, stimulates the use of resources in activities related to the same financial groups, and this further increases concentration. Consequently, all efforts to move towards greater equality call for control over the financial apparatus.

The organization of workers and of the more vulnerable social groups must also be encouraged. The persons concerned can best protect their interests by organizing themselves. Poli-

cies aimed at liberalizing the labour market seek to bring about downward flexibility of real wages, the argument being that this will encourage more employment. However, empirical analysis shows that in global terms the assumption that a drop in real wages will lead to higher employment is unfounded. What has really occurred is that these policies have weakened labour organization and increased inequality.

The strengthening of worker-run enterprises, self-help construction organizations or self-managed health clinics, as well as different forms of local power, will promote greater equality and reduce the excess burden on the State apparatus. It is also essential that measures should be taken parallel to the market, or outside of it, in order to overcome the worst manifestations of extreme poverty as regards unemployment, malnutrition and the lack of housing. Specific rural and urban groups should be targeted, and especially children, since giving special attention to them will help to progress towards greater equality of opportunity.

Tax reform and more efficient use of fiscal resources are also vital. More revenue should be collected from the high-income groups and transferred to the poorer groups. It should be noted that in quantitative terms, the fight against extreme poverty should not involve a very significant fraction of the product. The transfer of only 5% of the income earned by the richest tenth of the population to the poorest third would be enough to change the situation considerably. If progress is to be made in this area the direct tax burden must be raised and tax collection must be made more efficient. A change in the composition of expenditure would make it possible to generate additional resources.

The mass education and retraining of manpower to equip it to work at more complex and more productive jobs is another priority task for reducing inequality.

The policies suggested here are motivated by more than ethical, social and political reasons. They can also have a favourable impact on the capacity for growth. A labour force which is better trained physically, mentally and technically will be more productive and more adaptable to changing conditions.

It is not for want of ideas that the governments of the region have progressed little in

applying effective formulas. Political reasons have been a key factor in this. Hence there is a need to dovetail the desired goals more clearly with the resources needed to implement them. This aspect has been totally ignored in the approach taken by the multilateral agencies and in the reasoning of the privatization/liberalization school of thought.

5. The State and the private sector: an ideological conflict

The question of the size and the functions of the State has become a central issue in the economic policy debate. Criticisms have been levelled at the State from two angles: its supposedly negative effect on the efficiency of production and the supposition that it tends to expand fiscal expenditure. The vehemence of these criticisms and the repeated proposals for privatization have polarized the debate, robbing it of realism and practical usefulness.

The proponents of the privatization/liberalization approach advocate a reduction of the State apparatus, suggesting that public enterprises should be sold and that new credits should be channelled to the private sector. This stance has been reinforced by the United States government agencies and the commercial banks of that country (Baker, 1986b; Morgan Guaranty Trust, 1986). There are Latin American economists who hold a similar view (Balassa, Bueno, Kuczynski and Simonsen, 1986).

The proposals that the functions and size of the State should be reduced appear to be based on the assumption that such a contraction would provide a stimulus for the automatic expansion of the private sector. This assumption leads to an undue concern for reducing the size of the public sector, while at the same time neglecting ways of directly stimulating private enterprise.

At least two of the assumptions on which the liberalization/privatization approach is based are inaccurate. The first is the claim that the distortions in the Latin American economies can be corrected through liberalization. The truth is that excessive confidence in the automatic role of the market leads to other shortcomings, especially in the case of economies plagued by serious imbalances. On the contrary, the "programmed structural adjustment" approach calls for guidance. What is important here is not liberaliza-

tion in itself, but rather the efficient management of the programmed adjustment.

The second of these erroneous claims is that the private sector reacts to the market signals, thus leading to an increase in investment and efficiency. These assumptions on the behaviour of the private sector have little historical evidence to support them. Even during phases which were very favourable to Latin American entrepreneurs, only in a few exceptional cases has liberalization led to an innovative attitude and to efforts within a medium-term perspective.

In order to develop the habits which have been present for a long time in the countries of the North and in some Asian countries, deeper cultural changes would be needed. It is not realistic to attempt to achieve such modifications in the short term, using purely market instruments.

Considerable importance should be attached to increasing the efficiency of public enterprises. Without a doubt, it may be advisable to privatize some of them, but it is clear that inefficiency cannot be combatted solely by this means. It is also necessary to make substantial improvements in management techniques and in rate and price-fixing, to increase decentralization, and to bring about institutional reforms which allow for decisions to be taken autonomously. In contrast with the south-east Asian countries, Latin America has a long tradition of the State as entrepreneur, and this should be updated, as it would be unwise to seek to eliminate it.

It is essential to recognize that the State has accumulated too wide a range of activities, some of which are linked to the industrializing function in an inward-looking development scheme, while others are connected with the supply of basic services to the poor sectors or with various administrative regulation mechanisms for orienting investments or consumption or fighting inflation. There must be a profound change in this respect.

The State must assume qualitatively different functions which are more in keeping with the challenges of the twenty-first century and bear little relation to the public structure that took shape after the Second World War. The point is that before assuming new responsibilities some of the old ones must be relinquished.

It is the responsibility of the State to guide the structural adjustment towards greater specialization and competitiveness within a long-term perspective: a form of guidance that the market does not provide. This is the proper function of the "leader" State. In addition, the State should concern itself with protecting equity and national autonomy. What is needed is a State which acts as the "guardian" of certain basic socio-political equilibria.

Concertation among workers, entrepreneurs and the State is a key factor in any development strategy. This approach helps to build up consensus around a national project and reduces the sometimes artificial struggle between the State and private-sector agents.

These elements, if duly integrated, will lend greater vigour to the neo-structural way of thinking and thus avoid the spread of a neo-conservative model with disintegrating effects.

6. *Political and social factors*

In the political and social sphere, there is a wide gap between the neo-conservative concepts and the neo-structural approach. The first-named pay little or no attention to the social and power variables which interact with economic policies and which determine the viability of any development strategy.

The privatizing/liberalizing approach rules out any express reference to sociological and political factors. It is essential, however, to take account of the interaction between economic and political elements. There are two particularly important perspectives: the impact of given economic measures on social and political variables, and secondly, the conditions and power requisites needed in order to apply such policies successfully.

If any of these create inequality, lower the standard of living of large sectors of the population, lead to denationalization, etc., which are results incompatible with the existence of democratic institutions and standards, it must be asked how a liberalizing/privatizing strategy could possibly be applied. If the only way to do this is by using force, then the exclusion of political and social considerations implies the acceptance under this scheme of a non-democratic frame-

work, as has occurred and is occurring in several countries of the region.

A gradual transformation of the structure of production necessarily requires ongoing social support. Under certain circumstances, a shock policy may possibly secure some degree of price stabilization. It is also possible to apply this "by surprise" for a brief period without having popular support. However, this cannot be so in the case of more thorough-going strategies of change. An abrupt policy causes very high economic and social impacts and costs, and it could therefore hardly be used for an extended period of time.

Nor is it politically viable to subordinate the development strategy to burdensome external conditions which imply an excessive loss of national autonomy. An abrupt or simplistic liberalizing/privatizing policy runs the risk of unleashing reactions that will lead to the authoritarian exercise of power or to the system's own collapse.

The experiences of the Southern Cone countries have led many social and political scientists to explain the crumbling of democratic systems partly in terms of the breakdown of certain minimum social agreements and of the battle that is unleashed for the appropriation of the State surplus. Furthermore, the acceleration of inflation and the failure of stabilization policies have been attributed to the sharp conflict over the distribution of income.

These experiences have had some influence on the neo-structural approach, in that they have encouraged the search for ways and means of consensus, concertation and participation with the aim of reducing conflicts or channelling the energy generated during them towards common objectives. The idea of a national project has thus

assumed growing importance, as has the need to build up broad social and political support in order to sustain the project for extended periods. These factors are crucial in assessing whether the implementation of a given strategy is feasible.

It would be an illusion to assume that conflicts will disappear by the mere use of these expedients, but they can be lessened and subordinated to collective aims. Because this approach does not think in terms of "zero-sum societies", it opens up opportunities to seek joint progress. An efficient form of insertion in the world economy would provide space for a shared national effort to redound to the benefit of all.

The repercussions of a given strategy on the military establishment must also be taken into account. A national project must be understood and backed by the armed forces in view of its favourable effect on security in the broadest sense. The strengthening of autonomy, equity and technological capacity have a positive impact on security (Varas, 1986). In many cases, there is no doubt that military expenditure should be restricted. It may be noted that these aspects do not explicitly form a part of the conceptual framework which governs the liberalizing/privatizing school of thought.

The power requirements for sustaining a long-term strategy are satisfied better in a democracy where there is concertation and broad participation. At the same time, however, these same requirements dictate the type of economic policies that are acceptable to the majority. The effect that the measures adopted will have on equity are of particular importance if the aim is to further democracy and strengthen this system.

IV

Final reflections

The strategic priority in Latin America is growth and development, which demands that structural changes be made in the productive base to increase international competitiveness and satisfy basic needs.

There is no single model for carrying out such a structural transformation and it is therefore necessary to learn from experience and act pragmatically. Supposedly highly perfected

"doctrines" based on immutable "principles" can bring with them a host of negative effects.

These conceptual schemes whose philosophy is based almost exclusively on the notion of balance and on the validity of the "market laws" may achieve some degree of efficiency for brief periods in helping to overcome external maladjustments and to stabilize prices, but they are not appropriate for structural change, which must stem rather from a dynamic perspective. Seen in this light, the challenge to be faced is how to manage and regulate the sequence of changes, while taking care to keep the financial and economic distortions inherent in any change in the productive structure within manageable limits.

The relatively unpredictable nature of these processes is at odds with the practice of establishing a strict conditionality for managing the main macroeconomic variables, which is the method of procedure followed by certain multilateral agencies and favoured by the advocates of neo-conservatism.

The application of a long-term strategy requires political stability, which in turn calls for the shaping of social agreements shared by the majority of the people. The economic strategy must also protect the political spaces in order to preserve a broad, permanent social alliance.

Consequently, a liberalizing/privatizing scheme will be at variance with the goal of growth with equity, given the prevailing condi-

tions in Latin America, and will therefore jeopardize political stability.

In the long run, the importance of purely economic considerations is reduced and the viability of the strategy will depend on a host of political and cultural variables. In order to be useful, an approach must be able to adapt to changing situations while keeping economic/political interaction under constant and rigorous scrutiny.

To sum up, a policy which seeks to further growth with equity and autonomy must face the double challenge of bringing about change in the productive structure while protecting financial equilibrium and at the same time building up social support in a democratic system.

Both challenges can most effectively be dealt with if action is based on a conceptual approach which draws on the Latin American tradition, past experience, and the new type of international and national economy which now exists.

Ideas possess great power. The existence of a mature Latin American line of thought is thus extremely valuable for promoting new stages of development. The important thing is to get away from a defensive attitude to neo-conservatism by proposing functional ways of tackling the problems affecting national life, and especially those concerned with the new role of the State. An open and flexible "neo-structural" approach is the appropriate framework for taking up the new challenges.

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