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In search of another form of development

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The prime importance given in the 1980s to analysis of the economic depression, external imbalances and inflation in Latin America has left in the background the profound economic, institutional and social changes which took place in this period. Under the inspiration of neoliberal ideas, the institutional and macroeconomic reforms served both to dismantle the previous form of development and to try to establish a new one. There were transfers of wealth and alterations in the structure of production, income distribution, the relation between capital and labour, public and private functions, and the place of the region in the international economy. Some of these changes took place in connection with anti-inflationary or external debt service policies.

In the early 1990s, two countries seem to be coming close to a new form of development, with political stability and recovery of capital accumulation. In other countries, the policies followed have not managed to restore growth, price stability or previous levels of investment. The efforts to establish a new form of development confront various challenges: giving coherence to the reform process, whose scope and sequence are problems that have not yet been solved; securing a steady expansion in exports and accumulation; and preventing the further consolidation of the present economic and social heterogeneity. In these circumstances, the countries which have not gone so far in this process ask themselves whether the accumulated experience, the nature of their economies and the changing international context might not make it advisable to adopt policies different from those of the pioneering countries.

Indeed, the measures which the latter are now taking suggest that considerations of political stability and economic potential will make it necessary to depart significantly—especially in aspects connected with equity and poverty—from the neoliberal form of development and establish instead another form closer to the proposals for changing production patterns with equity made by the ECLAC Secretariat.

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Introduction

For Latin America, the 1980s were more than just a lost decade from the point of view of development. The figures graphically show the abrupt interruption in growth of the product and capital accumulation after nearly 30 years of economic expansion and changes in production patterns (table 1). However, economic depression is not a synonym for immobility, and in recent years important qualitative changes have taken place in the Latin American economies and societies. This article will try to identify and interpret some of these changes, seeking to determine how far they represented a break in the form of development that prevailed since the war and how far they represented a new form of development capable of gaining stability and permanence.

This effort calls for the situation to be viewed from a certain time perspective, which is outlined in section I. Section II indicates the most significant changes which were hastened by the crisis of the 1980s and looks into the significance of these developments: were they the reversible result of short-term economic adjustments, or were they rather the characteristic sign of a new emerging form of development? This leads to the analysis of some similarities and differences between countries, with special attention to the situation of those which seem to have gone furthest towards a new form of development. Finally, section III indicates some challenges facing the various groups of countries in this process of change.

I

From the post-war form of development to the debt crisis

1. *The post-war form of development*

Political and economic factors combined after the war to give rise to a stable form of development that replaced the form which ran into a situation of crisis between 1914 and 1945. In that period, conditions had already arisen in a number of countries which were favourable for spontaneous industrialization, in a process which furthered urbanization, development of the domestic market, the expansion of business groups and the middle-class strata, as well as the expansion of lower-class worker and urban groups; it

Table 1

**LATIN AMERICA: GROSS DOMESTIC PRODUCT, BY TYPE
OF EXPENDITURE, AT CONSTANT 1980 PRICES**

(Annual growth rates)^a

| | 1950-1965 | 1965-1974 | 1974-1980 | 1980-1985 | 1985-1990 | 1950-1990 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Gross domestic product | 5.3 | 6.2 | 5.1 | 0.3 | 1.8 | 4.8 |
| Private consumption | 4.7 | 6.5 | 5.5 | -0.4 | 1.8 | 4.7 |
| General government consumption | 4.7 | 7.0 | 5.2 | 1.9 | 1.7 | 4.9 |
| Gross domestic investment | 5.0 | 8.9 | 4.7 | -8.7 | -0.2 | 4.7 |
| Exports | 6.3 | 3.7 | 4.7 | 5.5 | 5.8 | 4.5 |
| Imports | 3.1 | 8.7 | 5.7 | -9.5 | 6.0 | 4.3 |

Source: ECLAC, on the basis of official data.

^a Calculated by regression.

was these social groups which were to provide support for the project of change. Between the end of the war and the early 1960s, in a group of Latin American countries which accounted for a high percentage of the region's population, it proved possible to impart stability to a form of development whose features have been described at length by ECLAC in other documents (ECLAC, 1985). Towards the mid-1960s, however, this form ran into serious difficulties, both domestically and in respect of external economic relations, and in the second half of the 1960s and the early 1970s, many efforts were made to overcome these difficulties (ECLAC, 1985).

In the early 1970s, a new form of economic change appeared to be taking shape in which greater expansion and diversification of exports was combined with domestic markets based on higher income concentration. In most cases, economic growth had speeded up. However, the new forms of social incorporation and exclusion implicit in this form of development needed more authoritarian governments and gave rise to acute political conflicts which in some cases even deteriorated into armed conflict.

These tendencies were affected by the 1973 oil crisis and its many sequels. In some cases, the rise in oil prices led to a trade deficit and the speeding up of inflation, both because of higher energy costs and because of the depreciation of the exchange rate. In others, however, it represented a windfall source of external and fiscal revenue. For the region as a whole, particularly important features were the

recycling of the so-called petrodollars and the period of external indebtedness covering the second half of the 1970s (ECLAC, 1990a).

2. The entry onto the scene of the transnational banks

The entry onto the scene of the private transnational banks gave rise to substantial changes in various fields. In the economic field, it seemed to provide a way out from the classical external constraint on growth. In the area of ideas, it represented strong pressure to liberalize markets and establish much greater trade and financial openness to the exterior, while in the institutional sphere it furthered the attempt to expand the field of action of the private sector and reduce that of the public sector.

In practice, the initial abundance of resources gave rise to very varied economic policies. In some countries, it served to give a fresh boost to the process of industrialization with heavy State intervention. In others, it served to put off the effects of stagnating production and the drop in investment, by keeping up the level of consumption through indebtedness and imports. Finally, in a third group of countries, the plentiful external credits obtained were reflected mainly in the capital account itself, in the form of capital flight.

Special mention should be made, in this respect, of the experiences of the countries of the Southern Cone of Latin America, where the abundance of

external resources was deliberately used to dismantle the previous development scheme. In these countries, in the mid-1970s, certain social and political groups and the armed forces considered that there were "socializing tendencies" at the very heart of the economic system which adversely affected their rights and freedoms by increasing the relative weight of the wage-earning sectors and the State. According to this diagnosis, the mere repressive actions of authoritarian governments would not be sufficient in the long run unless there were a radical change in the form of development and, thereby, in the relative weight of the various economic and social actors. In the Southern Cone countries, the action of the foreign banks and external financing made it possible to maintain an artificially low exchange rate, increase imports that took the place of domestic manufacturing production, develop a system of private financial capital that was largely speculative, change the structure of wealth in the countries, and promote the accumulation of financial resources abroad. This policy, combined with regressive income redistribution, gave rise to a reversal of trends in industrialization (table 2), especially in the sectors connected with the domestic market and accumulation.

In other countries, however, the entry on the scene of the foreign banks in the late 1970s had a different impact. In these countries, changes in production patterns continued to be vigorous and external credits served to further the industrialization process, with the State often retaining a guiding role in accumulation. The most notable case of this was in Brazil, where a large part of the external funds were channelled through the local development banking system. The process there contrasted in many respects with that which took place in the Southern Cone: the role of the State and its enterprises was heightened, the real value of the exchange rate was maintained, progress was made in the further enhancement of industrialization and in the integration of the industrial system, with a marked reduction in the need for imports, and substantial trade union forces arose, especially in the industrial area of São Paulo. In Mexico, Colombia, Paraguay and Ecuador too, the flows of external resources were associated with significant efforts to develop the infrastructure and production capacity.

It was only afterwards, with the debt crisis, that there was a tendency towards the generalization of tensions and of economic policy measures aimed

more or less explicitly at dismantling the previous development model. These measures were applied, however, in national situations which differed from each other in terms of the degree of operation of this form of development, and their effects were also therefore different.

3. *The debt crisis*

In 1982, as a result of the high level of accumulated indebtedness and the rise in international interest rates, interest commitments represented 41% of the total exports of goods and services of the region as a whole. In this situation, the abrupt cessation of fresh credits from the transnational banking system to the countries of the region led to a severe recessive adjustment which was to give rise to a complete turnaround in their external accounts. Thus, the region turned a trade deficit equivalent to 1.4% of its gross domestic product in 1980/1981 into a trade surplus, at constant 1980 values, equivalent to 7.5% of the region's GDP in 1983/1984. This reversal, which amounted to US\$45 billion at current values, safeguarded the interests of the international financial system, but not those of the debtor countries, whose imports fell from 16.6% of the product in 1980/1981 to only 11% in 1983/1984, while –possibly an even more serious feature– their gross domestic investment went down from 24.3% of the product to only 15.9% between these two periods (figure 1).

Giving the lie to the diagnoses holding that the debt crisis was merely a short-term phenomenon, so that the extremely severe adjustment processes were justified by the expected rapid return of external credits, the negative net resource transfer has been an ongoing burden for the region, with the possible partial exception of the Central American and Caribbean countries (table 3). The impact of this transfer of resources abroad must not be underestimated:¹ it represented heavy pressure on the public and private finances, from which it was transmitted, by various means and with different degrees of intensity, to the rest of society.

¹ By way of comparison, it may be recalled that the German reparations after the First World War represented gross transfers (that is to say, partly financed from abroad) of 2.4 percentage points of the product between 1924 and 1932: a proportion which was substantially exceeded by a number of Latin American countries during the 1980s (table 3). See Reisen and von Trotsenburg, 1988.

Table 2

ARGENTINA AND CHILE: MANUFACTURING SECTOR INDICATORS

| Indicators | Argentina | | | Chile | | |
|---|-----------|------|-------------------|-------|------|-------------------|
| | 1974 | 1982 | 1990 | 1972 | 1982 | 1990 |
| Per capita manufacturing GDP, at constant values (indices) | 100 | 66 | 57 | 100 | 69 | 93 |
| Manufacturing GDP, as a percentage of total GDP | 28.3 | 22.2 | 20.7 | 26.6 | 19.0 | 20.6 |
| Share of metal products and machinery industries in total industrial production (%) | 28.3 | 20.8 | 17.8 ^a | 21.2 | 13.2 | 12.4 ^b |
| Employment in industry, as a percentage of the economically active population (Greater Buenos Aires and Greater Santiago) | 36.2 | 24.5 | ... | 27.3 | 15.9 | 22.2 |

Source: ECLAC, on the basis of official data, and Central Bank of Chile, *Boletín Mensual*, various issues.

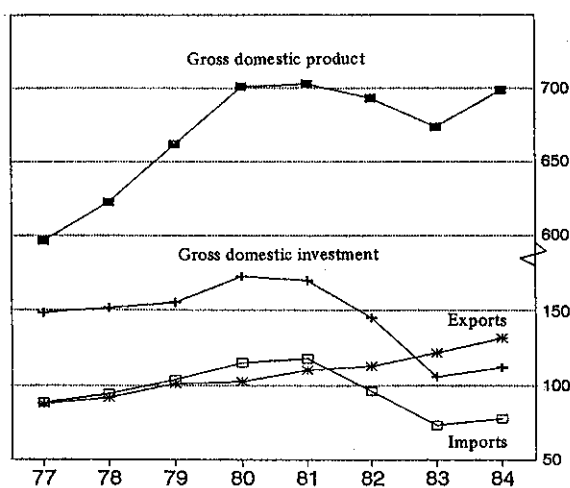
^a On the basis of figures at current prices.

^b 1989.

Figure 1

LATIN AMERICA: PRODUCT, INVESTMENT, EXPORTS AND IMPORTS, 1977-1984

(Billions of 1980 dollars)



Source: ECLAC, on the basis of official data.

The impact of the external crisis on the public accounts took a number of forms. The most obvious effect was due to the public sector's status of a net debtor, especially after the virtual nationalization of the private debt demanded for almost all the refinancing operations granted by the foreign banks. Likewise, the economic contraction and the reduction in imports adversely affected the tax base. Some countries had other fiscal costs in addition, due to the need to give greater fiscal incentives to exports or to collect lower duties on them. The devaluations to which a number of countries also resorted aggravated the fiscal burden in all those cases where the public sector had an external deficit. In general, efforts were made to offset the tendency towards the reduction of the tax base by levying new taxes or increasing the rates of existing ones, with ease and rapidity of tax collection being given priority over all other economic considerations or questions of equity, but even these "emergency" approaches often gave disappointing results because of shortcomings in the systems of collection. At the same time, in order to make up for the increase in financial outlays, cuts were made both in current expenditure (with depression of the real wages of public employees) and in investments, without distinguishing much between the sectors affected (education, health, housing, etc.).

Table 3

**LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES):
NET RESOURCE TRANSFERS, 1970-1991^a**

(Annual averages, as percentages of the gross domestic product)

| Countries | 1970/1974 | 1975/1981 | 1982/1986 | 1987/1991 |
|--|-----------|-----------|-----------|-------------------|
| <i>South America and Mexico</i> | | | | |
| Argentina | -0.7 | 0.1 | -5.2 | -4.1 |
| Bolivia | -2.0 | 2.8 | -1.0 | 4.0 |
| Brazil | 3.8 | 2.1 | -3.0 | -2.5 |
| Colombia | 1.8 | 1.3 | 0.1 | -4.2 |
| Chile | 0.5 | 5.5 | -3.6 | -1.1 |
| Ecuador | 2.4 | 3.3 | -4.7 | -2.6 |
| Mexico | 1.4 | 1.6 | -6.7 | -1.3 |
| Paraguay | 2.5 | 7.8 | 3.4 | 0.3 |
| Peru | 1.5 | 1.2 | -0.8 | 1.1 |
| Uruguay | 0.2 | 4.3 | -3.3 | -2.9 |
| Venezuela | -4.1 | 4.8 | -8.3 | -4.9 |
| <i>Central America and the Caribbean</i> | | | | |
| Costa Rica | 8.3 | 7.5 | 0.3 | 5.1 |
| El Salvador | 1.4 | 1.0 | 2.5 | 4.1 |
| Guatemala | 0.6 | 3.0 | 2.1 | 4.4 |
| Haiti | 1.7 | 10.6 | 11.5 | 8.9 |
| Honduras | 3.0 | 6.4 | 2.6 | 3.4 |
| Nicaragua | 4.7 | 4.7 | 18.7 | 15.4 ^b |
| Dominican Republic | 4.0 | 2.7 | 0.9 | -1.2 |

Source: ECLAC, on the basis of official data.

^a Corresponds to net capital movements, less net payments of profits and interest, at current values.

^b 1987-1990.

In a number of countries, these changes in the structures of income and expenditure were still not sufficient to permit normal servicing of the public external debt. Nor was it possible to attain this through laborious renegotiations and efforts to secure "fresh money" from the transnational banks and the multilateral financing agencies. In view of this, the countries then resorted to the issue of domestic debt paper—which, in the precarious general economic situation, had to yield high interest rates and be of a short-term nature—and money issue. Ultimately, the external imbalance helped to speed up inflation and further financial instability, with all its negative implications for the volume of investment, income distribution and the public finances themselves. Thus, in a number of countries the effort to service an appreciable part of the external debt during the 1980s gave rise to such serious macroeconomic imbalances that they

led, *inter alia*, to a *de facto* moratorium in respect of a large part of the country's external financial commitments.

The situation of countries whose exports were largely in the hands of the State was very different. In these countries, the increase in exports and the devaluation in real terms did not mean a worsening of the macroeconomic imbalances and monetary and financial tensions, but rather the contrary. Here, the direct receipt by the State of a large part of the foreign exchange earned from exports provided an important instrument for controlling the exchange market and monetary policy.

Naturally, the crisis in the region was not due solely to balance of payments disequilibria connected with the external debt, nor to the associated fiscal deficit, no matter how serious these aspects may have been: as already noted, the form of development had been encountering serious difficulties ever since the

1960s. However, the external debt problem did have a decisive influence not only in sparking off the crisis, but also with regard to its subsequent evolution and the type of responses sought for it: it brought new issues and new actors into the countries' processes of taking strategic decisions.

As is usual in situations of overindebtedness, once it becomes clear that what is involved is not merely a problem of liquidity, this means that the need for a drastic adjustment is accompanied by

pressures for structural reforms and transfers of wealth. Thus, the measures adopted to deal with the crisis soon went beyond the macroeconomic field and took on an institutional character which led to the questioning and modification of the role of the public sector, as well as of the trade and financial aspects of the countries' form of incorporation in the international economy. In short, there was a movement towards changes in the basic elements of the form of development.

II

Towards a new form of development?

1. Dismantling one form of development to build up another: the political factor

The nature of the crisis, and the policies adopted to deal with it, heightened the economic and political difficulties that the previous form of development had been experiencing and were a decisive influence in its breakdown. Thus, the measures adopted reduced the vigour of the domestic market, lowering demand for consumer goods and especially for investment goods and thus taking away the impulse for industrialization. At the same time, the efforts to increase public outlays on external debt servicing took away resources from State activities which had previously provided decisive support for capital accumulation. Likewise, with the sharp reduction in public sector wages, the body of technocrats which had been in the process of formation and which was behind the most effective aspects of the economic and social activities of the State gradually left the public sector, which, although now partially dismantled and deprived of the necessary capacity for action, had to cope with ever greater problems, so that there was an increase in imbalances of every type. In this way, and to an ever increasing extent as the 1980s elapsed, a very serious situation arose in many countries because one form of development had ceased to function but it had not yet been possible to set in motion another one in its place.

The early years of the 1990s have been characterized, in terms of economic policy, by an appreciable degree of consensus among governments on

aspects which are of great importance for defining a form of development. Moreover, some countries seem to be resuming a process of accumulation within a political framework which is displaying growing stability. It therefore seems appropriate to see how far a new form of development is beginning to be shaped.

In order for the new style of development to be viable, it must be based on the restoration of a stable political pact and the recovery of the process of accumulation. Where this seems to be beginning to work, the political definitions (regarding the distribution of the fruits of the new model, the rules for its functioning, the new institutional framework and the composition of its political base) have preceded the achievement of even partial recovery of the accumulation process. These definitions will be largely determined by the power structure of the various social actors, which underwent considerable changes in the period of crisis and adjustment.

The external and internal circumstances described earlier increased the capacity of action of certain agents but reduced that of others. The weakness of industry and of the public sector affected the social groups which had given support and political stability to the previous form of development, especially the middle-level and trade union groups. At the other extreme, there were sectors which managed to sidestep the effects of the imbalances and sometimes were even able to take advantage of them because of their capacity for speculation. Generally speaking, these were the most transnationalized agents, with the greatest liquidity or access to credit, and those

which managed to secure significant transfers from the State (through nationalization of the private external debt, the measures to rescue the financial system, the liquidation of business debts, systems of subsidies or exemption from taxes, etc.). It was probably the external creditors, however, which gained most in power and importance in this period.

In the dismantling of the previous form of development and the definition of reforms designed to build a new one, the "creditors' club" has played a central role. The international private banking system, the central actor in the debt problem; the United States Department of the Treasury; the governments of the developed countries, and the multilateral financial agencies—with their relatively high degree of coordination—laid down severe conditions for the Latin American countries in successive negotiations connected with the balance of payments. Table 4 lists the negotiations carried on by the IMF and the World Bank (ECLAC, 1990a, p. 40 *et seq.*).

Some of the conditions were directly related with the most immediate interests of the creditor banks, which were extremely keen to reduce the risk of their loan portfolio, increase their profits, and improve their capital/assets ratio in the highly indebted developing countries. Among the conditions imposed were the assumption of the private debt by the State, the de-dollarization of the debt with non-United States banks, the participation of the creditor banks in financial operations (such as arrangements for re-lending and capitalization of the external debt), and the generation of big trade surpluses, thanks to which (and to the ever-increasing indebtedness with international financial agencies) the banks collected a significant part of their interest, while at the same time reducing gross lending. There were also other conditions which can hardly be considered a direct response to the external payments crisis, however. They corresponded rather to strategic options by the creditor bloc, which took advantage of its strong position in the debt negotiations in order to force certain structural reforms in the debtor countries.

A typical example of the set of reforms demanded was the formulation made by James Baker in 1985: the countries which wanted to form part of the Baker Plan (thereby theoretically gaining access to a fresh flow of external credits) must "apply sound monetary and fiscal policies designed to reduce domestic imbalances and inflation and free resources for the private sector"; establish general freedom of

prices, with market values for the exchange rate, interest rates and wages; introduce reforms aimed at giving a leading role to private enterprise and the free functioning of the market—including reforms in respect of taxes, the labour market and the financial markets—and carry out a process of greater economic openness which would favour both direct investment and the entry of capital and lead to freer trade (IMF, 1985). These proposals, which were fully in keeping with the ideas and interests of powerful social and political sectors in the region which saw in them the basis for a new style of development, came to form part of the agenda of many Latin American governments.

Naturally, the countries have followed different paths, and the crisis and the policies associated with it have not caused the same degree of breakdown of the previous form of development in all cases. Ultimately, however, in almost all of them the new power structure has opened up the way for a rearrangement of the distribution of wealth based on the transfer of State assets to the private sector, the application of measures which completely reformulate labour legislation, and the consolidation of a new distribution of wealth and income. These lines of action were also in keeping with a new international context which demanded greater freedom of action for operations concerning trade, finance and external wealth.

2. Stabilization and transfer of wealth

Control of inflationary processes is usually considered a prior condition for the restoration of any development process, whatever its form. This sequential view of the matter, however, tends to separate the question of stabilization from the qualitative development options and determinants, thus giving rise to somewhat mechanical conceptions of stabilization policies. This leads to the risk of leaving in a kind of limbo the relationship between stabilization and the formation of a new power scheme. Such a relationship, however, is neither simple nor unidirectional. Processes of very high inflation² generally reflect an unresolved social, economic or political conflict. Consequently, the sustained control of these high rates of inflation calls for the stabilization of a

² Qualitatively different from the more moderate types of inflation which in past decades were functional to a form of regulation of growing economies.

Table 4

**LATIN AMERICA AND THE CARIBBEAN: STABILIZATION AND/OR
ADJUSTMENT LOANS FROM THE WORLD BANK AND THE
INTERNATIONAL MONETARY FUND, 1980-1989**

(Years in which loans were granted)

| Countries | World Bank | IMF |
|-------------|--------------------------|----------------------------------|
| Argentina | 1986, 87, 89 | 1983, 84, 85, 86, 87 |
| Barbados | 1982, 83 | |
| Bolivia | 1980, 86, 87, 88 | 1980, 86, 87 |
| Brazil | 1984, 86, 88 | 1983, 84, 88 |
| Chile | 1985, 86, 87, 88 | 1983, 84, 85, 86 |
| Colombia | 1985, 86, 88 | |
| Costa Rica | 1983, 85, 89 | 1980, 81, 82, 85, 87, 88, 89 |
| Ecuador | 1986, 88 | 1983, 85, 86, 88 |
| El Salvador | 1982 | |
| Guatemala | 1983, 88 | |
| Guyana | 1980, 81 | 1980, 81 |
| Haiti | 1987 | 1982, 83 |
| Honduras | 1989 | 1980, 81 |
| Jamaica | 1980, 81, 82, 83, 85, 87 | 1981, 82, 83, 84, 85, 86, 87, 88 |
| Mexico | 1983, 86, 87, 88, 89 | 1982, 83, 84, 85, 86, 89 |
| Panama | 1984, 87 | 1980, 81, 82, 83, 84, 85, 86 |
| Peru | 1980, 82, 83, 84 | |
| Uruguay | 1984, 87, 89 | 1983, 85, 86 |
| Venezuela | 1989 | |

Source: Taken from Frances Stewart, *Protecting the poor during adjustment in Latin America and the Caribbean in the 1980s: How adequate was the World Bank response?*, Development Studies Working Papers, No. 44, Turin, Italy/Oxford, United Kingdom, Centro Studi Luca d'Agliano/Queen Elizabeth House, June 1992.

new power scheme. At the same time, high inflation also has an impact on the social, political and economic structure: indeed, in some cases a spell of hyperinflation served to break down resistance to a particular political and economic order, both because its redistributive effect took away power from the sectors opposing this and also because it mobilized social consensus in respect of a political option holding out the possibility of rescuing the economy from the problem of hyperinflation, whatever its cost for broad sectors of society and its long-term effects. In these cases, hyperinflation represented a step towards shaking the very foundations of the previous form of development.

In a number of cases, however, transfers of wealth have been a key element in the relationship between economic stabilization and the formation of an economic and political power structure. Both the severe economic imbalances which characterized the region from the mid-1970s onwards and the efforts at

stabilization formed a favourable context for intensive movements of wealth.

This process went through various phases. It began with the entry on the scene of the foreign banks and the deregulation of various national banking systems. As from the second half of the 1970s, there was parallel growth in the indebtedness of businesses and private sector holdings of financial assets, in both foreign and national currency (table 5). The overall growth in financial assets and liabilities concealed contrasting situations: not all the agents had the same access to credit or to the different types of credit; table 6 provides evidence of this in respect of a country which was a pioneer in financial liberalization. The privileged access to credit enjoyed by some entrepreneurs or economic groups (the biggest ones, and above all those with most links with the domestic or foreign banking system) gave them the possibility of building up important economic conglomerates; in contrast, companies which only had access

Table 5

LATIN AMERICA (SELECTED COUNTRIES): PRIVATE FINANCIAL ASSETS

(As percentages of the gross domestic product)

| Countries | At end of | Term, savings and foreign currency deposits | Bank deposits abroad | Other financial assets | Total financial assets |
|-------------------------|-----------|---|----------------------------|------------------------------|------------------------------|
| Argentina | 1976 | 3.1 | 4.5 | 4.8 | 12.5 |
| | 1980 | 15.3 | 4.7 | 2.9 | 23.0 |
| | 1990 | 8.1 | 25.3 | 8.6 | 42.0 |
| Costa Rica ^a | 1976 | 12.9 | 4.5 | 0.0 ^b | 17.3 |
| | 1980 | 22.5 | 5.0 | 0.8 ^b | 28.3 |
| | 1990 | 25.9 | 19.1 | 5.7 ^b | 50.7 |
| Chile | 1976 | 4.9 | 4.6 | 6.9 | 16.4 |
| | 1980 | 9.9 | 4.1 | 7.5 | 21.5 |
| | 1990 | 23.6 | 15.3 | 30.0 | 68.8 |
| Mexico | 1976 | 17.1 | 3.2 | 10.0 | 30.3 |
| | 1980 | 17.0 | 3.7 | 10.3 | 31.0 |
| | 1990 | 19.7 | 8.6 | 18.7 | 46.9 |
| Venezuela | 1976 | 18.8 | 5.4 | 6.7 ^b | 30.5 |
| | 1980 | 24.3 | 20.2 | 7.8 ^b | 52.3 |
| | 1990 | 25.5 | 34.9 | 3.2 ^b | 63.6 |

Source: Central Banks of the respective countries, International Monetary Fund (IMF), and Bank for International Settlements (BIS).

^a Estimates based on IMF and BIS data.^b Does not include public-sector securities.

to expensive short-term credit were adversely affected in their competitiveness and sometimes even their very survival was threatened. Likewise, the freeing of interest rates and of financial activity in general gave rise to new sources of profit for the agents with the greatest liquidity and access to a broad range of financial investments. In proportion as their financial assets increased, their portfolio decisions took on extraordinary importance for economic stability (such as the decision to take capital out of a country or repatriate it).

The debt crisis represented a second stage in the transfer of wealth. In this stage, the redistribution of assets among private agents was accompanied by a massive transfer from the public to the private sector. Through various expedients (exchange insurance, refinancing, guarantees, etc.) States assigned large amounts of resources to private enterprises and banks. In some cases, there was even nationalization (or virtual nationalization) of companies and banks that were in difficulties or were actually bankrupt. At the same time, the private sector continued to be the scene of intensive restructuring of wealth, encouraged by the crisis situation,

bankruptcies, financial and exchange market instability, and high and sharply changing rates of inflation.

Finally, policies aimed at generating trade surpluses or reducing inflation also influenced the distribution of wealth and income. These policies sought to restrict liquidity, to tie down some nominal variables, and to reduce the public sector's financing needs. All of these measures had a substantial redistributive aspect: stabilization was by no means "neutral" in terms of the structure of property, income and power.

The control of liquidity is of course never completely uniform. For example, the Central Bank can cut down financing to banks (or to certain banks or certain banking operations) and to the Government, while keeping up money issue through the purchase of foreign exchange; in this way, it will be concentrating the creation of liquidity in certain export groups or groups that have access to external capital. Another measure to reduce liquidity taken in 1990 in Argentina and Brazil has even more obvious distributive effects: it involves the compulsory exchange of public debt paper or bank deposits, both

Table 6

**ARGENTINA: FINANCING PROVIDED BY THE FINANCIAL SYSTEM TO THE
MAIN PRIVATE-SECTOR DEBTORS, JUNE 1986**

(Millions of Australes, and percentages)

| | In foreign currency | At regu- lated rate | Readjustable credits | Total financing on favour- able terms ^a | At free rate | Total |
|--|------------------------|---|--------------------------------------|---|--------------|---------------|
| <i>Millions of Australes</i> | | | | | | |
| 80 largest private debtors | 2 400 | 400 | 300 | 3 100 | 220 | 3 320 |
| Rest of debtors | 1 100 | 3 150 | 590 | 4 840 | 3 880 | 8 720 |
| Total | 3 500 | 3 550 | 890 | 7 940 | 4 100 | 12 040 |
| <i>Percentages</i> | | | | | | |
| 80 largest private debtors | 72.3 | 12.0 | 9.0 | 93.4 | 6.6 | 100.0 |
| Rest of debtors | 12.6 | 36.1 | 6.8 | 55.5 | 44.5 | 100.0 |
| Total | 29.1 | 29.5 | 7.4 | 65.9 | 34.1 | 100.0 |
| | | Total value of production (millions of 1984 Australes) | Employment (thousands of jobs) | Total debt (millions of Australes) | | |
| Total manufacturing sector | | 3 989 | 1 373.5 | 4 389 | | |
| 51 private industrial firms ^b | | 520 | 77.2 | 1 939 | | |
| Percentage of total | | 13.0 | 5.6 | 44.2 | | |

Source: Prepared on the basis of data from the Central Bank of the Argentine Republic and the 1985 National Economic Census by the National Institute of Statistics and Censuses (INDEC).

^a Foreign-currency financing was long-term, at prevailing international interest rates, and was generally covered by advantageous exchange insurance facilities; regulated rates were usually negative in real terms, while readjustable credits offered substantially more attractive terms and costs than those prevailing on the market.

^b Included among the 80 biggest private debtors of the financial system.

of which were of a very short-term nature and had free interest rates, for other financial assets with longer terms and lower yields. This measure affected numerous savers and creditors of the State, although some of them were able to at least partially avoid the effects of this measure.

Generally speaking, when efforts have been made to control inflation this has involved fixing some key prices such as the exchange rate, public service tariffs, or nominal wages. If the rest of the prices continue to rise for some time, however, the "anchor" variables will gradually fall further and further behind, and it is possible that there will be a big change in relative prices, with its consequent effects on the various agents.

With regard to the public accounts, the stabilization programmes sought to reduce the operating deficit and even attain a surplus with which to help cope with the public debt burden and possibly also other outlays connected with structural reforms (such as the transition from a pension system based on the even-handed allotment of benefits to another system based on individual capitalization). Here, too, there were substantial distributive effects, as we shall see in section 4 below. In this sense, public expenditure was not reduced in a homogeneous manner: basically social expenditure contracted, whereas financial expenditure increased. With regard to revenue, income from direct taxes tended to fall, while that from indirect taxes tended to rise. Once again, the

privatization process was important. The effects of the decision to privatize on the distribution of wealth were obvious, not only in terms of the relation between the public and private sectors, but also with regard to the ownership structure within the private sector itself. Foreign capital and local enterprises or economic groups which were able to weather the crisis on better terms and with greater liquidity or access to credit were able to consolidate their position within the country through the purchase—often at prices below their real economic value—of important natural resources and public enterprises.

In the final analysis, the stabilization processes in which a number of countries have made substantial progress have not been limited to the mere restoration of some "basic macroeconomic balances" in the fiscal and external accounts. The actual measures taken have meant heavy transfers of income and wealth and have tended to crystallize (or stabilize) a new economic power structure.

Likewise, the stabilization of the political scheme and the economic power structure seem to have been essential elements in processes of price stabilization. On this basis, with the prospect of high profits, the most important private agents have in a number of cases modified some forms of behaviour which are of great importance in inflationary processes, such as their decisions on levels of prices and production, their activities in the exchange market, and their conduct in respect of tax payments.³

3. The relationship between capital and labour

A clear indicator of changes in the relationship between capital and labour is the evolution of the functional distribution of income. Although figures are not available for all the countries, and some of those which are available may be rather inaccurate, the general tendency points clearly towards a very marked deterioration for wage-earners.

³ In other words, these agents do not appear to have used their virtual power of veto in respect of political and economic decisions: "in order to maintain their status quo [the economic elites] resort to various forms of pressure on the decision-making centres of the public authorities, ranging from the occupation of key posts in public regulation of the economy to the use of destabilization of the currency and of domestic production as ways of pressuring in favour of their interests" (ECLAC, 1991a).

Tables 7, 8 and 9 show the evolution of the shares of the different forms of primary income in the gross domestic product. Between 1960 and 1989 there was a general increase in the part corresponding to factor payments to the exterior, because of the interest commitments on the external debt (table 7). This element, which was frequently only marginal during the 1960s, began to gain importance in most of the countries towards the end of the 1970s, and in the 1980s it increased considerably, due both to the magnitude of the interest due and the real devaluation in many countries.

The share of wage-earners in the gross domestic product, which had improved in general terms up to the early 1970s, suffered a marked deterioration in the 1980s (table 8), to such a point that in the Southern Cone countries and Mexico it went down by more than 10 percentage points. In the Southern Cone countries, this deterioration dates from the mid-1970s, when the military governments adopted lines of action which were liberal in the economic field and sharply repressive (especially with regard to wage-earners) in the political sphere. There were no significant changes in this tendency in the following decade, in spite of the process of democratization; thus, in the mid-1980s wage-earners received only a little over 30% of the product (a figure which subsequently went down still further in Argentina), compared with over 40% in 1970. The severe compression of the share of wage-earners was a central element in the breakdown of the previous form of development in those countries, which had been pioneers in industrialization strategies based on the domestic market and had reached a relatively high degree of social homogeneity. Although it was not always as marked as in those countries, the drop in the share of wage-earners was generalized in Latin America, especially during the 1980s. Among the countries for which information is available, it retained its previous level only in Costa Rica and Honduras. In all the other countries, the share of wage-earners in the GDP at the end of the 1980s was less than its 1970 value.⁴

⁴ Some studies are underway on the situation in this respect in mini-enterprises, which are not always reflected in the national accounts and in which there is both entrepreneurial income and wage payments.

Table 7

LATIN AMERICA: FACTOR PAYMENTS TO THE EXTERIOR*(Percentages of the gross domestic product, at market prices)*

| Countries | 1960 | 1970 | 1980 | 1985 | 1989 |
|------------|------------------|------|------|------|------------------|
| Argentina | 0.5 | 1.0 | 1.8 | 8.5 | 8.4 |
| Bolivia | -0.2 | 2.4 | 5.5 | 6.0 | ... |
| Brazil | ... | 1.0 | 3.8 | 6.0 | ... |
| Colombia | 1.2 | 2.8 | 2.1 | 4.2 | 4.7 ^a |
| Costa Rica | 0.9 | 1.2 | 5.1 | 8.0 | 7.4 |
| Chile | 1.9 | 2.7 | 4.0 | 12.1 | ... |
| Guatemala | ... | 2.8 | 2.4 | 4.1 | 3.2 |
| Honduras | -2.0 | 3.2 | 6.3 | 5.1 | 5.0 |
| Jamaica | 7.7 | 5.5 | 7.6 | 13.2 | 12.5 |
| Mexico | 0.9 | 1.8 | 3.3 | 5.4 | 5.5 ^a |
| Paraguay | 1.1 | 1.2 | 3.0 | 2.3 | 1.2 |
| Uruguay | 0.5 ^b | 1.1 | 1.7 | 8.2 | 5.1 ^a |
| Venezuela | 8.2 | 5.3 | 2.8 | 6.4 | 8.4 |

Source: ECLAC, on the basis of official data.

^a 1988.^b 1965.

Table 8

LATIN AMERICA: REMUNERATION OF WAGE-EARNERS*(Percentages of gross domestic product, at market prices)*

| Countries | 1960 | 1970 | 1980 | 1985 | 1989 |
|------------|-------------------|------|------|------|-------------------|
| Argentina | 34.7 | 40.9 | 31.5 | 31.9 | 24.9 |
| Bolivia | 36.3 | 34.0 | 34.1 | 32.3 | ... |
| Brazil | ... | 34.2 | 35.1 | 36.3 | ... |
| Colombia | 34.4 | 39.1 | 41.6 | 40.6 | 37.9 ^a |
| Costa Rica | 45.5 | 46.9 | 49.5 | 46.7 | 48.3 |
| Chile | 40.5 | 42.7 | 38.1 | 33.0 | ... |
| Guatemala | ... | 29.7 | 30.8 | 28.7 | 28.4 |
| Honduras | 42.1 | 41.4 | 43.8 | 45.4 | 43.3 |
| Jamaica | 48.5 | 50.1 | 50.9 | 43.7 | 44.0 |
| Mexico | 31.2 | 35.7 | 36.0 | 28.7 | 25.9 ^a |
| Paraguay | 35.8 ^b | 34.4 | 34.8 | 31.0 | 27.4 |
| Uruguay | 39.5 | 45.8 | 30.8 | 31.5 | 33.4 ^a |
| Venezuela | 45.4 | 40.6 | 41.4 | 35.2 | 33.5 |

Source: ECLAC, on the basis of official data.

^a 1988.^b 1965.

The increase in factor payments to the exterior was not the only element behind the drop in the share of wage-earners, and in a number of countries it was not even the main element. Thus, in spite of those payments, the share of the gross operating surplus received by citizens of the country increased in most

of the countries in question, in some cases to a very substantial extent (table 9). Outstanding in this respect are the cases of Argentina, Uruguay and Venezuela (especially compared with the values of the early 1970s) and those of Mexico and Paraguay in the 1980s.

Table 9

LATIN AMERICA: DOMESTIC OPERATING SURPLUS

(Percentages of gross domestic product, at market prices)

| Countries | 1960 | 1970 | 1980 | 1985 | 1989 |
|------------|-------------------|------|------|------|-------------------|
| Argentina | 56.2 | 47.3 | 58.3 | 52.4 | 60.2 |
| Bolivia | 58.4 | 55.9 | 51.0 | 52.6 | ... |
| Brazil | ... | 48.8 | 51.5 | 48.6 | ... |
| Colombia | 58.1 | 50.7 | 46.3 | 44.8 | 46.3 ^a |
| Costa Rica | 42.2 | 40.8 | 33.7 | 31.8 | 31.6 |
| Chile | 48.4 | 44.0 | 45.8 | 42.1 | ... |
| Guatemala | ... | 59.3 | 58.4 | 60.6 | 61.3 |
| Honduras | 50.6 | 45.4 | 39.3 | 37.8 | 40.5 |
| Jamaica | 35.4 | 36.0 | 33.4 | 33.9 | 28.4 |
| Mexico | 63.7 | 57.7 | 53.0 | 56.5 | 59.6 ^a |
| Paraguay | 57.5 ^b | 55.8 | 56.0 | 61.9 | 64.4 |
| Uruguay | 52.4 | 39.7 | 53.8 | 47.0 | 45.7 ^a |
| Venezuela | 39.5 | 48.7 | 52.7 | 51.9 | 54.9 |

Source: ECLAC, on the basis of official data.

^a 1988.^b 1965

Were these phenomena short-term developments resulting from the recessive adjustment and the high level of unemployment which it caused, or are they rather the lasting result of a new relationship of forces and a new manner of functioning of the economy? It would seem that the latter is the case, not only because of the generalized nature, duration and magnitude of the phenomena, but also because they were particularly marked in countries (such as Chile and Mexico) which seem to have advanced furthest in the establishment of a new and stable form of development. It was not just a question of a decline in the share of wage-earners in income: there was also a change in the whole structure of employment, in which the occupations of highest productivity, with the greatest trade union presence, such as employment in industry, suffered a decline, while there was an increase in employment—often of an informal nature—in lower-productivity sectors such as agriculture and services (table 10). Furthermore, in addition to this evolution of primary income, there were other changes which tended to have a structural effect on the capital-labour relationship, such as changes in legislation aimed at securing greater “labour flexibility”, doing away with the indexing of wages in respect of inflation, and weakening the power of the trade unions. Finally, mass consumption does not

seem destined to be an important force of dynamism in the new form of development. This topic will be taken up again later when we deal with the challenge of equity in the new development scheme.

4. The public sector

The role which the State and public enterprises played in the previous form of development has been severely questioned. At the level of ideas, it has come under attack from neoliberalism, while in the field of economic management, the fiscal difficulties associated with the debt crisis have limited the State's capacity for action. Nevertheless, the public sector cannot cease to have a decisive influence in the task of establishing and regulating a stable form of development, especially through its capacity for applying regulations, its fiscal and macroeconomic policy, and its capacity for generating transfers of wealth and income.

The fiscal emergency and the way it has been tackled have seriously affected the role of the State in the countries of the region, especially with regard to the pursuit of equity and of some degree of social homogeneity. With regard to the tax structure, as already noted, the incidence of direct taxes has gone down, while that of indirect taxes has increased

Table 10

**LATIN AMERICA: STRUCTURE AND EVOLUTION OF EMPLOYMENT
AND PRODUCT PER PERSON EMPLOYED, BY SECTORS
OF ACTIVITY, 1960-1985**

| Sector of activity | Annual average growth rates (%) | | | Percentage structure | | | |
|---------------------------------------|---------------------------------|------------|-------------|----------------------|--------------|--------------|--------------|
| | 1960-1970 | 1970-1980 | 1980-1985 | 1960 | 1970 | 1980 | 1985 |
| A. Employment | | | | | | | |
| Total | 2.0 | 2.6 | 2.8 | 100.0 | 100.0 | 100.0 | 100.0 |
| Agriculture ^a | 0.2 | 1.1 | 2.7 | 50.2 | 42.1 | 36.2 | 36.0 |
| Industry ^b | 3.4 | 2.7 | -0.7 | 18.2 | 20.8 | 20.9 | 17.5 |
| Services ^c | 3.6 | 4.1 | 4.5 | 31.6 | 37.1 | 42.9 | 46.5 |
| B. Product per person employed | | | | | | | |
| Total | 3.3 | 2.9 | -1.8 | 54 | 75 | 100 | 91 |
| Agriculture ^a | 3.1 | 2.4 | 0.4 | 18 | 25 | 31 | 32 |
| Industry ^b | 2.4 | 2.9 | 0.5 | 109 | 138 | 183 | 188 |
| Services ^c | 1.9 | 1.9 | -3.8 | 80 | 97 | 117 | 96 |

Source: Estimates prepared by the ECLAC Statistics and Projections Division on the basis of census data, household surveys, and official national accounts data of the countries.

^a Includes agriculture, hunting, forestry and fishing.

^b Includes mining, manufacturing, electricity, gas, water and construction.

^c Includes transport and communications, commerce, and personal, social and community services.

(table 11). This tendency may be interpreted as the result of emergency policies designed to tackle urgent fiscal needs through a deficient system of tax collection in a context of high inflation: it would appear that preference has been given to the taxes which are easiest to collect, regardless of whether they are progressive or regressive. However, this tendency may also be due to an option less affected by the pressure of circumstances, since it has also been observed in countries which did not suffer from such urgent needs (such as Chile), and in a number of countries it seems to have persisted even after relative relief of their fiscal situation.

In the area of current expenditure, in almost all the countries there was a marked reduction in those outlays connected with social welfare (education, health and housing), thus further heightening the effects of the adverse primary distribution of income for the poorest groups. This drop has not been due to a generalized reduction in public expenditure, but rather to the restructuring of the latter to cope with the higher external and domestic interest payments and the subsidies given by governments in various

ways to private enterprises and banks affected by the crisis (table 12). The same reason is behind the considerable drop in public investment, which has naturally had repercussions on the maintenance and development of the infrastructure and the quality of public services. There has thus been a tendency towards the disappearance of an instrument of social incorporation and economic dynamism which had been of major importance in the former development model.

The countries considered to have been most successful in establishing the new form of development clearly display some of the features in question, but they also display some important special features. With regard to the tax structure, there has been a notable reduction in direct taxes and in the income of the public social security system (especially in Chile); however, these reductions have been offset by the evolution of indirect taxes and non-tax income⁵

⁵ It should be noted that the direct taxes paid by public enterprises which exploit natural resources are considered to come within this category.

Table 11
LATIN AMERICA: EVOLUTION OF THE TAX STRUCTURE, 1980-1989
(Percentages of gross domestic product)

| Countries | Year | Direct taxes | Indirect taxes | Social security | Non-tax income | Total current income |
|---------------------------------|------|--------------|----------------|-----------------|-------------------|----------------------|
| Argentina ^a | 1980 | 4.5 | 12.1 | 5.2 | 3.4 | 25.2 |
| (general government) | 1985 | 3.5 | 12.4 | 5.7 | 3.3 | 24.9 |
| | 1988 | 3.3 | 10.6 | 5.7 | 2.5 | 22.1 |
| Bolivia ^b | 1980 | 1.7 | 8.3 | 3.1 | 1.5 | 14.6 |
| (general government) | 1985 | 0.3 | 11.3 | 1.8 | 0.9 | 14.3 |
| | 1987 | 0.8 | 15.0 | 2.5 | 1.5 | 19.8 |
| Brazil ^a | 1980 | 3.4 | 14.5 | 6.3 | ... | 24.2 ^c |
| (general government) | 1985 | 4.8 | 11.2 | 5.5 | ... | 21.5 ^c |
| | 1988 | 4.0 | 10.3 | 4.8 | ... | 19.1 ^c |
| Colombia ^b | 1980 | 2.8 | 5.3 | 1.5 | 0.5 | 10.1 |
| (central government) | 1985 | 3.2 | 5.4 | 1.5 | 0.5 | 10.6 |
| | 1988 | 3.5 | 6.0 | 1.6 | 1.8 | 12.9 |
| Costa Rica ^b | 1980 | 3.0 | 10.7 | 6.6 | 4.5 | 24.8 |
| (general government) | 1985 | 3.2 | 13.0 | 6.8 | 2.3 | 25.3 |
| | 1987 | 3.0 | 13.2 | 7.1 | 2.1 | 25.4 |
| Chile ^b | 1980 | 5.4 | 13.4 | 5.6 | 8.5 ^d | 32.9 |
| (general government) | 1985 | 3.1 | 17.1 | 2.4 | 6.0 ^d | 28.6 |
| | 1988 | 2.5 | 15.2 | 1.7 | 12.3 ^d | 31.7 |
| Ecuador ^c | 1980 | 1.8 | 7.5 | 2.8 | 8.0 ^f | 20.1 |
| (general government) | 1985 | 1.6 | 7.1 | 2.3 | 13.7 ^f | 24.7 |
| | 1987 | 1.9 | 8.0 | 2.3 | 6.6 ^f | 18.8 |
| El Salvador ^a | 1980 | 3.4 | 7.7 | ... | 0.5 | ... |
| (central government) | 1985 | 2.4 | 9.5 | ... | 1.4 | ... |
| | 1989 | 2.4 | 5.3 | ... | 0.3 | ... |
| Guatemala ^a | 1980 | 1.5 | 8.6 | ... | 1.3 | ... |
| (central government) | 1985 | 1.4 | 6.1 | ... | 1.9 | ... |
| | 1989 | 2.3 | 7.2 | ... | 2.0 | ... |
| Haiti ^a | 1980 | 1.5 | 7.8 | ... | ... | ... |
| (central government) | 1985 | 1.9 | 8.7 | ... | ... | ... |
| | 1987 | 1.7 | 8.3 | ... | ... | ... |
| Mexico ^b | 1980 | 5.8 | 5.5 | 2.8 | 4.7 ^f | 18.8 |
| (central government) | 1985 | 4.2 | 5.9 | 2.4 | 7.4 ^f | 19.9 |
| | 1988 | 4.9 | 6.4 | 2.4 | 5.2 ^f | 18.9 |
| Nicaragua ^a | 1980 | 3.1 | 15.1 | 2.1 | 3.0 | 23.3 |
| (central government) | 1985 | 5.7 | 21.4 | 4.5 | 5.2 | 36.8 |
| | 1986 | 6.4 | 20.9 | 3.9 | 5.6 | 36.8 |
| Paraguay ^a | 1980 | 2.0 | 6.7 | 1.4 | 1.0 | 11.1 |
| (central government) | 1985 | 1.6 | 5.5 | 1.0 | 1.5 | 9.6 |
| | 1988 | 1.6 | 5.6 | 1.3 | 1.2 | 9.7 |
| Peru ^a | 1980 | 5.0 | 10.9 | 1.8 | 2.3 | 20.0 |
| (central government) | 1985 | 1.7 | 11.2 | 1.6 | 2.3 | 16.8 |
| | 1987 | 2.2 | 6.8 | 2.0 | 0.4 | 11.4 |
| Dominican Republic ^a | 1980 | 2.8 | 7.7 | 0.5 | 3.2 | 14.2 |
| (central government) | 1985 | 2.4 | 8.5 | 0.4 | 1.0 | 12.3 |
| | 1988 | 2.9 | 10.6 | 0.6 | 2.2 | 16.4 |
| Uruguay ^a | 1980 | 3.2 | 12.6 | 5.2 | 1.2 | 22.3 |
| (central government) | 1985 | 2.5 | 12.0 | 5.3 | 0.9 | 20.6 |
| | 1988 | 3.0 | 12.6 | 6.2 | 1.4 | 23.4 |
| Venezuela ^b | 1980 | 2.9 | 5.5 | 1.7 | 20.1 ^g | 30.2 |
| (central government) | 1985 | 3.8 | 6.2 | 0.8 | 16.7 ^g | 27.5 |
| | 1988 | 2.7 | 2.9 | 0.8 | 12.7 ^g | 19.1 |

^a Source: International Monetary Fund (IMF), *Government Finance Statistics Yearbook*, Washington, D.C.

^b Source: ECLAC/UNDP Regional Fiscal Policy Project, Santiago, Chile. ^c Tax income only. ^d Includes direct taxes on copper.

^e Source: Central Bank of Ecuador, National Accounts of Ecuador, and IMF. ^f Includes direct and indirect taxes on petroleum. ^g Includes direct taxes on petroleum.

Table 12

**LATIN AMERICA: EVOLUTION OF PER CAPITA CENTRAL
GOVERNMENT EXPENDITURE IN SELECTED AREAS**

(Indexes: 1980-1981=100)

| Country | Year | Education | Health | Social security and housing | Total social expenditure | Current financial payments ^a | Total expenditure | Capital expenditure |
|------------------------|------|-----------|--------|-----------------------------|--------------------------|---|-------------------|---------------------|
| Argentina ^b | 1987 | 96.8 | 93.8 | 88.0 | 91.0 | 153.4 | 106.8 | 84.8 |
| Bolivia | 1989 | 57.2 | 48.9 | 425.3 | 79.2 | 58.3 | 72.4 | 162.0 |
| Brazil | 1988 | 174.5 | 131.7 | 91.6 | 104.5 | 827.8 ^c | 148.3 | 67.8 |
| Costa Rica | 1989 | 77.1 | 101.9 | 168.4 | 103.8 | 207.7 | 109.3 | 93.7 |
| Chile | 1988 | 71.8 | 87.9 | 89.6 | 85.1 | 1 359.0 | 122.2 | 143.5 |
| Ecuador | 1987 | 71.8 | 127.1 | 210.6 | 86.9 | 216.9 | 96.8 | ... |
| El Salvador | 1989 | 47.7 | 43.4 | 48.8 | 46.8 | 98.0 | 51.0 | 19.6 |
| Guatemala | 1989 | 120.9 | 83.3 | 104.1 | 104.8 | 184.3 | 75.3 | 25.0 |
| Mexico | 1988 | 66.5 | 85.0 | 57.9 | 63.4 | 576.2 | 129.6 | 41.6 |
| Paraguay | 1987 | 73.4 | 57.6 | 100.2 | 86.8 | 312.4 | 81.7 | 98.2 |
| Peru | 1987 | 57.6 | 57.8 | ... | ... | 134.2 | 74.3 | 42.1 |
| Uruguay | 1987 | 87.1 | 92.1 | 94.4 | 93.3 | 1 104.5 | 101.4 | 80.0 |
| Venezuela | 1986 | 89.7 | 100.3 | 60.4 | 84.4 | 278.7 | 93.1 | 79.7 |

Source: International Monetary Fund (IMF) and ECLAC/UNDP Regional Fiscal Policy Project, Santiago, Chile.

^a Interest paid by the government, plus the quasi-fiscal Central Bank deficit. The latter element is not included in the cases of El Salvador and Guatemala.

^b Refers to general government.

^c Includes monetary readjustment.

(table 11). The most noteworthy cases are those of the countries which export petroleum or copper through public enterprises. The income derived from such enterprises varies (depending on the countries and years in question) between 25% and 65% of total current public income and partly explains the relatively high share of such income in the gross domestic product of those countries. The higher levels of current public income naturally gave those countries greater leeway in the crisis, and the pressure to generate high trade surpluses had less disruptive effects in them than in the majority of the countries.

With regard to public expenditure, the countries considered as having been most successful sharply reduced their real per capita social expenditure (table 12), but the increased payments of interest (domestic and external) and the financial transfers contained in the quasi-fiscal deficit meant that total per capita public expenditure increased in real terms in the 1980s. Another important element, especially in the case of Chile in the mid-1980s, was the recovery of public expenditure on investment: a circumstance

which coincided with the general recovery in the product and investment.⁶

Privatization processes have come to be a phenomenon of great importance in most of the Latin American countries, especially those seeking to establish a new form of development in which entrepreneurial activities are to be concentrated in private hands. This wave of privatization has been propelled by the debt crisis and the fiscal problems already referred to: in a number of countries the resources obtained through the sale of public enterprises have greatly helped in coping with interest payments, and when many of them were forced to resort to moratoria, there was a tendency to compensate the creditor banks by selling off public enterprises through the debt conversion system.

⁶ In the case of Chile, public sector investment (government and State enterprises) rose from 4.7 percentage points of GDP in 1982 to 8.0% in 1987; in achieving this, the country enjoyed strong support from the multilateral financial agencies. See ECLAC, 1990b.

However, the privatization of public enterprises has not had as its only objectives those of providing resources for the State or reducing the external debt, in spite of the importance which these aspects have assumed in a number of countries. It has also been seen as a suitable way of attracting foreign capital, increasing investment, and improving efficiency in the production of goods or the provision of services. It has also been put forward as the only way of improving the often unsatisfactory functioning of such enterprises, considered to be an inherent feature of them when they belong to the State. This latter argument is sometimes unfair, however, since public enterprises have often been "sacrificed" by macro-economic policies or policies aimed at the indirect distribution of subsidies: thus, charges for public services were reduced in real terms as part of an anti-inflationary policy or one aimed at providing transfers (or else serious lags in payment were tolerated in respect of both public and private users); they were obliged to enter into external indebtedness when international reserves were required, but subsequently excluded from the exchange rate insurance granted to the private sector; and resources were taken away from them for the purpose of making investments in connection with the fiscal and external adjustments. In these circumstances, it is hardly surprising that public enterprises register deficits (the really surprising thing is that this has not always occurred in all cases), or that a privatization process which frees them of all these burdens and establishes high scales of charges rapidly causes them to produce substantial profits.

Thus, the discussion concerning privatization processes has been obscured by the fact that it has been focussed on the question of the deficit of public enterprises, considered to be undeniable proof of their inefficiency. Not only has the problem of these deficits not been considered in all its aspects, but the concept of efficiency also only makes sense in relation to a particular objective, which privatization may change. Indeed, either because of privatization processes or because the activities of private enterprises are progressively displacing the public sector in such areas as education, health, social security, housing or communications, we are witnessing in some cases the abandonment of the idea of public service and its replacement by that of commercial operations aimed primarily at the middle and high income sectors.

However, in the countries which have gone furthest in this new form of development—which, as we have seen, depend for the soundness of their public and external accounts on the activities of big State-owned export enterprises—such enterprises have so far been excluded from the privatization plans.

Finally—and this is rather paradoxical for a form of development which ardently supports "privatization" against "Statism"—the countries which have progressed furthest with this new form do not display a reduction in the "size" of the State, as measured by its income⁷ or by its expenditure, as a proportion of the gross domestic product. Moreover, although they have carried out major processes of privatization of service companies, they have retained within the public sector the main companies producing exportable goods, and these continue to form one of the main bases of public income.⁸

5. The form of incorporation in the international economy

Changing the form of incorporation in the international economy is a key element in building a new form of development. Trade openness is seen as the acid test of the efficiency of economies and the main means of improving their competitiveness. The expansion of exports needed in order to cope with external payments must also serve as the motor for growth in an economy where the domestic market is losing its vigour, except in the high-income segments. With regard to imports, it is claimed that external competition must keep inflationary pressures in check and give a new climate of efficiency to local production. The need to compete in order to win external markets and maintain the position in the domestic market is claimed to be the necessary incentive for the modernization and restructuring of local production. There will be companies which will go bankrupt and sectors of production which will have to be abandoned, but this is seen as part of an indispensable process of "creative destruction" (Pérez, 1991).

⁷ On the contrary, it is these countries which display the biggest "fiscal pressure" in the region, if this is taken to include the fiscal income deriving from State enterprises.

⁸ This confirms the inappropriateness of discussing the economic function of the State merely in terms of "much" or "little" State, as if the State were a homogeneous and divisible substance which, if injected in large quantities, would give rise to a "Statist" economy, and in modest doses to a "private" economy.

With regard to capital movements, special importance is assigned to foreign direct investment, as a means of increasing overall investment, introducing technology, and opening up new markets. As well as the need for a context of political and economic stability, it is held that there must be a legal framework which favours the entry of capital, which means in particular providing guarantees in respect of sending profits abroad and repatriating capital. In a number of countries, new opportunities have also been opened up for this capital through capitalization of the external debt, privatization of public assets, and access to natural resources.

Latterly, the region has received significant amounts of foreign capital which, together with a decline in external interest rates, gave rise to a positive net transfer of resources in 1991, measured in current dollars, for the first time since 1982. The nature of these resources is no longer the same as in the 1970s, since voluntary bank credits continue to be few and far between. The two main sources are involuntary bank lending due to arrears in debt servicing (which are of substantial magnitude in the cases of Argentina and Brazil) and foreign investment, which has reached considerable levels in Chile and, more recently, in Mexico and Argentina. It should be noted that these new capital flows are concentrated in only a few countries: in 1990 and 1991, just three countries (Mexico, Argentina and Chile) received almost three-quarters of the net capital flow. Consequently, although these capital inflows reduced or reversed the negative outward transfer of resources in some countries, in others this still continues.

The reduction in outward transfers has permitted a number of countries to reduce the stringency of their efforts to adjust their external and public accounts, although this may be only a temporary situation in this respect (privatization processes, for example, only have effects for a short period of time). At all events, however, in these cases this reduction has played an appreciable part in reducing inflationary tensions and favouring a recovery in the level of activity.

In countries which currently lead the way in adopting a new form of development, such as Chile and Mexico, the flow of external capital has played a prime role. During the 1980s, Chile received substantial official credits which supported its economic recovery after the severe crisis of 1982-1983.

Subsequently, growing importance was assumed by private capital: up to the end of the 1980s, capital entering the country in response to the advantages provided by the external debt capitalization systems played the dominant role in this respect, while in the early 1990s short-term capital and new foreign direct investments began to be significant. In Mexico, the new inflow of capital came somewhat later, but it was on a very substantial scale. A change in the economic and political prospects at the end of the 1980s favoured the return of flight capital, and this was followed by a wave of direct and portfolio investments connected, *inter alia*, with the privatization of the banking system and other public enterprises.

In this way, there has been a change in the composition of foreign capital in a number of countries of the region, especially the two just mentioned. The contraction of the net flows of bank credit in the 1980s and the various mechanisms adopted in order to reduce bank debt, including conversion of the debt into capital and global agreements such as the Brady Plan, reduced the weight of external indebtedness from private sources compared with debt owed to official sources and the growing foreign direct investment. The effect that these changes will have on the balance of payments is not immediately clear. Bank debt reduction agreements under the Brady Plan are usually accompanied by an increase in official indebtedness and cash disbursements, and even though the final result is normally smaller indebtedness and/or lower interest rates on the outstanding balance, the maturities of the remaining debt are more difficult to restructure and it is less feasible to resort to arrears in interest payments. Reduction of the interest due does not necessarily mean lower debt servicing. Moreover, foreign direct investment will probably generate a flow of profits, and a numerical exercise effected for the Chilean case suggests that this flow may reach significant levels (table 13).

In Chile and Mexico, the inflow of foreign capital seems to be in line with the long-term prospects associated with the options for their insertion in external trade adopted by these two countries. In the case of Chile, there has been a steady expansion in the volume exported. Thus, at constant 1980 values, exports represented 12.6% of GDP in 1970, 23.1% in 1980, and 33.2% in 1990. In Mexico, the respective

Table 13

**CHILE: FOREIGN DIRECT INVESTMENT (FDI). ESTIMATED LEVELS
1983-1991 AND PROJECTION FOR 1992-2000^a**

(Annual averages, in millions of dollars)

| | Hypothesis of sustained profits | | | Hypothesis of decreasing profits | | |
|--|---------------------------------|-----------|-----------|----------------------------------|-----------|-----------|
| | 1983-1990 | 1991-1995 | 1996-2000 | 1983-1990 | 1991-1995 | 1996-2000 |
| Flow of FDI ^b | 963 | 1 537 | 1 583 | 963 | 1 226 | 803 |
| Capital entry under DL 600 | 34 | 5 | 5 | 34 | 5 | 5 |
| Capital entry under Chapter XIX | 406 | 8 | 19 | 406 | 8 | 19 |
| Other | 180 | 661 | 1 139 | 180 | 491 | 536 |
| Reinvestment of profits under Chapter XIX | 343 | 863 | 420 | 343 | 721 | 242 |
| Total cumulative FDI at end of period ^c | 9 382 | 17 067 | 24 983 | 9 382 | 15 510 | 19 523 |
| Chapter XIX | 5 992 | 10 347 | 12 542 | 5 992 | 9 637 | 10 944 |
| Other | 3 390 | 6 719 | 12 441 | 3 390 | 5 873 | 8 579 |
| Profits obtained | 774 | 2 793 | 4 340 | 774 | 2 020 | 2 215 |
| Profits drawn | 239 | 1 376 | 2 538 | 239 | 988 | 1 367 |
| Profits obtained on cumulative FDI (%) | 21.8 | 21.8 | 21.8 | 21.8 | 16.6 | 13.0 |
| Profits drawn on cumulative FDI (%) | 8.6 | 10.1 | 12.8 | 8.6 | 7.6 | 8.0 |
| Profits drawn on FDI under Chapter XIX | 2 | 873 | 1 588 | 2 | 627 | 920 |
| Profits drawn on other FDI | 239 | 504 | 949 | 239 | 362 | 447 |
| Profits drawn on accrued profits (%) | 30.8 | 49.3 | 58.5 | 30.8 | 48.9 | 61.7 |
| Profits drawn on flow of FDI (%) | 24.8 | 89.6 | 160.3 | 24.8 | 80.6 | 170.3 |

Source: Prepared on the basis of data from the Central Bank and the Foreign Investments Committee of Chile and the US Department of Commerce.

^a The limitations of the available statistics on foreign direct investment in Chile make it necessary to formulate hypotheses on the profits made and those reinvested. For the period 1983-1990, the reinvestment of profits obtained on FDI other than that effected under Chapter XIX was estimated from data for United States companies (US Department of Commerce, *Survey of Current Business*, Washington, D.C., various issues). The profits generated were inferred from the remittances of profits effected and the reinvestment hypotheses. For subsequent years, two hypotheses were used: one assumed the continuation of the average rate of profits estimated for 1983-1990, while the other assumed a gradual decline to lower rates of profitability. In all cases it was assumed that the same rate of profitability also applied for FDI effected under Chapter XIX. For the period 1991-1999, it was assumed that 20% of the profits accruing on FDI under Chapter XIX and 50% of those accruing under other forms of FDI were reinvested.

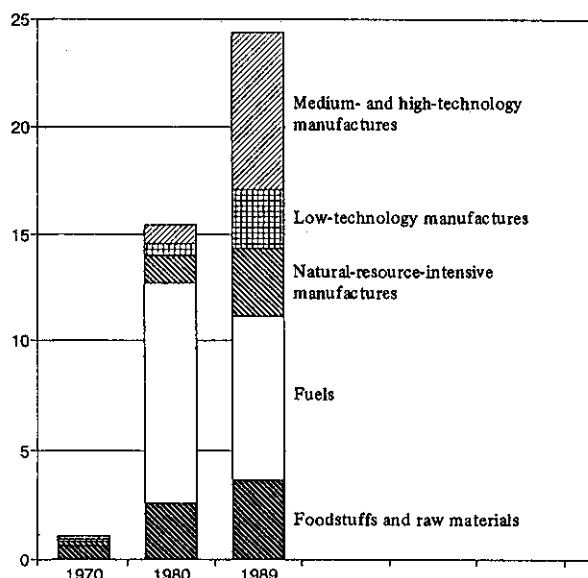
^b Figures based on balance of payments data, which register net FDI and do not include credits associated with FDI. Conversions under Chapter XIX were registered in this exercise (unlike the official figures) at a discount of between 15% and 5%.

^c The starting point was the cumulative FDI up to the end of 1973, according to the figures of the Foreign Investments Committee of Chile; devaluation of foreign capital was not taken into account.

Figure 2

MEXICO: EVOLUTION OF EXPORTS, 1970, 1980 AND 1989

(Billions of dollars)



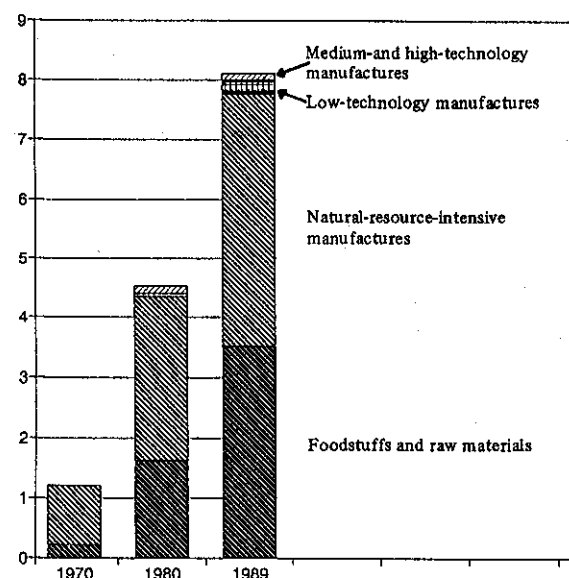
Source: Estimates on the basis of primary data from the Latin American and Caribbean External Trade Data Bank (BADECEL). Statistics and Projections Division, ECLAC.

Note: The classification was effected on the basis of the Standard International Trade Classification (SITC) at the three-digit level, in line with the criteria used by ECLAC in *El comercio de manufacturas de América Latina: Evolución y estructura 1962-1989* (LC/R.1056, Santiago, Chile, September 1991) and in *Intraindustry Trade: a Comparison between Latin America and some Industrial Countries* (LC/R.1101, Santiago, Chile, Statistics and Projections Division, November 1991).

Figure 3

CHILE: EVOLUTION OF EXPORTS, 1970, 1980 AND 1989

(Billions of dollars)



Source: Estimates on the basis of primary data from the Latin American and Caribbean External Trade Data Bank (BADECEL). Statistics and Projections Division, ECLAC.

Note: The classification was effected on the basis of the Standard International Trade Classification (SITC) at the three-digit level, in line with the criteria used by ECLAC in *El comercio de manufacturas de América Latina: Evolución y estructura 1962-1989* (LC/R.1056, Santiago, Chile, September 1991) and in *Intraindustry Trade: a Comparison between Latin America and some Industrial Countries* (LC/R.1101, Santiago, Chile, Statistics and Projections Division, November 1991).

values were 10%, 11.8% and 22.6%.⁹ In the case of Mexico, oil exports assumed notable importance as from 1980, but subsequently there was also a significant increase in exports of manufactures, especially those of medium and high technological content. The growth in Chile's exports, in contrast,

has been based mainly on the country's natural resources (figures 2 and 3). In both cases, special importance is assigned to the trade integration agreements with the United States. For Chile, the corresponding agreement is a reassertion of its aim of exporting to the developed countries, even though the United States is not currently its main market (purchases by Japan or the European Community are more important). For Mexico, whose trade with the United States already accounts for two-thirds of its total external trade, the North American Free Trade Agreement is seen as a decisive step forward in its outward-looking development strategy.

⁹ These increases, although noteworthy, are by no means an isolated phenomenon in Latin America: even if Chile and Mexico are excluded, the region exported the equivalent of 15.3% of its gross domestic product in 1980 and 20.6% in 1990 (at constant 1980 values).

III

The challenges of the new form of development

The Latin American and Caribbean countries are seeking to shape a new form of development in these early years of the 1990s. Their efforts in this respect are at very different stages of progress. At one extreme, a few countries have managed to exceed the levels of per capita production of the early 1980s, have inflation under control and possess high levels of reserves, have significantly increased the percentage of their gross domestic product which they use for investment (although these percentages are still not very high), while their democratic processes show an appreciable degree of consensus and stability. At the other extreme, some countries are still struggling to stabilize their economies, still register low levels of capital accumulation, are only at the beginning of the process of reform of their institutions, and their democratic processes are subject to greater tensions.

The first-named countries seem to be on the threshold of consolidating a new form of development. As a result of the processes of institutional and macroeconomic reform of the 1970s and 1980s, they have inherited high percentages of the population in a situation of poverty, heavy concentration of income distribution and distribution of property, and economic dynamism closely linked to export growth. They must therefore consolidate their advances in democracy with greater equity, raise investment, and maintain their export growth and the macroeconomic balances obtained, within an international context which simultaneously offers relief and difficulties in connection with their economic policy.

The rest of the countries face the prospect of having to repeat the reform process of the first-named countries and having to solve major queries. On the one hand, since their economies generally display substantial differences from those of the first-named countries, and since changes have taken place in the meantime in the international context, the question arises of whether the policies required should not now be different. On the other hand, the question arises of whether the lessons of the 1980s can show them how to avoid the high costs in terms of equity and growth paid by the first-named countries.

In examining this set of challenges we shall first of all analyse the sequence of the reform process

in both the macroeconomic field and in the structural and institutional area. We shall then analyse the export process. In this respect, at least two different export structures may be distinguished in the first group of countries. We must ask ourselves what their medium and long-term prospects are, and how far these processes can be repeated in other countries. At the same time, in the short term the greater financial openness and the new international context are raising difficulties in respect of the export effort and the macroeconomy, and these must be explored. Next, we shall analyse the process of capital accumulation, which should be led by the private sector in the new context, although it is nevertheless essential to examine the scope and specific features of public action in this field. Finally, a review will be made of the consequences these reforms may have for equity, analysing both the experience of the countries which were pioneers in this field and also the possible repetition or modification of such experience in other countries.

1. *The consistency of the reform process*

There is a high degree of consensus among governments regarding the need to make reforms at the macroeconomic and institutional levels. In general terms, there is consensus on the need to maintain the macroeconomic balances and deregulate markets. The picture is not so clear, however, with regard to the timetable and scope that those reforms should have. The changing international scene raises continual challenges even for the countries which have progressed furthest in this process. Deciding on a timetable for reforms, clarifying their scope, and providing mechanisms to facilitate adaptation are currently major challenges in the establishment of a new form of development. In this respect, there is background information from recent years, together with theoretical proposals, which it seems worth compiling. For analytical reasons, we shall first present a sequence of reforms for the macroeconomic area, and then another sequence for the institutional area, followed by an analysis of the interrelations between them.

The macroeconomic sequence would begin with a recessionary adjustment and stabilization, followed by a recovery in the level of activity which would subsequently be transformed into true growth, culminating in the distribution of the latter's benefits. The adjustment involves the classic measures already referred to for controlling domestic demand. It should make it possible both to cope with external payments and at the same time reduce inflationary pressures. Once this has been achieved, progress could be made in recovery, on the basis of the factors of production which were not destroyed but remained unused during the depression in the previous stage. In order for this recovery to be viable, however, it must be led by export growth or, in the absence of this, promoted through the inflow of capital; otherwise, a situation of strangulation could arise at the level of the balance of payments due to payments for external financial services or to the foreseeable recovery of imports, once the lowest point in the depression has been overcome.

When a situation of almost full employment of the existing resources is reached, the next step is growth based on the extension of production capacity through capital accumulation and the incorporation of technological progress. In order for the necessary increase in investment to take place, this stage would require a high rate of (external or internal) saving and the prospect of high profitability for capital, so that it would be advisable to postpone significant improvements in wage-earners' income. This latter element would be in keeping with a scheme in which exports form the dynamic nucleus: it would provide a "spurious" but nevertheless initially very useful form of competitiveness, avoid pressures on trade in basic consumer goods (by maintaining exportable surpluses or avoiding higher imports) and, in view of the subordinate place occupied in the growth strategy by the domestic market for such goods, it would not affect overall growth.

Finally, the growing prosperity would extend to ever-wider social groups, both through the progress that private enterprise would make towards true competitiveness which would enable it to improve wages, and through the action of the State, which would have more resources for tackling poverty and expanding social expenditure, as well as for the necessary incorporation of new technologies (expenditure on education, in particular). There will naturally be some overlapping of the various phases in

this sequence, which all form part of an overall strategy. In particular, many of the measures of a structural or institutional nature will begin to be applied from the start and will aim to plot courses for long-term development; they are often carried out gradually and extend over various stages of the macroeconomic sequence. This does not do away with the distinction between successive stages, emphasized by the reluctance of economic policy designers and the political authorities to "anticipate" reactivation before they consider that the stabilization process has been consolidated or to permit recovery of wage levels before achieving sustained growth.

In the area of structural and institutional reforms, some measures seem to be the subject of clear consensus, at least among the governments of the region. These measures are greater trade openness, deregulation of markets for goods, greater labour flexibility, and redimensioning of the State, especially through the privatization of public enterprises. Deregulation of financial systems and liberalization of capital flows from abroad could also be added to this list, albeit perhaps with a somewhat lower degree of consensus.

The most appropriate sequence for these reforms is a question which does not yet seem to have been settled. Studies carried out or sponsored by the World Bank in the 1980s (Choksi and Papagiorgiou (eds., 1986) propose the following sequence: i) achieve fiscal discipline; ii) deregulate the labour market; iii) liberalize trade in goods, including international trade; iv) liberalize the domestic financial market, and v) liberalize capital flows to and from the exterior. This sequence would reduce the risk that liberal reform processes might result in unsustainable imbalances, as occurred in the Southern Cone of Latin America in the early 1980s.

However, the structural reform processes as they have actually been taking place in reality seem to take advantage of available circumstances which are favourable for certain reforms, regardless of their place in a hypothetical planned sequence. Indeed, the action of the multilateral agencies themselves, which have furthered these reforms through their conditioned financial aid, has been directed towards promoting general liberalization at all levels without trying to establish any particular sequence. Moreover, sometimes these agencies have approved measures which are in contradiction to the first-named point, such as assumption by the State of

private external indebtedness and maxi-devaluations, which have considerably affected the fiscal situation in most of the countries.

Consequently, in the area of structural reforms there does not appear to be any clear desirable sequence, although the application of the central measures is easier or more advisable during some of the stages in the macroeconomic sequence. Thus, greater flexibility in the labour field is facilitated during the recessionary adjustment, when it may be presented as a solution to unemployment and the trade unions are in a weakened state. Trade and financial openness, for their part, may act in support of the stabilizing efforts in the same stage, in the first case by discouraging price rises and in the second one by favouring freezing of the exchange rate. However, this combination (delay in adjusting the exchange rate, external competition, economic depression) may be too severe for broad sectors of production, in which case it would be less costly and more sustainable to progress with trade openness in a context of economic reactivation. Another basic reform for this form of development, namely, privatization processes, will play different roles in different stage of the process: during stabilization, they will provide fiscal resources at a time of low economic activity and hence low fiscal revenues, though these resources will be substantially smaller than those that would be received in a context of recovery or growth.

The question of the sequence to be followed raises a number of other queries in addition to those already noted. In the countries which have advanced furthest in the reform process there are still some doubts regarding the final achievement of changing production patterns with equity. What has been observed so far in these countries is a worsening of the situations of inequity, and there is a risk that a form of development which has not been aimed at social integration right from the start will consolidate a profoundly heterogeneous economy and society, instead of leading to the progressive uniformity of conditions of production and living.

In the other countries, this doubt is further compounded by other unknown quantities, because of the different economic structures and changes in the international situation. In particular, it is by no means clear that in these countries the sequence followed by the nations which have advanced furthest in the process will give the same fruits as regards the external

and fiscal balances. Since, in the countries which are least advanced in the reform process (unlike the cases of Chile and Mexico), expansion of exports and of fiscal revenue are generally not linked, the stabilization stage presents greater difficulties: if there is recession, it is very difficult to increase fiscal income, yet without such recession it is not possible to generate a trade surplus to overcome the current account deficit of the balance of payments. When priority has been given to the achievement of trade surpluses in such countries through a recessionary adjustment, this has given rise to an expansion of the money supply which it has not been possible to absorb with a fiscal surplus, thus aggravating inflationary pressures. The sale of domestic public debt instruments has represented a short-term palliative, but it has given rise to growing financial costs. Thus, in these countries not only were the conditions for an external surplus opposed to those for a fiscal surplus, but the effects of the former made the prospects of the latter ever more distant. The greater availability of foreign capital which exists in the 1990s (including increased recourse to involuntary financing)¹⁰ opens up the possibility of changing the sequence in question: to some extent, it would make it possible to combine reactivation with the adjustment by balancing the fiscal accounts with greater tax revenues and absorbing the trade surplus in advance. It is equally true, however, that an excessive inflow of capital may worsen monetary tensions and depress the real exchange rate.

¹⁰ Prudence is called for, however, in appraising the likely persistence of these capital flows. They have been due both to domestic and external factors, some of which may only be of a temporary nature. Among the domestic factors are certain opportunities for windfall gains opened up by the privatization processes, the recovery of the stock exchanges and the relatively high interest rates, in dollar terms, in a context of widespread "exchange lag". Among the external factors are the United States recession and the efforts made to relieve it by the reduction of short-term interest rates. The domestic factors referred to may be exhausted quite naturally: at some time the most interesting public assets will have been sold, the recovery on previously depressed stock exchanges will have been completed, and there may be an exchange risk which will make domestic interest rates less attractive. With regard to the low United States interest rates, the likelihood of their persistence is an unknown quantity, in view of the disparities between short and long-term rates in that country and between the United States and European short-term rates, together with the persistence of imbalances in the federal budget of the United States.

Ultimately, the great challenges which must be faced in this reform process consist of the establishment of links between the timetable and scope of the reforms, on the one hand, and the international situation and the features of the national economies on the other.

2. The export process

As already noted, the expansion of exports will be called upon to play the role of the motor of growth, by filling the vacuum left by the contraction in mass domestic consumption. In addition to increasing imports, greater domestic competitiveness should be promoted. The challenges faced by this strategy are different from one country to another, depending on the type of specialization, the degree of progress made in introducing the new form of development, and the situation of each country *vis-à-vis* the changes in the international context.

In the countries which have advanced furthest in the new form of development, the inflow of capital has meant a good deal of relief for their external and fiscal accounts but has at the same time introduced tensions into their economic policies which affect the export strategy.

In these first years of the 1990s, Mexico has received over half the total net inflow of capital into the region (US\$28.5 billion in 1990-1991, of the total of US\$54.5 billion received by Latin America). Thanks to this inflow, it has been able to cover a growing current deficit and at the same time build up its international reserves. An outstanding feature of this evolution is the growth of the trade imbalance: between 1987 (the year in which there was marked opening-up of trade) and 1991, imports of goods grew by 207% in value terms, while exports only increased by 31%, and over this period of time the country went from a merchandise trade surplus of US\$8.4 billion to a deficit of US\$10.4 billion. An element which is by no means alien to this evolution is the persistent lag in the real exchange rate since 1987 (table 14). This evolution, made possible by the inflow of capital, has been associated with an active "crawling peg" policy designed to control inflation. Although the prospects for Mexican exports are favourable in view of the growth of investments and the free trade agreement with the United States and Canada, it will be necessary to evaluate the compatibility of this exchange policy and these capital

movements with the role of the motor of growth assigned to exports.

In the case of Chile, also, since 1988 there has been a progressive lag in the rate of devaluation with respect to the difference between domestic and international inflation (table 14); here, too, the inflow of capital has played a major role in this evolution. In Chile, however, the relative lag is much smaller than that registered in Mexico, there has been no interruption in the expansion of exports, and the trade balance continues to be positive, all of which might lead to doubts whether there really is an "exchange lag". Nevertheless, however, it still raises a dilemma for economic policy. If the interest rate is reduced in order to discourage the inflow of capital, the economy may overheat; if this is not done, this will tend to depress the real exchange rate unless the government takes measures to support it—as it has indeed done to a certain extent—through the accumulation of reserves, which leads to expansion of the money supply or domestic public indebtedness greater than were desired. Ultimately, either inflationary pressures are generated, or the State ends up by simultaneously accumulating external assets and domestic liabilities—through which it absorbs the money issue—paying much higher interest rates on the latter than the rates it receives in respect of the former.

Another question which is probably more decisive for the development strategy is the composition of Chilean exports. At the present time, the government shows some interest in gradually modifying the specialization in primary commodities by incorporating products making more intensive use of skilled labour and with higher technological content, which give rise to more positive effects on the productive system, preserve the environment more effectively, and are less vulnerable to the deterioration of the terms of trade. The question here is to what extent the current macroeconomic circumstances—especially the tendency towards a progressive lag in the level of the exchange rate—are favourable to this diversification, especially in the absence of a selective export promotion policy.

For the other countries of the region, the export strategy raises even more fundamental queries. Above all, it may be asked whether the motive force presented by exports is not too small or too partial to propel certain countries along the path of sustainable and harmonious development, or, in other terms, to what extent the cases of new forms of incorporation

Table 14

**LATIN AMERICA (FIVE COUNTRIES): TRENDS IN
REAL EFFECTIVE EXCHANGE RATES ^a**

(Indexes: 1987=100)

| Countries | | 1987 | 1988 | 1989 | 1990 | 1991 ^b |
|-----------|-------|------|------|------|------|-------------------|
| Argentina | (WPI) | 100 | 93 | 102 | 96 | 88 |
| | (CPI) | 100 | 108 | 134 | 96 | 65 |
| Brazil | (WPI) | 100 | 90 | 75 | 64 | 78 |
| | (CPI) | 100 | 91 | 74 | 62 | 70 |
| Chile | (WPI) | 100 | 116 | 108 | 114 | 107 |
| | (CPI) | 100 | 105 | 99 | 102 | 96 |
| Mexico | (WPI) | 100 | 83 | 80 | 80 | 72 |
| | (CPI) | 100 | 81 | 75 | 73 | 65 |
| Peru | (CPI) | 100 | 114 | 76 | 56 | 46 |

Source: ECLAC.

^a These are averages of the effective exchange rates for exports and imports, calculated on the basis of the wholesale (WPI) or consumer (CPI) price indexes. For Mexico, the free exchange rate was used.

^b Provisional figures.

in the external economy referred to earlier (Mexico and Chile) are models that can or should be imitated by other Latin American countries.

Economic integration with the United States and Canada, after the style of Mexico, may seem a natural form of evolution for Central American and Caribbean countries which already have a large part of their trade concentrated on the United States. In some of them, substantial outward-looking assembly industrialization is being developed. Although this gives rise to profound changes due to the boost it gives to the formation of local businessmen and a trained labour force, however, it has only limited effects on the productive system as a whole and can hardly develop structural or systemic competitiveness on its own. Indeed, one of the main "exports" of these countries to the United States consists of their own citizens who enter that country legally or illegally, giving rise to financial movements and demographic, cultural and political phenomena of considerable proportions.

Other countries, such as the members of MERCOSUR and Chile, do not have such close links with the United States, since their trade is much more diversified. For these countries, the most important trade development potential may not be with the

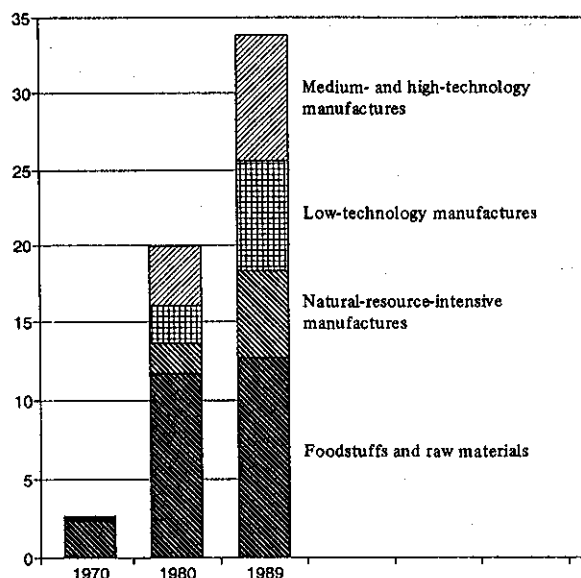
United States, which in many lines of production is a competitor rather than a potential purchaser, whereas, in contrast, there are interesting prospects for developing trade among themselves. On the other hand, neither can an export approach based on the Chilean model—that is to say, an effort to base economic growth on rapid expansion of natural resource-based exports—be viewed as a model applicable to all situations. Even in the light of the substantial qualitative effects that expansion of exports may have, it is doubtful that exports can make up for sluggish domestic demand, especially in the larger countries of the region. Moreover, for a number of countries this specialization would represent a reversal of the diversity and complexity of the products exported (figures 4 and 5 show the cases of Brazil and Argentina).

A second query concerns the linking up of policies of greater openness and stabilization, which is a particularly delicate matter for countries which are passing through the first stages of the sequence examined earlier. In some countries, stabilization policies have resorted to deliberate lags in the real exchange rate, while in others (or the same countries also), the inflow of foreign capital has worked in the same direction. Thus, trade openness may give fewer

Figure 4

BRAZIL: EVOLUTION OF EXPORTS, 1970, 1980 AND 1989

(Billions of dollars)



Source: Estimates on the basis of primary data from the Latin American and Caribbean External Trade Data Bank (BADECEL). Statistics and Projections Division, ECLAC.

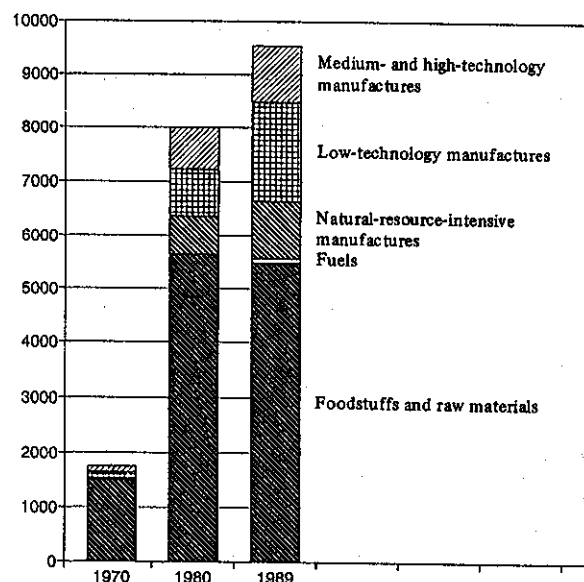
Note: The classification was effected on the basis of the Standard International Trade Classification (SITC) at the three-digit level, in line with the criteria used by ECLAC in *El comercio de manufacturas de América Latina: Evolución y estructura 1962-1989* (LC/R.1056, Santiago, Chile, September 1991) and in *Intraindustry Trade: a Comparison between Latin America and some Industrial Countries* (LC/R.1101, Santiago, Chile, Statistics and Projections Division, November 1991).

fruits than expected, or they may be different from what was hoped for. At least initially (except under truly even-handed integration agreements), for the Latin American countries greater openness means reducing their own tariff and para-tariff barriers to imports, without expecting the same thing to occur in their main markets, which on the contrary often apply protectionist policies. The effects of unilateral openness on exports are not clear. In order for expansion of exports to be of a sustained nature and to have a favourable effect on the organization and technological level of the economy as a whole, it must be based on growing "systemic" competitiveness. This, for its part, calls for a considerable investment effort, not only in specific export-oriented areas

Figure 5

ARGENTINA: EVOLUTION OF EXPORTS, 1970, 1980 AND 1989

(Billions of dollars)



Source: Estimates on the basis of primary data from the Latin American and Caribbean External Trade Data Bank (BADECEL). Statistics and Projections Division, ECLAC.

Note: The classification was effected on the basis of the Standard International Trade Classification (SITC) at the three-digit level, in line with the criteria used by ECLAC in *El comercio de manufacturas de América Latina: Evolución y estructura 1962-1989* (LC/R.1056, Santiago, Chile, September 1991) and in *Intraindustry Trade: a Comparison between Latin America and some Industrial Countries* (LC/R.1101, Santiago, Chile, Statistics and Projections Division, November 1991).

of production, but also in the infrastructure, training and research, all of which requires deliberate and persistent public policies, which cannot be guaranteed to continue (especially in the stage of adjustment and stabilization), as well as time to bear fruit.

With regard to imports, their effects on the domestic production with which they compete may be excessively abrupt and intense. It must not be forgotten that most of the countries have passed or are still passing through a prolonged period of low investments in both physical capital and human capital. It must not be forgotten either that domestic enterprises—particularly small and medium-sized ones—usually have difficulty in gaining access to credit (especially long-term credit at moderate rates); that they

generally cannot rely on dynamic domestic demand which will allow them to operate on a more profitable scale; that they frequently do not enjoy the support of public industrial policies and protection against dumping, and that in some cases a depressed exchange rate deprives them of external markets and makes them even more vulnerable at the domestic level. Such conditions, which are rendered even more acute by recessionary adjustment policies, mean that opening up to imports may have the opposite effect to that desired, which is to raise the average productivity of the economy. Thus, it may cause the closure of industries which would have been viable in less adverse conditions, long before its possible positive effects on systemic competitiveness begin to show themselves. This would mean the loss of physical and human capital which it had taken decades to form, the disorganization of inter-industry relations, and the forced transfer of labour to informal services where workers will have a level of productivity much lower than the previous one, even if the latter was itself not totally satisfactory.

Finally, the exchange lag caused by the stabilization policy could affect the international insertion strategy by making the impact of imports more abrupt and immediate and causing the improvements in competitiveness on the export side to be slower and more hypothetical. Such improvements in any case require a substantial length of time to show themselves, at least if systemic competitiveness is sought. At the same time, the deterioration that would be caused in the trade balance could complicate stabilization efforts: dependence on a possibly unstable capital inflow would be heightened, and pressures could reappear in the exchange market. There would then be a danger of a resurgence of inflation due to the recovery in the real exchange rate, and/or the need for a new recession in order to restore the trade balance. The whole process of recovery and growth would be affected, and the redistributive stage would be put off once again.

3. *The accumulation process*

A central challenge in connection with economic growth is the recovery of capital accumulation after a number of years of low investment and even net disinvestment in productive, social and infrastructural sectors. Such recovery is indispensable, whatever the form of development chosen, and in many areas

the type of investment needed is not even specifically linked to a particular type of development. Thus, the steps needed in order to achieve structural competitiveness are no different from those needed for integrated development; the specific investments needed for creating export capacity in a given area are quite small compared with the total investments that a country must make under any development scheme (regardless of whether it is more outward-looking or more directed towards the domestic market): i.e., investments in the areas of energy, transport infrastructure, telecommunications, education, health, housing, research, basic industries, etc. The challenge is to find a way of restoring this investment within the selected form of development, although the latter has largely taken away the previous accumulation mechanisms, reducing in particular the function of the State and the public banking system (or a private banking system which followed public guidelines) in this field.

A situation like the present one offers new opportunities for private activity and profit: the transfer to the private sector of activities which are no longer considered public services; new forms of access to natural resources, through abandonment of the principle of State ownership of the subsoil and water resources; and indeed the long-standing postponement of public investments itself, which may mean that there are now big profits to be made through investment in some areas. Naturally, however, the attractiveness of these opportunities will be influenced by the perceived likely success or failure of a sufficiently dynamic external insertion process.

However, these opportunities do not always increase the accumulated capital in the country. In contrast, some of them may cause the strategies adopted by the main enterprises to be based more on expansion by taking advantage of transfers of wealth rather than on the establishment of new production capacity; this would be so, for example, in the case of the privatization of enterprises or resources currently in the hands of the State. On the other hand, the opportunity for private profit may be offset by other factors. One of them is deterioration of the physical infrastructure as well as of the educational and health systems. Such shortcomings adversely affect the development prospects of the country and undermine its competitiveness, so that there would appear to be a complementary relationship between recovery in

public investment (not based on calculations of short-term profitability) and private investment.

This would make it necessary to review the restrictions on non-financial public expenditure which have characterized the recent evolution of most of the countries of the region. In order to achieve this without generating or increasing a fiscal deficit which it will be very difficult to finance, it will be necessary to increase fiscal income, and this may be strongly resisted, especially in situations of recession. Another obstacle to recovery of previous levels of investment is the virtual disappearance of development credit in a number of countries: it is by no means easy for long-term financing to arise spontaneously out of banking activities which are currently aimed at short-term operations. Here, there would be an obvious role for the public banking system, but this would not only run counter to the monetary programmes applied in countries which are still seeking to achieve or consolidate relative price stability, but would also be out of keeping with the central options of the form of development. In some countries, efforts are being made to revitalize the financial markets as a means of financing enterprises, but the instruments available on such markets are only accessible to the biggest and most important economic agents, and even these are sometimes reluctant to resort to forms of financing which mean opening up their share capital.

An important aspect is that of the cumulative effects that could be caused by a gradual recovery in accumulation or, alternatively, the slowing-down or halting of the decline in investment. One of the factors which can have most influence in possibly slowing or halting this decline is the "wait and see" behaviour of businessmen: until they see a sustained growth trend which will bring them close to their installed production capacity, they will be reluctant to immobilize capital in the area of production (except perhaps in exploiting natural resources for export), preferring financial investments inside or outside the country. Thus, economic activity will continue to be depressed, and this will have a negative impact on fiscal income, thereby in turn making it more difficult to secure a recovery in public investment. Conversely, the resumption of the accumulation process may have positive effects on activity in general, on public income and investment, and on the behaviour of a business sector which to some extent lacks the will to invest although it has the necessary resources for this (table 5).

With regard to the resumption of the accumulation process, it may perhaps be insufficient –or at all events inefficient– to expect a spontaneous change in private sector behaviour, even in a relatively stabilized situation. Nor does it seem either sufficient or desirable to seek the recovery of investment through policies aimed at increasing private saving by raising real interest rates or making income distribution even more regressive. The Latin American experience suggests that such measures would not only not be effective in increasing saving,¹¹ but would also aggravate what appears to be the main problem: i.e., the materialization of private investment which, in a number of countries, is generally speaking not currently constrained by a shortage of domestic saving or accumulated financial resources.

In short, the recovery of investment in the new form of development is by no means a relatively spontaneous phenomenon but will require an active yet different approach on the part of the public sector.

4. The challenge of equity

Elsewhere in this article, emphasis has been placed on the importance of political factors both for dismantling the previous form of development and for making possible the installation of a new one. Such a new form of development will necessarily have to reproduce the political conditions for its functioning. From this point of view, special importance is assumed by the results it generates in terms of equity and the magnitude of poverty.

The features which have so far characterized the new form of development have aggravated inequity and poverty, which were already serious in the region, despite the dynamic growth and the efforts at social incorporation registered in the post-war decades. In recent years, there has been further accentuation of the concentration of income, wealth, consumption and economic power. Not only has there been unequal distribution of the costs of the crisis: if this were the only problem involved, the phenomenon would be limited to the duration of the latter. At a more fundamental level, however, the

¹¹ See Massad, 1991. Studies which analyse the experience of other regions, both developed and developing, also highlight the feeble (or even negative) effects of higher interest rates on global saving. See Bouillot (1988) and Lee (1991).

redefinition of the relations between capital and labour, between the private and public sectors, between the logic of the market and that of public service, between the financial and the real sectors, and between the outward-oriented sectors and those aimed at the domestic market have weakened the previous mechanisms of social incorporation and increased the heterogeneity of Latin American societies.

The challenge raised by inequity does not occur in the same terms in all countries. In the case of those which have advanced furthest in the new form of development, it is a question of seeing whether the deterioration in equity is reversible, and if so, by what means and in what spaces of time. For those which are in the first stages of the process, it is a question of seeing whether the aggravation of inequity can be avoided in the selected scheme of development, and if not, whether it can be tolerated within a democratic political framework.

In the first group of countries, the problem of inequity is severe. In Chile and Mexico, the functional distribution of income displays a marked decline in the share of wage-earners (table 8), consistent with the prolonged depression of real wages (figures 6 and 7). Likewise, examination of the distribution of consumption in Greater Santiago between 1968 and 1988 shows marked and growing concentration in the richest households, which are the only ones that improved their position over these 20 years. Moreover, an analysis by quintiles shows that in 80% of households, the poorer the family groups in question, the more serious the deterioration in their consumption in both relative and absolute terms (table 15). The seriousness of the situation may also be noted from the large proportion of the population of these countries living under the poverty line and the increase which this proportion is estimated to have registered in the 1980s, although comparable estimates for the end of the decade are not yet available for Mexico (table 16).

In a context of recovery and growth of the product, there will be forces that will tend more or less spontaneously to improve the situation of sectors adversely affected during the previous stages of the process of stabilization and reform. Among these "re-balancing" forces, mention may be made of the effects of stabilization on recipients of wages and pensions, who are generally left behind in periods of high inflation. An influence in the same direction is exerted by the reduction of unemployment, which

has favoured partial recovery of real wages in Chile (although not yet in Mexico). The scope of these tendencies may be limited, however, and in particular they may not reach the most underprivileged sectors which are excluded from the formal economy. At the same time, other forces may act in an opposite direction, and the dynamics of inequality itself may generate still more inequality. In particular, with the contraction in the social action of the State there is increasingly clear evidence of the existence of one type of education and health services for the poor and another for the middle and high income groups, with radically different quality and coverage; such evolution tends to aggravate and perpetuate conditions of social inequity. Likewise, the growth of informal employment compared with jobs in the public service and in industry tends to establish a new and predominantly urban form of marginality. Family groups which sink into this situation for prolonged periods tend to lose the background of training and socialization gained in the post-war decades.

When all is said and done, it does not seem that improvement in equity can be left to the spontaneous evolution of the form of development. This would appear to be the purpose of many social programmes which are being put into effect in Chile and Mexico. In Mexico, for example, a National Solidarity Programme is now in operation, while in Chile the democratic government has introduced tax reforms to finance greater social expenditure and has raised the minimum wage. The first results, in the case of Chile, show a slight reduction in the inequality of household income distribution (table 15). Here, a small reduction in the share of the richest quintile has made possible a by no means insignificant improvement in the income of the other sectors, especially the poorest households, although in fact this only means that the bottom quintile is now receiving 4.9% of total income instead of 4.6%. These amounts suggest that there is ample room for improving the situation of the underprivileged majority of the population at only modest cost to the wealthy classes, but it also indicates that at the present rate it will take many years to rescue a substantial part of the population from poverty. In order to avoid the crystallization of a dual society, progress in income distribution should be accompanied by an effort to improve the quality, coverage and homogeneity of public education, health, housing and social security services, thereby reversing to some extent the trends of recent years.

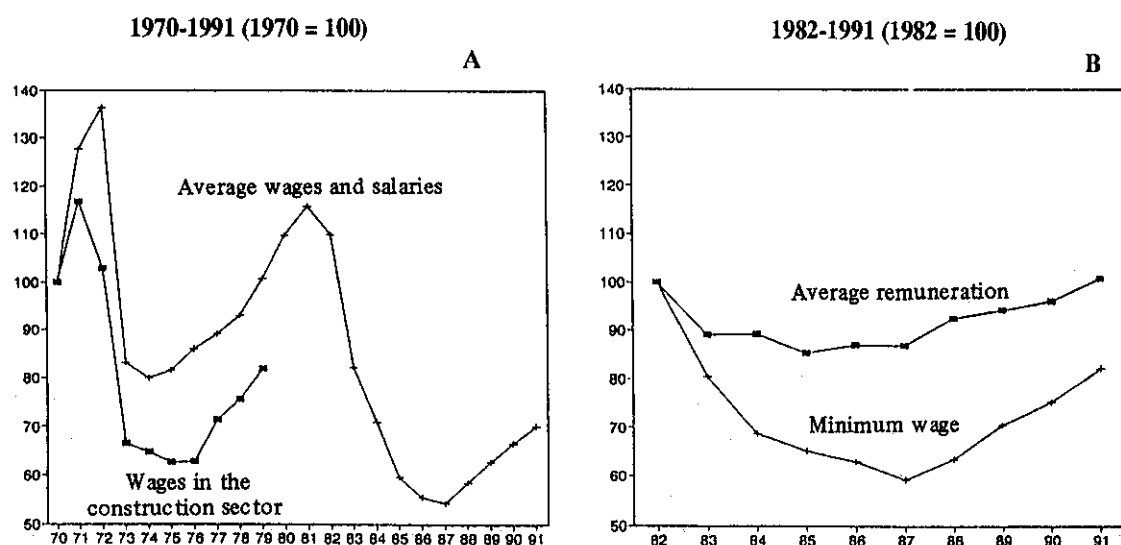
Table 15
CHILE: DISTRIBUTION OF CONSUMPTION AND HOUSEHOLD INCOME
(Percentages)

| Quintiles | Consumption | | | | | |
|--------------|----------------------------------|--------------|--------------|------------------------------|------------|-------------|
| | Distribution in Greater Santiago | | | Variation at constant values | | |
| | 1968 | 1978 | 1988 | 1978/1968 | 1988/1978 | 1988/1968 |
| | | | | | | |
| I (poorest) | 7.6 | 5.2 | 4.4 | -37.6 | -7.4 | -42.3 |
| II | 11.8 | 9.3 | 8.2 | -28.1 | -3.6 | -30.7 |
| III | 15.6 | 13.6 | 12.7 | -20.5 | 2.1 | -18.8 |
| IV | 20.5 | 20.9 | 20.1 | -7.0 | 5.2 | -2.2 |
| V | 44.5 | 51.0 | 54.6 | 4.5 | 17.1 | 22.4 |
| Total | 100.0 | 100.0 | 100.0 | -8.8 | 9.4 | -0.3 |

| | Household income | | |
|--------------|--------------------------------|----------------|-------------------------------|
| | Distribution at national level | | Variation in real income |
| | Sep.-Nov. 1989 | Sep.-Nov. 1990 | Sep.-Nov. 1990/Sep.-Nov. 1989 |
| | | | |
| I (poorest) | 4.6 | 4.9 | 6.7 |
| II | 8.0 | 8.3 | 3.9 |
| III | 11.3 | 11.5 | 2.0 |
| IV | 16.6 | 17.1 | 3.2 |
| V | 59.5 | 58.2 | -2.0 |
| Total | 100.0 | 100.0 | 0.2 |

Source: National Statistical Institute (INE), Santiago, Chile, and ECLAC.

Figure 6
CHILE: EVOLUTION OF REAL WAGES



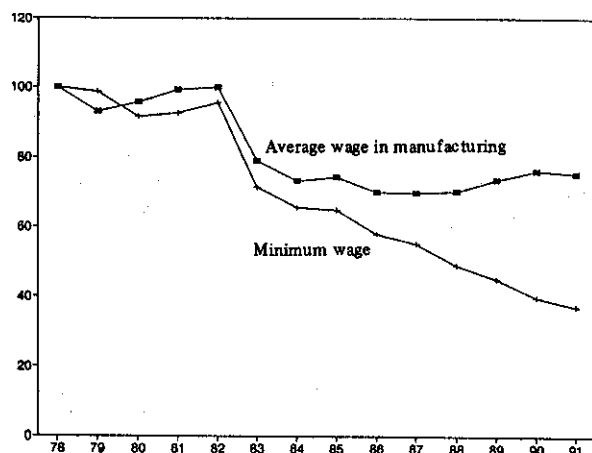
Source: ECLAC and PREALC, on the basis of official data and figures supplied by the Chilean Chamber of the Construction Industry.

Note: The index of average wages and salaries (base April 1959) in figure 6-A is not comparable with the index of average remunerations (base December 1982) in figure 6-B.

Figure 7

MEXICO: EVOLUTION OF REAL WAGES,
1978-1991

(Indexes: 1978=100)



In the light of these experiences and in a somewhat different international context, the question that arises for the countries which are in the first stages of this process of reforms is whether it is possible to avoid or reduce the costs paid by the pioneering countries in terms of greater inequity. The fact is that in many of them income distribution is markedly more inequitable than one or two decades ago; reducing equity still further or even putting off an improvement in this respect until the last (and in any case hypothetical) stage of the process of economic change may endanger social stability and even long-term economic success, for the exclusion of a substantial part of the population from modern forms of life and suitable education and training not only undermines social cohesion but also reduces the possibilities of authentic competitiveness (or, if preferred, integrated development) of the countries in question.

In this connection the lower pressure for the transfer of resources abroad (because of the decline in international interest rates, debt reduction agreements, the inflow of private capital, and unilateral failure to keep up the external debt service) would appear to increase the leeway for economic policy management. As already noted, this would make it possible to put into effect an "adjustment with growth": that is to say, an economic policy which takes advantage of the positive effects of economic

Table 16

CHILE AND MEXICO: MAGNITUDE
OF POVERTY

(Percentages)

| | Year | Households in a state of poverty ^a | Households in a state of indigence ^b |
|--------|------|---|---|
| Chile | 1970 | 17 | 3 |
| | 1987 | 38 | 13 |
| | 1990 | 35 | 11 |
| Mexico | 1970 | 34 | 12 |
| | 1984 | 32 | 10 |

Source: ECLAC, on the basis of household surveys of the countries.

^a Percentage of households whose income is less than twice the cost of a basic food shopping basket (includes the households in a state of indigence).

^b Percentage of households whose income is less than the cost of a basic food shopping basket.

recovery on fiscal revenue and the overall productivity of the economy by bringing the various sectors of production closer to full use of their installed capacity and putting them in a better position to progress with their modernization. Naturally, the orientation of reactivation and subsequent growth will depend on whether the present form of income distribution is maintained or changed and on the (progressive or regressive) means by which it is sought to improve government income.

Is it possible, as well as desirable, to apply an economic policy aimed at improving equity without further delay? On the one hand, when the share of wage-earners in the gross domestic product is only around (and sometimes even below) 30%, this reflects a basic macroeconomic and social imbalance which depresses and distorts domestic markets and discourages the pursuit of genuine competitiveness; such values not only correspond to levels far below the past figures for the region, but are also only about half those corresponding to the developed countries. Correcting this imbalance would appear to be both socially and economically necessary, although probably not always simple in political terms. On the other hand, the tax burden in Latin American and Caribbean countries is relatively low in comparative terms, especially with regard to the more progressive taxes. Here, too, governments can follow the Chilean and Mexican example and seek the,

"nationalization" of natural rents, which have played such an important part in stabilization and macro-economic management in those countries. It may be considered, then, that there is ample room for balancing the fiscal accounts without reducing –or even while increasing– public social expenditure and expenditure on the infrastructure. Such approaches would certainly give renewed vigor to domestic markets, especially for mass consumption goods, more rapidly than could be expected from the "model" sequence of economic reforms, for in this case, recovery, modernization and economic growth would not be propelled only by exports.

Naturally, in so far as governments tackle the challenges before them (especially that of equity) by making substantial changes in the process underway, this could lead to the establishment of a form of development different from the proposal examined in this article. Indeed, this is the central concern of the ECLAC Secretariat, which, especially in its documents entitled *Changing production patterns with social equity* and *Equity and changing production patterns: an integrated approach*, proposes a different form of development in which the process of modernization of production is widely extended and a central role is assigned to equity (ECLAC, 1990c and 1992).

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