

CEPAL

Review

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA

SANTIAGO, CHILE / AUGUST 1983

CEPAL

Review

Number 20

Santiago, Chile

August 1983

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Is there a fair and democratic way out of the crisis?

Some proposals in the light of the ECLA philosophy

*Adolfo Gurrieri and Pedro Sáinz**

The monetary, financial and trade imbalances which have caused or aggravated the present crisis are being tackled in most of the Latin American countries through conventional adjustment policies. These policies, which do not always achieve the hoped-for results, impose enormous economic and social sacrifices, not only because of their consequences for the system of production, economic activity and the level of employment, but also because of their marked tendency to share the costs of the crisis inequitably among the different social groups.

In these circumstances, the authors hold that it is necessary to work out other policy systems which, being based on different normative principles, will make it possible not only to overcome the crisis but also to reorient development so as to correct its structural problems. This article, which they hope may make a contribution to this objective, outlines an alternative policy scheme based on some central ideas of the ECLA thinking on development. In section I, they describe the main features of the crisis and make a critical analysis of the adjustment processes now in progress; in sections II and III they set forth in a general manner the form of development which they suggest and the structural changes which should be carried out; in section IV they examine the short-term policies which should be followed, and the final section contains some reflections on the institutional order which should govern the political process of taking decisions on the crucial issues regarding the crisis and development.

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Introduction

Latin America is currently facing the most serious economic and social situation since the war, in which negative factors of both external and domestic origin have combined in a cumulative manner.¹ In many cases the damage done by the crisis affecting the developed countries has been aggravated by the application of domestic policies which have further intensified the economic depression and its effects on employment and income. These factors have once again highlighted the persistence of long-standing structural problems which the high economic growth rates registered in the boom years were not enough to overcome.

The combination of unsolved structural problems with unsuitable policies and an unfavourable external context has led to a crisis which has not only been manifested in the economic indicators and political events but has also struck deeply into the hearts of all. The man in the street is overcome by a mixture of frustration, confusion and impotence as he sees his vital projects collapsing and his hopes for a better life disappearing. In the ruling circles, perplexity and disorientation reign: understandable reactions to a crisis which has shaken the most solid beliefs.

In these circumstances, it is urgently necessary to put forward a set of ideas which could form a suitable instrument for interpreting and tackling the present problems. In normal times, and in the face of normal problems, mankind usually follows the paths already traced by previous generations, and all that it is necessary to do in such cases is to hasten one's step by advancing with greater energy. In times of crisis

¹This topic has also been dealt with in a number of articles published recently in *CEPAL Review*. In addition to the other articles in the present issue, see in particular Enrique V. Iglesias, "The international recession in Latin America" (*CEPAL Review* No. 17, August 1982, pp. 153-162); ECLA Economic Projections Centre, "Latin American development problems and the world economic crisis" (No. 19, April 1983, pp. 51-83); R. Prebisch, "A historic turning point for the Latin American periphery" (No. 18, December 1982, pp. 7-24); and Pedro Sáinz, "Adjustment, redeployment or transformation? Background and options in the current situation" (No. 18, December 1982, pp. 25-44).

this is not enough, however: it is necessary to know where one is going and, if the wrong road is being followed, to correct it.

Times of crisis, then, call for serious reflection to clarify the nature and failings of the prevailing situation and also the basic outlines of the world it is desired to build. This article aims to make a contribution to this task through a criticism and a proposal. The criticism is that attempts have been made to tackle the crisis by following the broad lines of a type of economic and social policy which has failed in practice. The proposal is for profound changes in this type of policy to open up the possibility of a way out of the crisis.

From 1965 onwards, the rapid growth of international trade and the economic progress of many countries of the region gave rise to some questioning of ECLA's assertions regarding the need to change economic relations at the international, regional and national levels. From the mid-1970s onwards, the abundant external financing available accentuated the belief that the best solution to the problem of the external imbalance would be the liberalization of international trade, since it was felt that in orienting productive activities, growing importance should be given to external market demands. By following this path, it was argued, in the long run there would be a reduction in external vulnerability, and an increase in independence of the exterior and in economic growth, while ultimately greater social equity would be achieved.

The crisis blew away these hopes, and the doubts raised by the ECLA interpretation as regards the validity of this line of approach returned, so that there is now renewed interest in the lines of action proposed by ECLA.

Like all relevant interpretations regarding development, the ECLA approach is a combination of normative principles, suggestions of ways of orienting the analysis, proposals regarding empirical facts, and action proposals. The tremendous speed of economic and social changes makes it necessary to carry out a continual review of the analytical suggestions, the empirical proposals and the proposals for practical action in order to systematically appraise their validity and modify them whenever necessary. The normative principles which are the

basic elements in the ECLA thinking still retain their validity and topicality, however. Thus, the need to establish more autonomous and equitable international economic relations, to reduce social inequality and improve the living conditions of the poorer strata, to promote economic growth in order to absorb the entire labour force in productive jobs, and to consolidate a more democratic political order is undoubtedly just as important today as it was in the past.

The presentation of these principles in full would require considerable more space and effort than can be given to them in this article, but there are some principles of a social and political nature which are worthy of special emphasis, since, together with economic factors, they have always played a leading role in the ECLA approach.

Special emphasis must therefore be given to the principle of equity, which should be present in all social relations. In the international field, the emphasis placed on the unequal distribution of technical progress and its fruits has been perhaps the most salient feature of ECLA's interpretations, and the need for the establishment of an international economic order in which these are shared out more equitably has been its main watchword.

The creation of a new and more equitable international order in which all countries will have a similar level of economic and social development, however, calls for profound changes in the international distribution of power, so that the developing countries can have a greater degree of autonomy in their decisions. It is well known that the political bargaining power of a government *vis-à-vis* other governments, transnational corporations and international organizations will depend largely on the political support it enjoys domestically, in the region, and in the rest of the developing world. Ultimately—and this is what the principle of international equity aims at—the political power of the developing countries should be strengthened until new rules are established for international economic relations. Whatever the progress made on the national, regional and international political levels, the increase in the degree of autonomy of the economies on the periphery will encounter a limitation in their external vulnerability. In other words, the Latin American

countries' relationship of trade and financial dependence has always been a formidable obstacle to their achieving greater autonomy, and overcoming this should be a main policy objective of all governments.

In domestic economic relations, too, the principle of equity should occupy a central place. Economic development calls for a sustained effort to accumulate capital, and this should be carried out through procedures which strengthen equity. The incorporation of technical progress should be carried out in such a way as to reduce regional, sectoral and social heterogeneity, and should manifest itself in the absorption of the entire labour force into productive jobs; the distribution of the fruits of this development should also be equitable, to which end it is necessary to place emphasis on mechanisms tending towards a homogeneous distribution of technical progress, as well as on direct distribution and redistribution measures. Likewise, equity should be expressed through wide social mobility which permits all members of society to have equal opportunities to reach higher levels, to reduce the present social inequalities, and to satisfy the elementary needs of the underprivileged.

The principle of equity is also closely linked with the principle of democracy, which means the establishment of a form of social or-

ganization where there is a more equalitarian distribution of power.² As already noted, at the international level equity and democracy must mutually support each other, and it was noted from the very first ECLA writings onwards that behind distributive inequality lay the inequality of power among the nations, which would only be corrected if the underprivileged nations were capable, through their own efforts, of changing the economic role and function which they play: the new international economic order thus also calls for a new world political order. At the level of domestic political relations, the initial ECLA political position stressed the need to ensure that the State gave the right orientation to development, but this position already contained the seeds of the democratic principle, for this State orientation was necessary in order for the State institutions to be able, at least potentially, to assume fuller representation of the general interests of society than the private groups which based their influence on the control of the economic process. With the passage of time, the democratic principle has gradually been consolidating its position in ECLA's thinking as the experience built up by the Latin American countries has repeatedly confirmed that if an equitable form of development is desired, this must be managed by a democratic State.

I

The crisis and the adjustment process

In the present situation, it is essential to clarify the nature of the crisis. As from 1974, Latin America entered upon a period of instability and uncertainty: the changes which took place in the international context have not all been interpreted in the same way, nor has there been unanimity in the forecasts regarding the evolution of the developed economies.

There is no doubt that the Latin American countries have been affected in very different ways by the new external situation and that their reactions have also been very different. For some of them, such as the net oil-exporters, it

seemed that a new stage of their development was beginning in which balance-of-payments restrictions would be just a bad memory. Others sought to face up to these restrictions through bold attempts to transform their structure of production so as to substitute imported basic in-

²The development of democratic ideas in ECLA's thinking was largely due to Medina Echavarría. See, *La obra de José Medina Echavarría* (Selección y estudio preliminar por Adolfo Gurrieri), Madrid, Ediciones Cultura Hispánica, 1980.

puts and achieve a rapid increase in exports. Finally, others believed that what had happened with oil marked the beginning of a new commodity boom and, dazzled by the easy availability of external financing, they liberalized their economies in the belief that through the old trade schemes based on static comparative advantages they could restore their economic growth.

In spite of this, between 1975 and 1980 there was a decline in the economic growth rate of the region, and if some countries were able to maintain their economic growth, albeit at a reduced level, this was due to the systematic application of policies aimed at securing this objective and, above all, to the support provided by plentiful external financing. Most of the countries, however, seemed to remain convinced that the developed world was gradually getting over the increase in oil prices—which was supposed to be the main reason for its problems—and that it would therefore resume a rate of growth similar to that of the period 1965-1973 and give a similar impulse to world trade. In reality, although they based their approaches on different interpretations and applied different policies, for the most part the governments of the region were fairly optimistic towards the end of the last decade about the possibilities of expansion offered by the prevailing form of development.

During the 1970s, the ECLA Secretariat was entrusted, by a mandate from the General Assembly, with the appraisal of the region's development every two years. In the midst of an optimistic atmosphere, these appraisals always struck a discordant note, for although ECLA acknowledged that important progress had been made in many fields, it could not avoid pointing out, with the far-sighted economic and social vision which is characteristic of it, that the same old structural problems still persisted or were even getting worse. Thus, in its appraisal of the 1970s³ it noted that the three main problems faced by the region were: the formation of extremely inequitable societies, the decline in the

economic growth rate and its consequences for employment and income distribution, and the persistence of a situation of inequality and vulnerability as regards the region's external economic relations.

These appraisals revealed a great contradiction. The region as a whole was increasing its production and technological capacity and showed that it possessed great productive and export potential. This growing capacity was unable, however, to solve the structural problems of economic growth, social inequality, external vulnerability and dependence, and regional disarticulation. In short, Latin America was not succeeding in integrating itself at either the national or regional levels.

It was for these reasons that, in the early 1980s, the ECLA Secretariat asserted that the region was in the midst of a process whose trends did not show favourable prospects, and it recommended the countries of Latin America to reorient this process in order to guide it towards economic development and social change.

In view of these appraisals, the problems which have arisen since 1981 cannot be interpreted as the transient crisis of a form of development which could be described as successful in general terms. On the contrary, the negative effects caused in the external sectors of the countries of Latin America by the second oil price rise and the economic policy of the Reagan administration merely accelerated and aggravated an external crisis which it would at all events have been difficult to avoid. There can be no doubt that in formulating their economic policy the countries must now take as their starting point a structural situation involving more serious problems than those of 1980. Even before that year there were few possibilities of solving the economic and social problems through the prevailing form of development, but now it is obvious that the strategies for facing up for these problems call for a thoroughgoing review: it is the glaring facts themselves, rather than any doctrinaire convictions, which now make it essential to carry out this review.

It is generally accepted that the event which set off the present crisis was the extraordinary increase in the external imbalance which began in 1981 and later got worse. The truth is that there had been a marked external imbalance

³ECLA, *Latin American development in the 1980s*, Estudios e Informes de la CEPAL series, No. 5, December 1981.

ance of structural origin for years past, the best proof of this being the heavy external indebtedness which had been accumulated. As far back as 1978 the level and profile of this indebtedness caused ECLA to conclude that it would be impossible in the medium term to maintain the trends which had characterized the second half of the 1970s in this respect.⁴ Nevertheless, up to 1981 the international banking system considered that the situation was evolving favourably and thus continued to finance the heavy current account deficits. Two contrasting events took place, however, when the increase in real interest rates, the high level of indebtedness (much of it with very short maturities) and the interruption in the growth rate (if not a fall in absolute terms) of the volume and value of exports all coincided. These events were the considerable increase in the debt servicing costs, and the loss of the confidence which the international banking system had previously had in the solvency of the countries of the region. Within the space of a few months, these countries found it impossible to fulfill their external commitments, and they had to begin the difficult process of renegotiation.

It is interesting to note, by the way, that the possibility that the countries of the region may not fulfill these commitments, with obvious consequences for international economic relations, is seen by important circles in the centre and in Latin America as a dangerous menace striking at the very heart of the system. Paradoxically, however, during the 1970s and at this very moment the fact that 40% of the population of Latin America is in a state of extreme poverty has not caused any alarm at all in these circles.

In view of the importance attached to the external imbalance, the main objective of the 'adjustment process' has been to balance the external accounts, in which task the governments of the region, the international banking system and the International Monetary Fund have actively participated. The renegotiation of the debt is essential in order to achieve this objective, and for this purpose the international banking system seeks to impose conditions on

the domestic and external policy of the countries of the region in order to guarantee fulfillment of the new commitments deriving from the renegotiation; in order to backup these conditions it usually demands that each country should sign an agreement, or Letter of Intent, with the IMF as a prerequisite for renegotiation.

The general tenor of these agreements is similar to that of the traditional doctrine advocated by the IMF. As regards the general orientation of development, this doctrine reaffirms the supposed advantages of liberalization of the economy, reduction of the public sector and expansion of private enterprise, while it stresses the important role which international trade should play in guiding the allocation of resources. In its interpretation of the crisis, it emphasizes the excessive public spending and the unsuitability of the price system, and especially of the exchange rate, to the new circumstances. As a corollary, acceptable national policies generally aim to reduce the fiscal deficit and the real level of wages, to limit the expansion of domestic credit and public sector indebtedness, to increase some taxes, to raise or free controlled prices, to eliminate subsidies, to resume payment of the external debt, and to achieve a surplus on the trade account. When these agreements are compared with those of other periods, some change of emphasis is noted, since now the central question for the IMF is that of restoring the external balance, a somewhat more flexible position being adopted on some domestic targets such as those connected with the fiscal deficit or inflation.

This orientation of the adjustment processes was already the subject of much criticism in the past.⁵ Now, however, its recommendations seem to be particularly unfortunate.

To begin with, although we are witnessing the profound disarticulation of international

⁴ECLA, *Long-term trends and prospects of the development of Latin America*, E/CEPAL/1076 (1979).

⁵Raúl Prebisch, "Monetarism, open-economy policies and the ideological crisis", *CEPAL Review*, No. 17, Santiago, Chile, August 1982; Sidney Dell, "On being grandmotherly: the evolution of IMF conditionality", *CEPAL Review*, No. 16, Santiago, Chile, April 1981; Octavio Rodríguez, "La teoría del subdesarrollo de la CEPAL", Mexico City, Siglo XXI Editores, 1980; Samuel Lichtensztejn, "Sobre el enfoque y el papel de las políticas de estabilización en América Latina", *Economía de América Latina*, No. 1, September 1978.

trade and its utter failure as a stimulus for development, the IMF gives these facts a merely conjunctural character and reiterates its principles regarding the liberalization of external economic relations for the developing countries at a time when protectionism on the part of the centres is becoming increasingly marked.

Secondly, it proposes a distribution of the costs of the crisis which heavily punishes the Latin American countries and rewards the international banking system. The renegotiations are carried out as though the faulty assignment of the loans had been the exclusive responsibility of the debtors and there were no losses at all which should be shared. Furthermore, in these renegotiations the banks are applying surcharges, fines and costs which raise still higher the interest rates and potential profits of the banks. Moreover, it is well known that the international banking system is exerting pressure to obtain a State guarantee for credits which it originally granted to the private sector without any such safeguard.⁶

Thirdly, the use made of the economic policy instruments seems to be in line with a theory of operation of the economy which is no longer valid in the present situation. Generally speaking, the heterogeneity of the Latin American economies, the consequences of which have become still more marked during the crisis, makes it necessary to use less homogeneous policy instruments. Furthermore, as the crisis deepens these measures not only prejudice the economic flows but may also affect the net assets and productive capacity of the economies. In these circumstances, it is necessary to exercise great selectivity which the orthodox policy instruments are incapable of offering, at least to the necessary extent.

Let us take, for example, the effect likely to be produced by an across-the-board change in the rate of exchange for the entire economy which is not accompanied at least by corrective measures for particular sectors or groups of operations. On the one hand, this would not make it possible to increase the value of commodity exports, since if such measures were applied more or less simultaneously by all the develop-

ing countries—at a time when the developed countries are reducing their demand, running down their commodity stocks and establishing every kind of protectionist measure—all that would be achieved would be to damage the terms of trade for commodities without achieving any increase in the volume exported. On the other hand, in economies which have liberalized their domestic and external financial markets and in which indebtedness in foreign currency has become widespread, devaluation brings about tremendous upheavals in financial and business circles which eventually depress production for reasons which have no direct connection with demand or with the supply of imported inputs. Furthermore, in countries where the capacity of the groups affected by devaluation to defend their own interest has been underestimated, the effect of devaluations have rapidly been passed on to prices, and finally, the indirect negative economic and social effects of the devaluation on production, employment and real wages seem to have been underestimated in many cases.

Fourthly, it is extremely ill-advised to seek to restrict the action of the State at a time when the magnitude of the problems faced prevents an adequate reaction on the part of the private sectors, which in most cases are exhausted by the crisis and are crying out for public action.

It is therefore hardly surprising that the policies adopted have brought about consequences which are unsatisfactory in many aspects. Basically, either because of overestimating the action capacity of governments, underestimating the side effects of the policies, or assuming unrealistic financing conditions for the economies, their results have been far from meeting the targets and objectives originally proposed. Frequently, the agreements have proved impossible to fulfill only shortly after they have been signed, thus giving rise to a constant process of signing and revision.

Furthermore, these policies have shared out the external and domestic costs of the crisis in an inequitable manner. Reference has already been made to the unjust nature of the renegotiation of the external debt; at the domestic level, a large part of the cost has been transmitted to the sectors with the lowest incomes, eloquent proof of this being the high prevailing

⁶See the article by Robert Devlin in the present issue of *CEPAL Review*.

indexes of unemployment and the declines in real wages.

The drop in production, too, has usually exceeded the amounts originally bargained for, and instead of recovery the first half of 1983 shows only stagnation or aggravation of the depression. These results clearly reflect the stubborn effort to achieve a surplus on the balance of trade in goods and services. Likewise, the depression is having serious effects on the productive capacity of the countries. In some cases, factories have been dismantled, in a process which threatens to spread; in others, expansion projects have been abandoned because of the discouragement felt by businessmen. It is difficult to make an accurate forecast of the consequences of this attitude at the moment, but there seems no doubt that the policies applied have caused an appreciable drop in investment in many areas of production.

Perhaps the consequence of these policies with the greatest long-term significance, however, lies in the aggravation of some problems which were already serious before the adjustment process began. The net external indebtedness of Latin America is estimated to have increased over the period 1981-1983 by around US\$ 90 billion, while open unemployment and underemployment, which were already considered to be very serious problems in 1980, are estimated to have increased still further. The natural increase in the labour force due to population growth alone represents an increase of over 7 percentage points, and it should be borne in mind that the available information indicates that in many cases the absolute number of jobs

has not only failed to increase but has probably actually gone down. Likewise, the drop in the levels of investment has put off the possibility of attaining in the near future the level of economic growth which was considered essential at the beginning of the 1980s in order to give productive employment to the labour force and solve the main social problems of the region.

Finally, every day the functioning of the economies is becoming more costly and inefficient. The financial problems of the business sectors are getting steadily worse as demand either fails to recover or else shrinks even further, and their main concern is shifted from the problems of production to the struggle to obtain public resources to insure their survival: all considerations of efficiency or serious economic calculations lose importance compared with the need to keep their heads above water. The State for its part, subjected as it is to multiple demands, has often been obliged to allocate resources in line with criteria which have more to do with the economic and political power of those requesting them than a long-term view of the development process, and this has gradually reduced its operative capacity. The depression of production activities and its sequel have caused an increase in demands for new expenditure, while at the same time they have eroded both tax and non-tax sources of public revenue. In practice, quite independently of any ideological positions, everyone is calling for State intervention to save the situation, precisely at the time when the situation is depriving the State of resources.

II

Towards a new form of development

An analysis of the economic and social evolution of the Latin American countries from the 1970s up to the present crisis permits three main conclusions to be drawn:

a) The prevailing form of development was already in crisis at the end of the past decade, and the recession of the early 1980s has

simply accentuated the external and internal difficulties because its cost is being distributed unequally, both between the central countries and the periphery and within the countries of the latter;

b) The so-called 'adjustment policies' have been incapable of coping successfully with

the crisis: indeed, in reality they have instead intensified the structural shortcomings while being unable to check the deterioration in the situation; and

c) It would no longer be enough to be able to go back to the previous situation, since the crisis has increased the severity of some problems—such as external indebtedness, external vulnerability, levels of unemployment and underemployment, faulty income distribution, and the deterioration in production capacity—and these would not be automatically solved if the external situation as regards demand and prices returned to what it had been at the end of the previous decade. Nor indeed is it desirable to go back to that situation, since the crisis has shown up the defects of a form of development which the evolution of the 1970s temporarily and partially concealed.

It is therefore necessary to reorient economic and social policy towards a new form of development. This reorientation calls for a big effort in many respects, both as regards intellectual reflection and practical action. In the field of reflection, there are two main tasks to be accomplished: defining the broad outlines of the society which it is desired to build, and formulating criteria for advancing in the desired direction. In formulating these criteria, account must be taken from the very start of the restrictions and possibilities of the present moment, in order that the proposals may be given a pragmatic sense.

Naturally, this reorientation will only be viable if it can gain the majority support of the population, since this is an eminently political task. At the same time, however, the usefulness of the intellectual tasks should not be underestimated. With a view to collaborating in them, some ideas which could possibly be of use in the formulation of an economic and social policy in keeping with a new form of development are put forward in the following pages.

These ideas, as could hardly be otherwise, are of a general nature and are based on the principles mentioned in the introduction to this article. In translating them into concrete policies, the particular characteristics of each country and the specific problems faced in the short run must be taken into account. This has been the usual way in which ECLA has formulated its

suggestions, since although it has striven to find common denominators for all the countries of Latin America, it has also emphasized the need to take account of the differences between them, whether of a structural or conjunctural nature. The fact that there are problems common to the whole of Latin America justifies the suggestion of general ideas for tackling them, but the heterogeneity of situations between and within the countries means that caution must be exercised in making generalizations, and concrete policies must be of a specific nature.

When most of the countries are suffering from economic and social problems and short-term restrictions of a very similar nature, this favours policy proposals of a general type. Thus, the generalized nature of the problems and restrictions during the present crisis facilitates the sketching of some ideas for reorienting the process of economic and social change.

In this respect, two different areas may be distinguished:

a) Structural policies concerning the allocation of resources for long periods in basic areas of development where long lead times are required in order to obtain the desired results. These policies may be considered as intermediate links between the basic principles and the short-term policies. Outstanding examples of them are the policies regarding changes in production, the external sector, employment and productivity, capital accumulation and income distribution.

b) Short-term policies designed to relieve the most serious conjunctural problems such as the levels of consumption and employment of lower and middle strata, the deterioration of the production capacity, imbalances in the external sector, the financial insolvency of a large number of enterprises, public finance problems, inflation, and the definition of the role of the public sector in the crisis.

Before briefly setting forth some ideas in these two areas, it should be reiterated that the establishment of a new form of development is a long-term task which must be guided by the general principles regarding the formation of economically developed societies which are less dependent and less vulnerable with respect to the exterior, have a more equitable distribution

of wealth and income, and a democratic form of political organization.

Although many development strategies accept these principles, however, they often give very different priorities to them. Thus, for example, in the last decade many strategies were put into practice which considered economic growth to be the central objective because they assumed that it would enable the other objectives to be reached in the long run more or less automatically.

The development model suggested here, in contrast, gives top priority to the principle of equity from the start, considering that this is not only an end in itself but also an indispensable means for advancing towards the achievement of the other objectives. It is indeed true that, in view of its many-faceted character, equity can have a decisive influence on all policy orientations.

III

Structural policies

1. *International economic relations*

During the 1970s, Latin America changed its form of insertion into the international framework; in most cases, encouraged by the dynamism of international trade and the abundant supply of external financing, governments liberalized their international economic relations. To a greater or lesser degree, the liberalization schemes were based on a theoretical approach, advocated by important circles in the centres, which gives a central role in the organization of international trade and production to more or less static versions of the principle of comparative advantages. In the second half of the past decade the belief that liberalization was giving very positive results also spread: the volume of exports was growing at a high rate, and thanks to the abundant supply of external financing the region was apparently avoiding the effects of the decline in growth of the central countries. The Latin American countries which had been most seriously affected by the first increase in fuel prices seemed to be absorbing its impact, while those which had gone further in the process of industrialization were managing to change the structure of their exports and incorporate significant proportions of manufactures and semimanufactures in them.

All these changes were hailed as successes in the progress towards more dynamic incorporation into international trade and as notable advances in the region's defence capacity *vis-à-*

vis the cycles suffered by the centres. Unfortunately, the present crisis has made it clear that although some progress was indeed achieved, none of the great efforts made in this direction have materially altered the asymmetry of external trade relations, while on the contrary the new financial relations have increased the region's external vulnerability.⁷

Thus, it can be seen today that almost two-thirds of the region's exports continue to be made up of raw materials and fuels sold to the developed countries and that, in spite of the success achieved by some countries in their efforts to change the composition of their exports, the trade of the region as a whole continues to be essentially asymmetrical. The present situation has also once again brought out the costs of this situation, since the apparent advantages of the boom periods are seen to have been more than offset by the serious damage done in the periods of decline. There can be no doubt that the views which the developing countries have repeatedly set forth in the International Development Strategies, calling for a new international order

⁷The significance of international economic relations in the development of Latin America has been examined most searchingly by Aníbal Pinto. See this author's articles, "The periphery and the internationalization of the world economy: significance and consequences", *CEPAL Review*, No. 9, Santiago, Chile, December 1979, and "The opening up of Latin America to the exterior", *CEPAL Review*, No. 11, Santiago, Chile, August 1980.

with a more symmetrical distribution of production and trade, have gained renewed significance after the experience of the 1970s and the present crisis.

By the force of events, the present situation is restoring the importance of regional industrialization and trade, since the impossibility of relying now on the supply of imports available in the latter years of the past decade is once again establishing a potential space for Latin American industry. The trade restrictions of the centres are making clear the need to replace extra-regional trade to some extent by intra-regional trade. In the latter, special attention must be paid to the trade in manufactures, since it is here that the biggest supply problems exist, because of the impossibility of keeping up the previous levels of trade with the centres and because of the fact that, as regards raw materials, the most obvious opportunities have already been exploited. Naturally, the bigger countries and the transnational corporations will be better prepared, in principle, to take advantage of these opportunities, but they should share these possibilities with the rest of the region. One way of achieving this would be to provide selected incentives for the smaller countries to advance in the industrial processing of their natural resources and to help their raw materials or energy sources to find markets in the larger countries, of which in many cases they are only marginal suppliers, while above all the possibilities offered by compensation machinery should be fully used. The basic objective is thus to provide a stable long-term horizon for a process which is becoming a necessity through the force of circumstances.

The asymmetry of the relations in the financial field is even more marked. The crisis affecting the international monetary and financial arrangements is well known, but a constant factor in the system seems to be the concentration of the decision-making power in the hands of a few countries, and especially of the United States. The present effects of the monetary policy imposed by that country are an excellent illustration of the way in which the periphery is being affected by that policy without, of course, having been able to play any part in its formulation.

By heavily indebting itself with the inter-

national private banking system during the 1970s on terms and for periods very different from those agreed in the years following the war, the region became extremely vulnerable to the fluctuations in the international financial markets. Thus, although it was able to defend itself from the drop in the growth rate of the central countries in the second half of the 1970s it became very dependent on the fate of a system which was beyond its control. As the recession in the centres caused a drop in the value of Latin America's exports, it became evident that the level of indebtedness had gone beyond prudent limits. At the same time, the region lost its credit-worthiness with the private banks, thus bringing about a sharp drop in net external financing which further aggravated the regional economic situation.

It then became clear that the liberalization of financial markets, far from having given rise to efficient policies as a result of the predominance of the private sector in the international banking market, had led to the unsuitable use of resources and had placed the economies of the region in a dramatic external and internal dilemma. In contrast with what had happened in previous decades, when the resources of the international public banking system, which had made up the bulk of the external financing, were supplied in most cases for carrying out big projects on economically viable terms as regards repayment periods and interest rates, in the 1970s the resources were distributed in an unsuitable manner for the economy, were not always used to finance investment, and—in the last few years—were granted at costs so high that few economic activities which were not of a speculative nature could expect to pay them. As a result, the present crisis spread to all types of activities and meant that the adoption of classical measures for tackling balance-of-payments problems, such as devaluation, brought about negative domestic effects of a magnitude never experienced since the end of the war.

In short, the crisis has shown up the fundamentally faulty operation of the international monetary and financial system. The urgent need for change is now clear. In addition to the need to share losses, extend repayment periods and reduce interest rates—essential measures for tackling the external debt problem—it is

necessary to put forward once again the many proposals which the region made in the past and which should be taken up again today with such changes as the circumstances make advisable. In this respect, the restoration of the dominant role of regional and international public bodies and the reform of the rules in order to give due participation to the periphery are some of the central criteria which should guide the restructuring of the international financial system. The urgent application of measures to deal with the present situation such as the expansion of the resources of the International Monetary Fund, the World Bank and the regional banks and the increased issue of Special Drawing Rights linked with the development of the periphery should be only the beginning of a process of reform which is vitally needed today.

2. *Changes in production*

The main features of the transformation of Latin American production since the war have been rapid industrial expansion and the modernization of part of the primary and services sectors. In contrast with what happened in the early stages in the developed countries, however, this progress in the region did not bring with it a significant degree of inter- or intra-sectoral integration, while the heterogeneity of production methods within and between the different branches grew still more pronounced.⁸ Nor did this development bring about any significant change in external trade, and except for some isolated praiseworthy efforts, external trade continued to be characterized by its asymmetry. Efforts to break this asymmetry, especially in the field of manufactures, have run into the growing protectionism of the centres. These phenomena can largely be explained by the unequal distribution of income, which created a domestic market in which the demand for most lines of production, taking similar per capita income groups, was smaller and more dispersed than for the same goods in the developed countries.

As from 1975, changes are to be seen in the nature of the transformation of the system of production. The liberalization of the rules governing external trade and/or external financing, at a time when there was an abundant supply of external financing and a sharp export drive by the central countries, weakened both the incentive to industrialize and economic dynamism in general, while strengthening commercial and financial activities, especially those connected with external trade. At the beginning of the 1980s, the need to restrict imports already bore witness to the increase in external vulnerability, and in 1982 the most serious depression of production since the end of the war took place.

The great influence exerted on the structure and evolution of production by income distribution and by the form of insertion of the region into the external economy are thus obvious.

The policies aimed at changing the system of production which should prevail in a new form of development should be based essentially on the principles of greater equity and autonomy and less external vulnerability. Considerations of distributive equity should guide the public and private accumulation effort and the restructuring of the installed capacity. Support for peasant agriculture and for the types of industry and services supplying goods for the broad masses would impart a new structure to employment which, together with the adoption of income distribution measures, would generate national demand compatible with a more homogeneous and less vulnerable structure of production.

Demand would be concentrated on fewer production, which should be less complex technically and should therefore call for fewer imported inputs. This would facilitate greater concentration of the industrial effort on groups of products of widespread use, with greater vertical integration of supply. In this way, industry could supply an appreciable proportion of domestic demand and at the same time reduce the asymmetry of trade in industrial products with the exterior. Public consumption, especially of goods and services generally destined for groups of lower income and, in particular, those living in situations of extreme poverty,

⁸ECLA, *Estrategias de desarrollo sectorial para los años ochenta: Industria y agricultura*, Estudios e Informes de la CEPAL series, No. 9, 1981.

should naturally play a central role in the new structure of demand.

A new form of insertion into the international and regional economy would also help to reorient the transformation of production. External restrictions have already significantly affected the level of imports, and everything seems to indicate that these restrictions will largely persist in the next few years. This consequently opens up a new opportunity for import substitution processes. If these processes are combined with greater regional integration and with domestic markets which are in line with more equitable income distribution, then their influence and scope will be broader than those of the period after the war. Furthermore, if the region manages to change the protectionist rules currently governing international trade, it will be able to give a higher degree of processing to the primary products which it exports.

The experience of countries which are now developed shows that an effort of this type, although calling for persistence, is no pipe dream. Indeed, in certain lines of industrial production some Latin American countries have had considerable success where their domestic markets are big enough and when they have made persistent efforts to enter world markets.

The transformation of production thus proposed calls for a physical and industrial infrastructure and financial support which only the State can make possible. If public action were concentrated on these broad tasks and the necessary resources were made available, considerable successes could be achieved.

In this respect, the regional demand for capital goods such as those connected with transport of energy generation offers great prospect for the efficient substitution of imports at the regional level. The complexity which characterizes industrial development will make it necessary to accompany the traditional measures to promote the sector with others connected with programmed public sector purchases, the creation of long-term financing systems, avoidance of the acquisition of foreign technology in 'packages', and promotion of the participation of regional engineering skills in

the design of factories and production programmes.

3. *Economic growth and the absorption of the labour force in productive work*

Among the most decisive economic and social criteria for guiding the long-term policies to deal with the crisis, special consideration must be given to the need to give productive employment to the largest possible proportion of the labour force. One of the most stubborn problems in the development of Latin America has been the inability of economic systems (to varying extents, depending on the countries) to give productive employment to all persons of working age who are looking for jobs. As a result of this, unemployment, underemployment and over-manning persist, the latter especially in the tertiary sector. The causes of this problem are to be sought in the scanty relative dynamism of the economic process, the structural heterogeneity of the system of production, and the rapid population growth rate. This latter, furthered by economic and social development itself, which has contributed so notably to the reduction of mortality rates, has made it very difficult to absorb the whole working population in productive jobs. This is not only because the Latin American population growth rate is one of the highest in the world, but also because its consequences as regards the increase in the labour force still manifest themselves many years after there has been a drop in fertility. Furthermore, rapid urbanization has changed the distribution of the labour force, highlighting in urban areas problems which were less evident in rural zones.

The present crisis has aggravated this problem in at least two main ways: it has prevented the region from continuing the previous rate of absorption of labour in productive jobs—which, although insufficient, was nevertheless quite high⁹ and it has stimulated technical change in the developed centres tending towards the more intensive use of capital. In many of the central countries there is a clear aware-

⁹Norberto E. García, "Growing labour absorption with persistent underemployment", *CEPAL Review*, No. 18, Santiago, Chile, December 1982.

ness that one of the main causes of the crisis at present being experienced is the slackening in the growth rate of productivity, and that an increase in this rate is an essential condition for emerging from this situation. Whatever the economic mechanisms used to achieve this objective, there can be no doubt that sooner or later they will take the form of technological changes which involve the highly intensive use of capital, and they may even give rise to a third industrial revolution.

Latin America will be no stranger to these changes from the point of view of consumption, and it should not be so from the point of view of being a producer and exporter of manufactures either; if it wishes to gradually increase its importance as an exporter of these goods, it must make enormous efforts of accumulation, modernization of its physical resources, and training of its labour force, at least in those sectors where it currently has relatively greater potential, in order to go along with the technological changes which are looming up on the horizon.

How are these enormous and unavoidable efforts to reactivate crisis-wracked economies and to participate in the new forms of production which are taking shape in the developed countries to be reconciled with the need to give productive employment to a large and, for many years to come, still growing labour force?

The experience of the last years has left us some lessons in this respect. To begin with, it is necessary to discard once and for all the idea that the growth of one or several sectors will automatically bring with it the development of the most backward ones: such automatic mechanisms simply have not worked in the countries of Latin America, where there is still a high degree of sectoral, social and regional heterogeneity in the distribution of levels of productivity and average income.

In view of these facts, some development strategies have been formulated which have sought to promote the 'spearhead' sectors and at the same time establish procedures for distributing part of the surplus generated in these among the rural and urban groups which were being increasingly left behind, with the aim of improving their living conditions. These strategies do have the positive feature of being concerned to combine economic growth with social

equity, but they do not give due attention to the fact that the firmest foundation for equitable distribution of the fruits of development lies in the systematic effort to overcome structural heterogeneity by raising the productivity of the entire labour force. In this respect, strategies aimed at coping with such complex demands as those for economic growth in an era of profound technological changes and absorption of all workers into productive jobs in a period of rapid growth of the labour force must at the same time be able to give very selective stimulation to this growth and establish deliberate arrangements whereby part of the surpluses generated by the most dynamic branches can help to raise the levels of productivity and living conditions of those lagging behind. In this respect, giving high priority to agricultural development in line with the potential of the sector itself and of its population is both vital and urgent for most of the countries of Latin America.

4. *Capital accumulation and income distribution*

Another fundamental aspect of the policies which should be applied in order to emerge from the crisis and reorient development is that regarding the domestic accumulation of capital, since it is clear that external saving will not have the dynamic role in the immediate future which it had in past years. As regards the volume of capital which should be accumulated, the answer is very simple: as much as is socially and politically possible. Even before the present crisis the ECLA appraisals considered that the effort being made in this respect was not sufficient to give productive employment to the entire labour force and to improve the living conditions of the neediest citizens, and the deterioration which has taken place in the situation since then means that efforts must now be redoubled.

In reality, the most crucial questions regarding capital accumulation are of a political nature: which social groups are to bear the burden of this accumulation? who is it to benefit?

The recent years offer some very useful lessons in this respect too, which make it necessary to discard conventional answers to these questions because they tend to be inequitable, inefficient and undemocratic. When the respon-

sibility for domestic saving and productive investment fell on the economically powerful groups, the expected results were not attained, because these groups often preferred to engage in conspicuous consumption imitating the life styles of developed countries, speculation and unproductive investment. It is therefore neither socially just nor economically efficient to seek to increase domestic saving through conventional policies aimed at transferring income from the rest of society to the wealthy groups in order that the latter may invest in priority economic and social areas in line with the demands of the crisis and the needs of development. Furthermore, in many Latin American societies it does not seem that these policies could any longer be easily applied, because of the defence capacity of wage earners, the already very considerable reduction in the real income of the latter as a result of stabilization policies, and the existence of democratic governments which rely on these wage-earning groups for an important part of their political support.

It is also important to note that conventional policies are usually imposed as if they were the expression of objective and neutral technical criteria: the impression is fostered that the social distribution of the costs involved in them should be accepted as the inevitable manifestation of a natural law. There can be no doubt that there are important technical criteria which deserve to be taken into consideration, whatever the socio-political structure in which the policies are applied, but the social distribution of the costs is above all a question of political decisions: presenting it as a purely technical question means concealing the political content of the decision.

It is therefore necessary to increase the degree of transparency of the entire process of decision-making on such crucial issues. Such greater transparency of the technical and political aspects would enable all social groups to define their interests and orientations clearly, thus laying the bases for a social compact which would reflect a higher level of political rationality and democracy.

If conventional capital accumulation policies are to be rejected for the above reasons, then what path should be followed?

As regards the social origin of the re-

sources, it should be emphasized from the very beginning that both the measures on accumulation and distribution and those on fiscal and monetary matters should be taken within the framework of a policy of general austerity, since the crisis and development call for inevitable sacrifices. The austerity should be equitably shared, however, that is to say, it should demand more from those who have more, while its demands should gradually be reduced in proportion as the level of family income goes down. This policy of procurement of resources should be accompanied by dynamic redistribution so as to raise the income of the lower strata as a matter of priority, when economic evolution permits this.

As regards the non-conventional mechanisms of appropriation and allocation which should be used, the experience of some capitalist central countries suggests that emphasis should be placed on the tax system; in the most successful cases, a combination of high taxes on profits and on the consumption of the high-income groups and strong incentives to selectively oriented productive investments has been used. Even if the tax instrument could be effectively used in Latin America, however, it should be noted that although the path chosen by those countries has helped to promote accumulation and economic growth in them, it has also caused great concentration of the means of production, and in the long run this could create important obstacles to the democratic process.

These considerations show how important it is that the capital accumulation process should also help to create and strengthen equitable distribution of wealth; if conventional and Keynesian policies have tended to concentrate this, those which should be applied now should promote the reduction of such trends. Measures should be taken in two mutually supporting areas to this end.

On the one hand, the State should play an important role in the processes of appropriation and allocation of resources, but for this purpose it is essential that it should be democratized, that is to say, that the decisions taken in these matters should be the result of institutional procedures in which the whole community feels itself to be fully represented. In reality, the State has

not always wanted or been able to appropriate the necessary resources for accumulation, and frequently it has not allocated them in line with the needs of development. This behaviour is explained above all by the fact that in the appropriation and allocation of public resources there is often a struggle between different élites seeking to orient these resources for the benefit of their own needs and interests rather than those of society as a whole. The democratic machinery should prevent the exertion of any decisive influence on these processes by such sectoral élites, whether private or public, civil or military.

On the other hand, the public allocation of resources for capital accumulation does not mean that there should be a tendency towards State control of the production apparatus. Instead, in the new form of development different forms of organization of production combining State, private and co-operative ownership and management should exist side by side. Democratization of the State, co-management in State and private enterprises, and co-operative forms of production are those which give the greatest hopes of true democratization of ownership and management, and should therefore be promoted in a priority manner.¹⁰

IV

Short-term policies

It has already been noted that the economic and social situation of Latin America as a whole in the first half of 1983 does not, in general terms, show any signs of improvement over 1982. Indeed, in many cases it has deteriorated in such aspects as unemployment, inflation or the decline in productive activity. The living conditions of most of the population have deteriorated even more, which is a serious matter, especially bearing in mind the low level at which they already stood at the beginning of the 1980s. As already explained, the adjustment policies have not had the desired results. In these circumstances, there is generalized awareness that it is urgent to take measures in the short term; thus, although formulating a new type of development takes a long time, measures in keeping with the new priorities should be taken soon, above all in order to bring some relief as a first priority to the situation of the most underprivileged strata. In addition, and simultaneously with the application of these priority measures, others should be taken in the areas where it appears to be essential to bring about some improvement or change the line of approach. The most important of these areas concern the defence of the national economy at the popular level and the establishment of a situation as regards domestic prices and financing

which will enable an acceptable level of economic success to be achieved in the production sector; the procurement of sufficient foreign exchange to make possible a level of imports capable of guaranteeing minimum targets of production, essential consumption and employment, and the preservation of production capacity in the economic and social infrastructure and in the sectors governing mass consumption, exports and investments which are not very demanding in terms of external resources.

1. *Defence of the national economy at the popular level*

The crisis has made the problems of the lower-income groups still more acute. There are many ways in which the effects of the crisis are transferred to the mass of the people: price rises, drops in real wages, increased unemployment, and reduction in public expenditure, which, in addition to its economic effects, brings about a consequent deterioration in educational services, health, nutrition, housing, etc. The low-

¹⁰Raúl Prebisch, *Capitalismo periférico. Crisis y transformación*. Mexico City, Fondo de Cultura Económica, 1981.

income non-wage earning groups are also affected by the difficulties which exist in transferring monetary income to them to compensate at least partly for their problems, and they also suffer when, for budgetary reasons, it is decided to do away with subsidies or price controls in respect of basic consumer items such as bread and widely used fuels. While acknowledging the variety of situations registered in the different countries, it nevertheless seems essential to design emergency programmes to help the groups most seriously affected by the crisis.

Thus, it is urgently necessary to make changes in incomes policy. Measures of a macroeconomic nature aimed at reducing public expenditure should be replaced—or complemented, depending on the particular cases—by others which increase the expenditure aimed at certain groups and reduce that oriented to others. In this respect, wage and price policies should be handled with great selectivity. The drop in the real wages of the lowest income groups has drastically reduced, in many cases, the demand for goods which have a low import content and involve high labour density; in contrast, other groups with more capacity to stand up to the crisis—partly because of the possibility of resorting to income drawn from their wealth—have kept up a form of demand which seriously affects the balance of payments and generates little employment. In general it would be desirable to achieve some recovery in the real wages of the lower income groups, but the wide variety of national situations does not permit of generalizations. The selective management of prices is also called for if it is desired to promote one particular 'shopping basket' of goods rather than another and if it is desired to defend the groups whose income does not come from formal occupations. Naturally, increasing employment—especially that of less-skilled workers—will play an important role in improving family income. At the same time, it is necessary to pay special attention to the defence of employment and wage rights won through trade-union activities; in many cases the high level of unemployment has created suitable conditions for the employer sector to reduce real wages and employment in unacceptable ways.

The consumption of the lower income

groups is moreover usually considerably influenced by public expenditure, and the latter should therefore be handled with extremely selective criteria. On the one hand, investments should be selected with a keen eye to employment criteria, while on the other, as regards public consumption, it is desirable at least to keep up the level of that destined for the groups most severely affected by the crisis. There are cases where the supply of mass consumption products depends on imports or State subsidies; in these cases, there is every justification for the execution of programmes aimed at guaranteeing such supply by giving access to these goods to the poorest sectors and avoiding the seepage of subsidies to other social groups.

The same policy criteria should be applied as regards social public expenditure. In a crisis situation it will be very difficult to increase the proportion of such expenditure in the total, so that policies should be aimed at redirecting its allocation in order to make it more equitable.

Social policies in Latin America have been criticized for many years past on the grounds that they have tended to favour the middle strata in particular, to the disadvantage of the lower strata. If a change in this orientation in line with criteria of greater equity was already necessary before the crisis, then it is much more so now, when resources are tighter and it is not possible to satisfy the needs and demands of the poorest groups through further expansion of social public expenditure.

2. Domestic financing

The present crisis has given rise to extremely serious domestic financial imbalances. There are many situations where it would be impossible to apply policies aimed at increasing production or tackling balance-of-payments problems without first of all solving the financial imbalances. This problem stems from two main sources: external indebtedness, and domestic policies.

The main features of the external indebtedness are its large size and the fact that the credits have been obtained at extremely high interest rates. The ways in which these credits are passed on to domestic users vary from country to country. Sometimes the dollar or another for-

foreign currency is used as the unit of calculation, while in other cases the exchange risk is absorbed by the State or financial intermediaries. Interest rates are likewise dealt with in different ways: sometimes they are transferred directly to users; in other cases they are fixed by domestic financial intermediaries and are considerably higher than external rates; while in many cases the State subsidizes users by lowering the rates.

In these circumstances, the sharp devaluations and acute processes of inflation caused by the external sector crisis have led to all kinds of transfers of wealth and profound changes have taken place in the operational situation and net worth of persons and enterprises. Some have suffered heavy losses, while others have had big gains, and this has given rise to liquidity whose use is very difficult to control today.

The situation has also been very diverse as regards domestic financing policies. In many countries, systems of contracting credits were introduced which involved clauses linking the debts to foreign currencies, thus making them subject to exchange risk. Loans in national currencies, too, have been granted on very varied terms which have included high real interest rates, credits indexed to inflation, and negative real rates of interest. To the extent that the crisis has speeded up inflation or forced devaluations, the combination of these elements has also brought about substantial transfers between sectors.

As might be expected, the public budget did not remain unaffected by these upheavals. In some cases it has absorbed the external problems of the productive and financial agents and has come to the rescue of the most seriously affected sectors in a makeshift fashion and under the pressure of events. The reduction in the level of activity has brought with it a drop in tax and non-tax revenue, while at the same time the crisis has been increasing pressure for greater expenditure, although many of the adjustment programmes seek to reduce this. In these circumstances, fiscal policy has sometimes been handled more in the light of economic and political pressures than in line with a programme having clear objectives.

The economic situation has also suffered considerable changes at the level of the middle and high income groups. Unfortunately,

speculative investment has been in vogue in many countries: there are now appreciable amounts of funds in the hands of the private sector which move with great flexibility among activities connected with speculative sectors, emergency loans to the most seriously affected sectors at high real interest rates, pressure on the foreign currency market, and other investments of a speculative nature.

In short, a domestic financial situation has been created which is very difficult to handle. Frequently, businessmen have been forced to replace sound economic calculations with considerations based solely on the need to gain access, at any cost, to resources—especially public resources—which will enable them to survive; many have done this in the hope that future financial arrangements will enable them to transfer these costs to other sectors.

In some countries it is urgently necessary to put an end to this situation so that the State can recover control of the financial market and neutralize the enormous mass of resources used to stimulate speculative activities. In order to do this, the State must prohibit the possibilities of speculating (when these exist legally) and create one or more preferential long-term saving options which enjoy its backing.

Reduction of the real interest rate is also of the greatest urgency, since in some countries there are still interest rates which are completely out of keeping with any reasonable possibility of return. In this respect, however, it is necessary to apply a selective criterion regarding credit. Its allocation cannot be left in the hands of financial groups which are themselves in a compromised situation, and it is also evident that not all sectors or enterprises can be saved; the establishment of a reasonable real interest rate is only compatible with the forced and selective restriction of demand for credit.

The public budget also calls for reorganization. As regards revenue, the conventional procurement measures are not enough: policy in this field should be aimed at the application of measures to procure revenue from the groups which still have a high level of consumption and have liquid assets available for speculation.

Public expenditure, too, should be oriented in line with the principle of social

equity and linked with the priorities approved for the productive sector; it is not possible to satisfy the demands of all sectors at once, and any attempt in this direction would necessarily bring about an increase in inflation caused by the bigger fiscal deficits.

Only a selective financial and fiscal approach can restore the levels of production, budgeting and prices which will make possible non-speculative economic calculations; an essential condition for the rational functioning of mixed economies in which the private sector has an important economic role.

As already noted, the problem of wages and employment constitutes a challenge for the inflation control policies which may be adopted in the new form of development. There can be no doubt that in countries where unemployment has reached very high levels, this problem should be solved before tackling that of the drop in real wages; nevertheless, this latter problem is bound to arise in all countries when designing policy. Keeping real wages within limits compatible with domestic and external supply is an absolute necessity if it is desired to avoid hyperinflation. In democratic societies, however, the wage-earning groups can hardly be expected to accept a sacrifice comparable with that which has been demanded from them in the past unless at least two requirements are fulfilled: the biggest sacrifice must be made by the groups with the highest income, and capital accumulation formulas must be applied in which the wage-earning groups feel themselves to be authentic participants, not only in the sacrifices but also in the benefits.

3. *The balance of payments*

There are two short-term priority objectives in this area: to reduce as much as possible the pressure of the external indebtedness, and to find a way of handling the trade balance on goods and services which is compatible with the selective policies applied in the production and financing areas.

In the short term, the pressure of the external debt servicing is manifested in two ways. One of them, which is of a fundamental nature, lies in the impossibility of honouring the short-term commitments, while the other, which is of

a formal nature, is connected with the problems of living in a situation of constant crisis which makes it necessary to have recourse to partial negotiations, bridging loans and other emergency solutions.

The problem of the external debt is very complex, as are its solutions; when discussing the latter, some questions arise which are worth setting out briefly:

i) Should the Latin American countries negotiate separately, together, or separately but using common criteria?

ii) Will the transnational banking system accept capital losses as the national banks are doing at the domestic level?

iii) Will the renegotiation cover the short-term credits whose renewal means keeping the crisis still latently in being?

iv) How much net external financing will the international public and private banking system be willing to provide?

v) What additional costs in respect of interests, fines, etc., should be accepted in the renegotiation?

vi) How are the results of the renegotiation of the external debt to be passed on within the economies?

vii) Should public backing be given for the private external debt?

viii) Should formulas be applied which could relieve the short-term situation, such as periods of grace, linking of payments with the terms of trade, or other measures connected with the value of exports?

ix) What domestic policy measures should accompany the renegotiation, special importance being assumed in this respect by the efforts to achieve trade surpluses which will help pay the cost of recessive policies?

It is not possible to answer all these questions, but from the point of view of a new form of development some general considerations may be mentioned which could serve to orient a renegotiation policy.

On the one hand, the bargaining power of governments should be strengthened in proportion as political processes are democratized, since it will be clear to creditors that it is impossible to apply policies which impose new sacrifices on the population; a similar effect will be produced by progress in regional co-operation and

integration. On the other hand, the possibility of the countries facing up to their debts without the foreign banking system accepting any capital losses or the State giving its backing to private debts could only be justified to some extent if the renegotiation were sufficiently flexible to avoid any accentuation of recessive policies, if reasonable periods of grace were given, if real interest rates which are impossible to pay except through speculative ventures were eschewed, and if the creditors agreed to make the payment of the debt conditional upon an improvement in foreign trade as regards volumes and prices. If the negotiations do not include these conditions, they will be proposing unrealistic solutions and will be placing a millstone around the neck of the Latin American countries, with the corresponding social and political consequences.

At all events, it seems illusory to expect any spectacular results in this field in the short term; the situation of crisis will continue for quite a long time in most of the countries, obliging to manage their foreign trade under totally abnormal conditions.

In the field of international trade it must be noted from the very beginning that exports are faced with very diverse situations. There are a large number of products, especially commodities, where export incentives do not produce any significant effects as regards an increase in the volume or value exported; the problem in these cases lies in the depressed demand of the developed countries and the protectionist measures which they have taken. Consequently, for these kinds of exports a devaluation in real terms or some other financial incentive is normally only translated into an internal transfer of resources and has few repercussions on the trade balance. For other products, however, especially those of industrial origin, State support may be of great importance, both in the negotiations for tackling the protectionism of the centres and as regards the application of financial incentives which will enable countries to maintain and increase their competitiveness. Consequently, this field requires different measures, and a homogeneous set of measures may not therefore be effective.

Until now, imports have been one of the central concerns of adjustment policies, for their reduction with a view to achieving a trade

surplus has been seen as an indispensable element for balancing the economy. The means used for this are varied: some of them are selective, such as the prohibition of certain imports considered to be non-essential, differential increases in tariffs, or the differential handling of the different items in the public budget; others are of a general nature, such as devaluations; while in some cases, through the financial and monetary policies applied, sharp depressions have been provoked which have affected the economy as a whole.

According to the new form of development proposed here, it is not acceptable to apply measures of a homogeneous nature which provoke sharp recessions in production with inequitable imposition of the costs mainly on the least privileged groups. Such groups, which have little wealth to use as a buffer mechanism, are severely affected by unemployment or drops in real wages. The system of production, too, suffers severely from this type of measure. It is therefore advisable to apply selective import restriction and export promotion policies which are in line with measures of the same type taken at the domestic level, all these actions being aimed at guaranteeing certain minimum levels of production and consumption.

If policies to increase domestic saving and productive activity are applied, the selective import policy must be complementary to these, for limitations on consumption by the high income groups should coincide with a drop in non-essential imports, and difficulty in importing should open the way to import-substitution policies and greater domestic production activity.

4. *Maintaining production capacity*

It is probably unanimously agreed that it would be desirable to increase production and reduce unemployment, but there may be doubts regarding both the possibility of doing this and its consequences. It should therefore be stressed that reactivation is both possible and necessary, while its concrete significance should not be left in doubt. Thus, reactivation is usually used in the sense of restoring the previous level of functioning of the economy in all sectors and branches, but in the present circumstances this is an unrealistic aim and attempts to achieve this have

brought about a rapid increase in both the domestic and external imbalances.

What is possible, is to reactivate the level of production of certain branches, while accepting that it will not be possible to reactivate others, such as commercial and financial branches aimed at supporting the consumption of imported goods by the high income groups.

The first set of branches of production which should be stimulated is that serving to satisfy the 'shopping basket' of goods and services which form the basis of mass consumption; many of the branches of the agricultural sector are concrete examples of this. The need to ensure in the short term both the supply of goods of agricultural origin and the productive absorption of a high proportion of the rural labour force make it desirable to attach priority attention to the recovery of this sector.

Likewise, the physical and industrial infrastructure must be preserved: the creative effort and accumulation of many generations

which have gone into these constitute a national heritage which cannot be sacrificed in the pursuit of short-term macroeconomic goals.

A third group of branches whose production should be stimulated are those whose exports could be affected by their present cost structure. Special attention should be given here to those manufactures which won markets for the region during the 1970s and which must now be defended.

Finally, it is necessary to stimulate investments which are not only identified with the objectives of the new form of development but also have external financing from international public agencies, use few imported inputs or make very intensive use of labour. In all these cases it is a question of stimulating sectors selected because of their contribution to the new form of development. Thus, the short term is seen as the launching period of a new style and not merely as a time for the emergency rescue of the old form of economic and social administration.

V

The essential political direction

The criteria proposed for orienting economic and social policy call for firm and deliberate direction on the part of the State. The varied political experience of Latin America makes it clear, however, that there are no private or public mechanisms or institutions which alone can ensure the efficient execution and proper orientation of the economic process. There has often been a seesaw movement in ideas which has led to the State or the market, democratic or authoritarian institutions being presented either as a *deus ex machina*, which solves everything by its mere presence, or as the guilty parties responsible for all political and economic problems.

This to-and-fro movement is closely related to the historical process. The crisis of the 1930s led to generalized pessimism regarding the market mechanisms and gave rise to politico-institutional arrangements in which the State and planning played the decisive role; the crisis of these latter elements restored faith in

the virtues of the former, and now again, in their turn, these have been deeply discredited by the present disequilibria. Similarly, the confidence placed a few decades ago in the mutually fruitful relationship between economic development and democracy was eroded by the difficulties of reformist and populist régimes and gave way to the rediscovery of the assumed virtues of social discipline and authoritarianism, which now, once again, are threatened by the growing impetus of democratic ideals.

In these circumstances, the present economic crisis has once again raised the old question of which is the most favourable politico-institutional system for promoting development and facing up to the aggravated conflicts of the present time. If we look back at the history of Latin America in search of an answer, the initial impression obtained coincides with what was stated earlier to the effect that neither greater State intervention, nor a return to

democratic principles, nor much less the predominance of an authoritarian order or of the market laws are sufficient on their own to guarantee the proper performance and orientation of the economic process. The problem of the coherence of the economic and political institutions and processes does not allow of simplistic and unilateral solutions, but requires instead that each of these institutions should be objectively appraised with regard to its achievements and failures, its possibilities and limitations.

As is well known, the reappraisal in recent years of the role of the market in various countries of the region was based on the conviction that its free operation would guide the main economic decisions better, since in addition to its supposed virtues in achieving the efficient allocation of resources and the equitable distribution of income, it was believed that this mechanism would avoid abuses of power through its impersonal objectivity based on respect for economic laws.

The economic crisis of the countries which placed their trust in the market mechanisms has once again revealed the true nature of the market, which is simply that of a mechanism subordinated to the existing economic structure. In view of this, it cannot direct the process of development, since this process has economic, social and political objectives which deliberately seek to bring about changes in that structure. The current generalized abandonment of market mechanisms in favour of growing State intervention in order to face the crisis is further confirmation that while the market may have economic and political virtues, these do not include the power to direct development properly or to tackle crises effectively alone.

Because of the limitations of the market, it is essential that the State should have a decisive role in the running of the economic process, above all in times of crisis. It is important, however, not to fall into the technocratic illusion that the mere fact of State intervention can guarantee a reasonable degree of efficiency and legitimacy: State intervention in the economy can also be inefficient and inequitable. The problem is that the State has frequently been under the influence of economic and political

power groups: instead of leading them it has been led by them.

The actual performance of the State and the market in the reorientation of development depends to a large extent on the structures on which they are based. Thus, the market could play a role in the efficient orientation of production and consumption if it were based on an economic structure in which wealth and income are distributed in an equitable manner. Similarly, in order to be the proper expression of the interests and demands of the majority of the population, the State apparatus must not only be based on a democratic political system but must also democratize itself.

In this respect, in order to achieve a higher degree of efficiency and legitimacy many Latin American States should improve their performance as regards co-ordination and concertation. Co-ordination refers above all to the need for the State apparatus as a whole—central and regional, administrative and decentralized—to have a co-ordinated manner of operation. There can be no doubt that in some countries of the region the effects of the crisis have been aggravated because of the disjointed action of the State apparatus, which of course reflects not only the existence of technical and political problems but also, and above all, sectoral bureaucratic interests in the main public sector institutions and enterprises. Concertation is connected in particular with the capacity of the State apparatus to reflect the interests of social groups, orient their action and unite their will for the purpose of achieving common objectives. While the co-ordination of the State apparatus is a necessary and principal condition for its efficiency, concertation lies at the heart of the legitimacy of the State in pluralistic mixed-economy societies like the majority of those in Latin America. As is well known, co-ordination and concertation form the essence of planning, which has a fresh opportunity to show its usefulness in the present circumstances of Latin America.

There can be no possible concertation without institutional machinery which permits and guarantees the participation of the various social groups in all important State decisions. Thus, in order to control the authoritarian and technocratic tendencies which usually arise

among those responsible for running the State apparatus it is necessary to consolidate the democratic institutions: only these can prevent State intervention from being merely the expression of the arbitrary desires of powerful groups, whether they be civil or military, State or private. As already noted, however, the return to democracy does not guarantee that a satisfactory degree of efficiency will be achieved in State action: the contrary could take place if all the social groups believe that this return is a suitable opportunity for ensuring that their own unfulfilled demands are satisfied. This is a crucial issue, since the 'ungovernability' of democracies has always been the main justification adopted by authoritarian régimes.

For both valuative and practical reasons, democracy is the most suitable framework for development, but it must ensure an orderly performance which, by the very nature of this political system, cannot be based only or even mainly on coercion, but above all on the spontaneous consent of the governed. The support which the governed give to democratic institutions and the decisions which emerge from the latter depend on at least two essential conditions, however: firstly, participation in the decisions must be on a broad scale and these decisions must be connected with the great national problems, and secondly, the democratic institutions must remain in force for a prolonged period in order that they may be consolidated as the pillars of political tradition. Strong democratic institutions can be of great assistance in helping the citizens to overcome the effects of the conflicts and imbalances which accompany all crises.

Policies for tackling the crisis and reorienting development call for dramatic decisions which, as already noted, will profoundly alter the economies and societies of the Latin American countries. These decisions, in turn, call for a State which is capable of carrying them out, and this capacity not only implies that the State must attain maximum efficiency in its action, but also and above all, that it must achieve a social consensus which will serve as its political support;

without this support the State will be simply an instrument of sectoral interests and will not be able to carry out the task with which the present challenge faces it.

Furthermore, in societies like those of Latin America, where democratic ideals are deeply rooted, the social consensus will not be achieved by force, but only by the spontaneous and responsible obedience of the governed. This, in its turn, will only result from full participation in the taking of decisions and from the inner conviction that the sacrifices which have to be imposed are inevitable and are distributed equitably among all.¹¹

¹¹In his analysis of the present situation in Spain, which combines the need to face a crisis with the need to strengthen democracy, Fuentes Quintana has put forward some suggestions which seem to be largely valid also for most of the Latin American countries.

"It is evident that a policy designed to adjust to the crisis seems to call for the fulfilment of three vital conditions: clear recognition of the situation (*telling the country the truth, not concealing the crisis as though it were an incurable disease of which it is better not to speak*); *transparency and equity in the distribution of its heavy costs* (the crisis cannot be passed on to others in an impossible and suicidal kind of *saave qui peut*); and the creation or achievement of a sense of common purpose on the part of all social and political groups in order to *reach constructive answers to the main problems through negotiation and agreement*. In other words, overcoming the economic crisis and building democracy is a policy which calls for a high sense of the importance of the State rather than of one's own party in the approaches to it and the solutions proposed for the different problems by the social and political groups. If this sense of common purpose is not created, if the political parties foment a desperate class struggle in the midst of the crisis, if entrepreneurs and workers fail to define the minimum conditions for making possible the development of the country's enterprises, if those who enjoy privileged economic positions refuse to have anything to do with solutions calling for some sacrifice on their part, then the crisis will get worse and will make it insolubly difficult to cope with this combination of a crisis plus the need to build democracy, on which the whole future of Spain depends." Enrique Fuentes Quintana, "La prioridad política de la economía en la transición española", *Pensamiento Iberoamericano*, No. 3, Madrid, January-June 1983, p.127.