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LATIN AMERICA: CRISIS AND DEVELOPMENT OPTIONS\*

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between the trends towards an increasingly interdependent international economy and towards the absence of authentically global instruments to manage the changes and overcome the crisis.

5. This confused and disquieting picture represents a strong challenge to economic thinking and policies, both in the centres and the periphery. Our response to this challenge is the task to which we shall have to devote ourselves in the coming years, first by making a calm appraisal of the experiences we have lived through and then drawing up a balance-sheet of the limitations and opportunities faced by our countries on account of the new realities which have arisen both in the domestic and international spheres.

6. This task involves formidable difficulties. The first lies in the unprecedented nature of the problems to which we must find a response. To this is added the uncertainty prevailing as regards the direction the world economy will take and the meaning of the structural changes which are occurring in the great industrial centres. In addition, there is the fact that the great diversity of situations existing in Latin America dooms to failure any attempt to find general formulas applicable to the entire region. The circumstances do not appear to be favourable for the creation of large economic models with claims to general validity, but rather to the elaboration of coherent and well-balanced syntheses, based on a careful consideration of the lessons of the past and the challenges raised by the new realities.

7. The ECLA Secretariat has sought to work within this perspective. We would like now to point out some of the elements on which the recent work of the Secretariat has concentrated. Among other aspects, this work has been directed towards understanding the nature, magnitude and prospects of the crisis now being experienced by the Latin American countries, and of the world crisis of which that process is a part; analysing the part played by domestic and external factors in the emergence of this situation and the interaction between the difficulties raised by the current economic situation and unresolved structural problems; reviewing the conditioning factors which must be confronted by the economic policies of the Latin American countries in the domestic and international spheres; appraising the short- and medium-term prospects of the world and Latin American economies, and reflecting on the objectives, orientations and instruments which could be adopted in the economic policies of the countries of the region in order to meet the crisis, bearing those conditioning factors in mind.

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## I. THE SPECIAL FEATURES OF THE CRISIS IN LATIN AMERICA

8. At the beginning of the 1980s Latin America had to confront the severest economic crisis it has experienced since the fateful years of the Great Depression. This process was undeniably influenced by domestic causes, but also by a complex set of factors arising out of the performance of the economies of the industrialized countries. One of the most outstanding features of the crisis is the fact that it extended, to different degrees and in different forms, to practically all the countries of the region. Another striking feature is its depth and duration. The three-year period 1981-1983 was characterized by a sharp drop in the product -in both global and per capita terms-, a marked reduction in rates of investment, the spectacular intensification of inflationary pressures, a rise in unemployment, and a drop in real wages. These negative changes on the domestic front were accompanied by others which were no less negative in the external sector, the most tangible manifestations of which have been the payments crises, the rise in exchange rates, the loss of international reserves, and, above all, the unbearable increase in the external debt service commitments. In short, we are faced with the most serious economic contraction in the last fifty years, with heavy destruction and under-utilization of the capital accumulated in recent decades and a six-year setback in the region's social progress, so that its standards of living were the same in 1983 as they had been in 1977.

9. Although the background to the crisis goes back to the first half of the 1970s -when the region coped with the first oil crisis relatively well, due to a set of factors in which external indebtedness played a highly significant role- its worsening at the beginning of the 1980s brought about particularly serious consequences, since it put an end to the growth cycle which the Latin American economies had experienced over the past three decades, in which, from the mid-1960s on, the investment coefficient began to increase gradually but steadily, and exports expanded and diversified considerably.

10. The crisis also marked the downfall of those economic policies which made too much use of external indebtedness, as a result of the failure (although there were differences between the individual countries) to appreciate the proper role of international financing and the advantages and risks of indebtedness. These

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policies were facilitated by the unprecedented permissiveness then prevailing in the great international financial centres, inspired by a misplaced confidence in past experience -which on this occasion proved to be unjustified- according to which international inflation would tend to lessen the weight of indebtedness with the passage of the years.

11. Owing to the generous flows of private capital made available at that time, the Latin American countries managed to maintain high volumes of imports which, in part, contributed to achieving satisfactory rates of economic growth. Those rates exceeded the rates recorded in the industrialized countries, and enabled the countries of the region to cope relatively easily with the international recession of 1974-1975, which was due, inter alia, to the adjustment which the economies had to make to the new energy prices. This, however, was only a temporary situation.

12. The situation remained manageable until the end of the 1970s. At the beginning of the present decade, however, the risks involved in applying economic policies based on the excessive use of external indebtedness in a recessive context became obvious, when the recession in the industrialized countries became more acute, international interest rates suddenly rose, and the terms of trade of the developing countries deteriorated. The increasing burden of servicing the debt and the decline in export income caused the maintenance of an acceptable growth rate to become increasingly dependent upon the possibility of attracting new flows of external resources, at extremely high costs. Furthermore, this possibility was drastically reduced in 1982 and 1983, when there was a reversal in the extreme permissivity shown by the international financial system during the preceding decade and a massive contraction in the inflow of new capital to the region, thus greatly worsening the recession caused by the economic cycle of the great industrial centres, because of the increase in interest rates and the decrease in the export income of the Latin American countries. Such, very briefly, was the evolution of the crisis currently being confronted by the region.

1. Origins of the crisis: structural elements, national policies and the external cycle

13. In these circumstances, three types of questions may be raised with respect to this process: a) How was this situation reached, and what features does it present in the case of Latin America? b) What short-term prospects are opened up to us by the adjustment processes and reactivation policies being applied in the

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centres? and c) What are the implications of this perverse combination of old structural problems with those which will remain as the aftermath of the crisis, as far as the development models which the Latin American countries could try out in the medium and long terms are concerned? In order to respond to the first type of question, we must go more deeply into recent events.

14. If we place our analysis in a correct historical perspective, we must acknowledge that the magnitude and features of the crisis were substantially influenced by the long-standing structural problems so often analysed in ECLA studies. However, this consideration should not serve to detract from the importance of domestic policies and the behaviour of the external cycle during the 1970s. Both of these elements encouraged excessive use of external indebtedness, most of which, for reasons which will be dealt with below, was contracted with private sources; and which now amounts, at the regional level, to more than US\$ 330 billion. This extremely high degree of indebtedness, which is the most important immediate cause of the crisis being experienced by the Latin American countries today, is for its part the expression of a complex combination of both domestic and external factors.

15. We have already mentioned the fact that this indebtedness was made possible by the extraordinary climate of international financial permissiveness which prevailed at the beginning of the last decade: a situation due to factors which had existed from the end of the 1960s but which subsequently became stronger due to the great international liquidity generated on account of the surpluses accumulated by the petroleum-exporting countries. This gave rise to a powerful resurgence of the international capital markets, especially through the new Eurocurrency market, and they eventually had an unprecedented volume of liquid resources at their disposal, the mobilization of which was carried out without any reference to the national monetary authorities and international financial bodies. In effect, the international private banking system was given carte blanche for recycling these resources, which it did with apparent efficiency during that period. However, because of the competition by the banks in lending their financial surpluses, they ignored many of the criteria which had guided these operations in the past, thus increasing their risk to an extent which has become evident with the crisis.

16. The economic policies followed by the Latin American countries during that period stimulated that process, at different rates and in different ways. I have

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already noted that recourse to external credit was used to a considerable extent in order to surmount the first depression of the mid-1970s and maintain the countries' growth rate. This credit facilitated the expansion of domestic spending, which was used for different purposes, not all of which contributed to the same extent to the achievement of that objective. In some cases -perhaps the fewest- domestic spending was directed towards programmes of investment in production projects which, unfortunately, in many cases involved very long lead times, were overambitious, or were based on excessively optimistic assumptions on market behaviour, thus giving rise to a situation in which a considerable proportion of those investments remained partially idle. In other cases, the increased indebtedness was used to support indiscriminate policies of greater external openness which involved a sharp expansion in imports, including a high proportion of all kinds of consumer goods. In some cases, the external indebtedness served to encourage policies of exchange over-valuation instead of authentic anti-inflationary strategies. On other occasions, the implementation of macroeconomic policies lacking in coherency led to loss of confidence and flight of capital, with the resulting loss of reserves and further expansion of external indebtedness. There were even cases where such indebtedness stimulated a vigorous process of arms purchases.

17. Consequently, attributing the bulk of the responsibility for the current crisis in Latin America to external factors would be incorrect and would endanger the credibility of the Latin American position. The same would be true if the analysis were to stress unilaterally the financial and monetary aspects of the crisis -which are indeed its most serious and obvious symptoms- while neglecting the real aspects which are, in the final analysis, responsible for it. Among these aspects mention should be made of the recession and the economic policies of the developed countries, which affect the demand for products exported by Latin America; the protectionism prevailing in the developed countries, which thus limit the Latin American countries' access to their markets; the impact of the crisis on the production apparatus of the Latin American countries, as a result of the growing control of financial interests over the production sectors, the over-indebtedness of the private sector and the failure of businesses, the under-utilization of existing production capacity, and unemployment; the negative effects of the excessive strengthening of the national financial systems in comparison with the production sectors; the contraction in /investment; the

investment; the impact of the crisis on the income of large sectors of the population, which have had to bear an inordinately high proportion of the burden of the adjustment, and -in general- the application of domestic policies which over-stimulated consumption or investment, fostered currency over-valuation gave rise to fiscal deficits or set off processes of opening-up to the exterior that were excessive or too rapid.

18. In short, when the causes of the process are analysed, the conclusion reached is that they include both domestic and external factors and that behind their financial and monetary aspects lie real aspects which have had great influence on the development of the crisis. All of these factors have come to bear differently in each country, depending on its stage of development, the features of its economy or the economic policies applied by it.

#### 2. The debt spiral and financial slowdown

19. In order better to understand the behaviour and interconnection of these different factors, the recent indicators should be examined more closely. The debt situation of the Latin American countries first began to cause concern at the end of the 1970s, by which time the regional debt had already reached US\$ 200 billion. This concern was partly allayed, however, by the evolution of the international cycle and the region's performance in the export field. In the case of Mexico, for example, the domestic product grew between 1970 and 1979 at an average of 6.4% per year, while exports grew at an annual rate of 11.9%. During the same period, the comparable figures for Brazil were 6.7% and 9.1%, respectively, while in the case of Argentina a very modest increase in the growth of the product (2.6%) was accompanied by a rate of export expansion of 10.7%. The performance of exports during the second half of this decade was especially noteworthy; they not only recovered the strong rate of expansion which they had displayed before the crisis of 1974-1975, but even surpassed it, since between 1976 and 1981 the region's exports grew at an annual rate of approximately 9%. Briefly, what happened was that the behaviour of the international financial and commercial markets, and the performance of the region in terms of growth and -particularly- exports, calmed any doubts which might have been raised by the high level of its external indebtedness.

20. The situation underwent a radical change at the beginning of the 1980s, however. Thus, at the beginning of the present decade, the international economic situation changed course spectacularly, due to the increase in interest rates and the persistent and pronounced drop in the terms of trade, with particularly acute consequences for the Latin American countries with the heaviest debts. Interest rates, after having been negative or only slightly positive during the entire past decade, rose sharply in real terms (see table 1). This phenomenon was aggravated by the fact that, a good deal before this, the terms of trade deteriorated drastically.

Table 1  
REAL INTEREST RATES AND NET CAPITAL INFLOW  
(Percentages and billions of dollars)

	Interest rates	Capital inflow
1973	2.94	8.1
1974	0.11	11.6
1975	-2.21	14.5
1976	-0.22	18.3
1977	-0.50	17.3
1978	1.23	26.4
1979	0.66	29.0
1980	0.86	30.2
1981	6.11	37.9
1982	6.91	16.7
1983	6.71	3.2

Source: ECLA.

21. The negative combination of the two factors aggravated the difficulties created by the very heavy external debt contracted by the region: as the debt service commitments rose, the income obtained by the Latin American countries from their exports diminished. Thus, the countries were forced to contract new debts simply to meet the interest payments on the accumulated debt. For the region as a whole, these payments came to represent about 36% of their earnings from exports of goods and services in the period 1982-1983. These figures highlight the increase in the part played by the external cycle in the worsening of the region's situation.

22. During the period 1982-1983 a factor which had a singularly powerful influence in accelerating the crisis made its presence felt: namely, the serious financial contraction caused by the private banking system as a reaction to the crisis. The private banks, which supplied most of Latin America's external financing during the past decade and whose loans were growing at a rate of over 20% per year at the end of that decade, reduced their credits drastically during these two years, causing a sudden drop in the inflow of capital into Latin America (see table 1). This drop would have been even greater had it not been for the intervention of the international financial bodies and especially the International Monetary Fund.

23. ECLA has placed great emphasis on the impact of this financial contraction which came on top of the economic recession caused by the international cycle through the rise in interest rates and the slump in the terms of trade.\*/ In order to appreciate the magnitude of the problems which this contraction has created for the Latin American countries, one need only consider that if only the terms of trade in 1983 had reached their 1980 level and the real interest rates had been 4% less (which would still have situated them far above traditional averages), the region would have had an extra US\$ 25 billion available in its external accounts, which would have made it much easier to meet the interest payments on the debt (amounting to some US\$ 35 billion) without having to resort to the sharp contraction of imports which had to be carried out in the last two years. The absence of these conditions, however, together with

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\*/ For a more detailed analysis of these issues see ECLA document "Adjustment policies and renegotiation of the external debt", Santiago, February 1984.

the contraction suffered in external financing from private sources, made Latin America into a net exporter of capital, thus reversing a historical trend, and in flagrant contradiction with the capital-importer status appropriate to developing countries.

24. The outline I have just given highlights the profound changes undergone by the centre-periphery relationship, which has always been an important element in ECLA's analyses of Latin American development. Thus, from the 1950s onwards, the sluggishness of world trade and the restrictions of the international markets created a favourable climate for the Latin American countries' decision to depend primarily on their internal markets and follow import substitution policies on a national and regional scale. As from the mid-1960s, however, world trade registered unprecedented growth which encouraged the application of export expansion and diversification policies by the Latin American countries, thus giving a new profile to the region's external trade. From the first half of the 1970s onwards, the situation of international financial permissiveness already mentioned earlier stimulated external indebtedness policies which made possible an expansion in spending, with different objectives and results, especially in terms of its economic and social productivity. At the beginning of the 1980s, the intensification of the recessive cycle in the centres, together with the rise in interest rates and the drop in the terms of trade, sharply reduced the Latin American countries' capacity for reactivation, and this situation was further aggravated by the contraction of the inflow of capital into the region.

## II. THE INEVITABILITY AND TENSIONS OF THE ADJUSTMENT POLICIES

25. Faced with a crisis which had such far-reaching repercussions on the external income of the region, the countries were inevitably forced to make adjustments, with high economic and social costs. In view of such a difficult situation, it would certainly be Utopian to try to imagine a "painless" adjustment. But the question that must be asked here is whether the adjustment, besides being inevitable and painful, has been fair in terms of the distribution of its costs among the different sectors involved in the crisis, both at the domestic and the international level.

26. The adjustment has in fact assumed strongly recessive features, basically reflected in the reduction of imports in order to obtain a trade surplus with which to meet the external debt service commitments; the reduction of spending, both for consumption and investment; the erosion of international reserves, and sharp devaluations. As a natural corollary of the foregoing, the traditional pressures on prices were joined by those arising from the growing fiscal deficits which, on the one hand, stimulated inflation and, on the other, led to serious cuts in public investment, particularly investment intended for the social sphere. It is not surprising, therefore, that along with a process of destruction or underutilization of installed capital, a strong concentration of the negative effects of the crisis in the poorest sectors of the population has occurred.

27. In applying its adjustment policies, the region used the orthodox mechanisms recommended by the International Monetary Fund, which had to fit within the narrow limits imposed by a difficult payments situation and by an international financial community that was reluctant to grant new credits. In this context, the adjustment policies could not be other than markedly recessive, especially insofar as hopes for a rapid recovery of the world economy, with favourable effects on interest rates and the terms of trade, did not come to fruition.

28. No-one could imagine that a way out of the present crisis could avoid going through adjustments as painful as they are inevitable. However, the impact of international circumstances which are beyond the control of national governments, the delayed reaction of the external cycle and the far-reaching economic and social costs involved in the adjustment have been causing growing dissatisfaction with the mechanisms applied to carry this out.

29. The highest-level political expression of this disquietude was provided at the recent Latin American Economic Conference convened at the beginning of this year in Quito, by the President of Ecuador, Dr. Osvaldo Hurtado. The Declaration and Plan of Action adopted at that Conference, brought the consideration of these problems into the political sphere, for the first time since the beginning of the most acute phase of the present crisis, and established the principle that the external debt service commitments and, hence, the intensity of the adjustment, should to a larger extent be the subject of proposals formulated by the Latin American countries themselves. These proposals should basically take into account the need to maintain a certain economic growth rate and acceptable living conditions for their societies.

30. The basis for this critical position, as I have said, is primarily a political one. Indeed, if the relations between the Latin American countries, on the one hand, and their creditors and the industrialized nations, on the other, are not placed on a different political level, no matter what the relative weight of the domestic and international factors in shaping the crisis, it will become almost impossible to handle. These considerations of a political nature should, inter alia: a) Call into question the long-term viability of a general adjustment process in which all the countries are simultaneously led to reduce their imports and expand their exports at a time when a growing and ever more subtle system of protectionism is being carried forward by the industrialized countries; it is acknowledged that, although the deficit trade performance of the United States is an important and positive exception to this state of affairs, the criticism continues to be valid as regards the other countries with which the region trades; b) Point up the fact that, while the various actors involved in the creation of the crisis -the debtor countries, the international banks, the industrialized countries, international financial agencies and the very system of global economic relations itself- clearly have a share of the responsibility

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in this respect, the cost of the adjustment falls almost exclusively on the debtor countries; under these circumstances, the international banks not only have failed to assume a fair share of the costs of refinancing the debt, but also have increased their profit margin excessively via the costs of financial intermediation; at the same time, they have succeeded in having the International Monetary Fund maintain a supervisory presence with respect to the management of the debtor countries' domestic economic policy in order to ensure their ability to pay, while they have also managed to have State guarantees extended in many of these countries to almost all of their credits, including those to which government guarantees did not originally apply; c) Draw attention to the abrupt restriction of external capital flows imposed by the international financial system and the fact that Latin America has become a net capital exporter; this situation is felt to militate not only against a minimum degree of recovery by the Latin American economy but also against the reactivation of the world economy itself.

31. The method of adjustment used by a number of Latin American countries has, furthermore, warranted theoretical criticism, which has been examined in the past by ECLA and which has been repeated in some of its recent studies. As Massad and Zahler stated in a recent study, the magnitude, nature and persistence of recent external imbalances and their relationship to domestic imbalances suggest that the current theoretical models for analysing the balance of payments are based on various sets of unrealistic and overly restrictive assumptions, and have produced piecemeal and, at times, erroneous policy interpretations and recommendations with respect to the developments which have occurred in this sphere. In particular, there has been little analysis of the determinants of private international financial flows or of the external debt's impact on the national economy. In addition, assuming that world economic activity, international interest rates and other fundamental variables remain ceteris paribus, the policy prescriptions put the burden of restoring a balance on the "problem country", with little or no recognition of the interdependence of the external imbalances among the countries, both with respect to their causes and the responsibility involved.\*/

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\*/ See Massad, C. and Zahler, R., "The Adjustment Process", preliminary version, pp. 5 and 6.

32. Despite the fact that the region has reacted very responsibly to this situation, taking measures to correct it which have had painful economic, social and even political consequences, doubts persist as to the ability of the Latin American societies to continue to endure the sacrifices they are currently making. Because of this, in various financial and political centres attention has been called to the possible consequences of the Latin American countries' domestic situation and particularly to the repercussions which extreme solutions would have on the stability of world financial markets. Some of the boldest and most innovative proposals for seeking global formulas which go beyond the policies currently in place have come from intellectual circles in the industrialized countries and, increasingly, from political leaders and the economic authorities of the Latin American countries themselves. These proposals, however, have yet to influence the attitudes of the political authorities in the developed countries.

33. One central topic for the immediate future is the establishment of global mechanisms to facilitate the servicing of the debt to provide leeway for a greater flow of imports and, by that means, to permit a process of reactivation in the Latin American economy. To these ends a set of measures have been proposed in general terms which are aimed at bringing about a considerable reduction in the costs of financial intermediation, the rescheduling of interest payments on the debt in a way which would not absorb too great a proportion of export earnings, and an extension of loan maturities. On this occasion, I will not enter into an analysis of these subjects, which have been discussed in other ECLA documents.\*/ Suffice it to say that, under present circumstances, the financing of their external debt is the stumbling block for most of the Latin American countries as far as any economic reactivation policy is concerned.

34. Nonetheless, these considerations indicate that one of the basic features of the new development pattern which the region must follow in the future will be a lower degree of dependency on external financing. This, in turn, will greatly depend upon the evolution of their foreign trade and, particularly, on how successful they are in expanding their exports. It must be acknowledged here

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\*/ See, for example, Adjustment policies and renegotiation of the external debt, op. cit., especially pp. 80-91.

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that the modest prospects for the international economy, and the slow growth in world trade which is likely to occur during coming years, will continue to severely limit Latin American exports. It is probable that this situation will continue to be compounded by the defects of the developed countries' growing neo-protectionism. Indeed, in recent years the process of opening up trade, which characterized the centres' economic evolution during the postwar period, has lost momentum and has been replaced by an increasingly varied set of protectionist and discriminatory measures lacking in transparency which have caused a growing share of international trade to take place outside the sphere of the GATT regulations. This has jeopardized progress towards a new international division of labour at the world level, which was precisely one of the opportunities open to the developing countries for responding to the crisis. The neo-protectionism of the industrialized countries seriously threatens the chances which the countries of the region could have of reducing the external debt burden in the medium term by expanding their trade.

35. A number of measures could be suggested for rectifying this situation. First of all, the Latin American countries should take concerted action to combat the various types of tariff spreads and non-tariff barriers recently put into effect by the industrialized countries. Secondly, a measure which is of great importance for Latin America is the approval of new rules regarding safeguard clauses which would allow them to be used only under exceptional circumstances, rather than in order to place unilateral restrictions on their exports when the latter begin to represent competition for producers in the industrialized countries. Thirdly, the production and export subsidies granted by the industrialized countries in such basic sectors as agriculture, stock-raising and industries important to Latin America should also be opposed, just as the developed countries themselves closely monitor the use of subsidies by the developing countries. The benefits of the Generalized Systems of Preferences (GSP) should also be expanded.

### III. THE IMMEDIATE OUTLOOK

36. Certainly, it is no easy matter to provide a clear picture of the outlook for the international economy in the immediate future nor, therefore, of the hypotheses which could serve as a basis for the adjustment machinery sponsored by the international financial community and the IMF. In a recent article, Albert Bressand set forth possible scenarios for the world economy. He stated that in coming years, it will be possible to think in terms of two broad scenarios, depending upon the type of relations which prevail between the "real" and the "financial" worlds. According to the first -more optimistic- scenario, the "real" economy will be able to grow more rapidly than the size of the "financial dead weight" which it must carry. If this occurs, some difficulties might persist in special situations affecting certain countries or companies but, on the whole, the nightmare of the external debt would gradually disappear. In order for this to come about, nothing more drastic than extensive re-phasing would be necessary. The second scenario is the more likely one, however, at least in the absence of concerted recovery policies such as those assumed by the first scenario. In it, financial adjustment policies would converge on a global scale in a way tending to produce deflation, and the economic, social and political vulnerability of the countries would be heightened rather than reduced. At some point, the cumulative debt burden might become so great that its repudiation would be unavoidable, or might even become the means of escaping from the trap.\*/ These are the prospects from the standpoint of the developed countries, and it is a perspective which undeniably calls to mind the financial problems of the 1930s.

37. These outlooks have their counterparts in the views of the immediate future held in the countries of the region. In the opinion of some observers among the monetary authorities of various Latin American countries, who share the viewpoint of their colleagues to the North, the reactivation of the United States economy will, in turn, have a reactivating effect on the rest of the industrial economies, which will give a new impetus to international trade and, therefore, to the external

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\*/ Albert Bressand, "Mastering the 'World Economy'", Foreign Affairs, Spring 1983.

environment on which the developing countries' economies rely. This is what has been called the "locomotive theory". With a reduction in real interest rates and an improvement in the prices of the developing countries' export products, the debt problem could be managed on better terms and would provide leeway for initiating economic reactivation policies. On the other hand, there are viewpoints which call into question the significance and durability of the recovery in the large industrial centres, or at least the possibility of transmitting the recovery taking place in the United States in recent months to the other centres and, with even more reason, to the periphery. From the former viewpoint, the main features are the persistence of high real interest rates, a slow rate of investment, unemployment and idle capacity in the industrialized countries, and an overvalued United States dollar. From the second viewpoint, it is noted that in order for the recovery in the centres to be transmitted to the periphery, it will have to have significant effects on interest rates and the terms of trade, and external financial flows towards the region will have to be resumed. Certainly, if we consider the impact of the economic recovery in the United States on these three factors during 1983, the conclusions are not overly encouraging. The expected drop in real interest rates has not come about, there has been no pronounced reversal in the tendency of the terms of trade to deteriorate, nor has a positive reaction on the part of sources of private capital been observed, except to the extent strictly necessary in order to contribute to the financing of a portion of the interest payments owed by the Latin American countries.

38. Even so, one indispensable prerequisite for an economic recovery in the countries of the region is the recovery of the industrial economies. From this standpoint, what is occurring in the United States and probably, to a lesser degree, in other OECD countries is a positive development. This view of the situation, however, must be modified by the fact that the monetary and fiscal policies and high interest rates prevailing in the United States are an important contributing factor to the contraction of global economic activity and are reducing the opportunities for the developing world. At the same time, it seems clear that the countries of the region should look for alternatives to the severe adjustment policies which they have implemented in recent years, seeking instead development strategies which stress economic growth. As noted above, the foregoing involves the adoption of mechanisms by the international community which will make possible

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a more tolerable form of administering and refinancing the external debt of these countries. These mechanisms would free a greater volume of resources for increasing their basic imports (particularly those linked to their development processes) and they should be applied in parallel with a greater degree of import substitution, although we know full well that these strategies have their limitations. On the external front, trade and financial policies should be combined with one another and with domestic reactivation policies so that they can be brought to bear on the objectives of increasing investment, expanding basic imports and initiating a sustained recovery process in the Latin American countries.

39. It is clear, nevertheless, that the rate of expansion of production and the room for manoeuvre in economic policy will continue to be restricted in many of our countries for a fairly long period of time because of external constraints. Accordingly, the growth rate will not only be lower than over the two past decades, but will depend far more closely on an increase in domestic saving, the fullest and most effective use of available human resources and installed capacity, and on increase in production devoted to covering internal demand.

#### IV. THE LONGER-TERM OUTLOOK AND ITS MAIN DETERMINANTS

40. The foregoing considerations suggest that neither short-term economic policies nor the major objectives of the development strategy can remain unchanged by the effects and lessons of the crisis of the 1980s, just as the corresponding instruments will also have to be revised. Towards the end of the 1970s, it was thought that concerted action with respect to the different structural constraints which marked the past development of the region could result in more dynamic economic growth rates and that, given such rates, the appropriate conditions could be created for laying the foundations for sustained economic development and the progressive solution of the mass of social problems which had mounted up. The emergence of new and unforeseen problems and the atmosphere of uncertainty surrounding the evolution of the world and Latin American economies do not allow us to think in terms of an incrementalist and progressive process today, but rather draw our attention to the presence of severe breaks or discontinuities. Nevertheless, this should not lead us to adopt defeatist or despairing positions, but rather to search more intensively for innovative answers to these new situations.

41. The lessons of history teach us that great crises present both risks and opportunities. It would probably be unrealistic to postulate radical changes in the development policies of the Latin American countries in the middle of one of the worst recessions the region has undergone in this century and in view of the unpromising international setting, which would make such changes politically and socially unfeasible. However, we must also remember that a crisis situation has often preceded the adoption of sweeping changes: in the United States, the New Deal was a response to the crisis of the 1930s; the economic recovery and integration of Europe, in turn, arose in response to the destruction caused by the war, while the development strategies based on the industrialization and "inward-directed growth" of the Latin American countries themselves also grew out of the Great Depression and the war. Thus, just as in that era, the current crisis could provide the basic elements for an in-depth revision of the development styles and economic policies of the Latin American countries. In order for this to happen, extreme experiments whose economic and social costs could exceed the political tolerance of these societies would have to be avoided, and some measure of balance

/and rationality

and rationality would have to be incorporated into these strategies in order to ensure their economic efficiency, by learning from the experience which has been gained.

42. The analysis of the options available for such policies requires a dispassionate interpretation of the various experiences of the region in the recent past and in the light of them, the amount of leeway there can be for economic policy to operate in. Experience indicates that strategies which were initially inspired by the most progressive objectives and which were based on a broad consensus ultimately lost that support because they did not attain a reasonable level of efficiency. There is also a general awareness that in recent years the external vulnerability of the Latin American economies has increased considerably and that the governments' room to manoeuvre has decreased accordingly. The amount of leeway, however, is certainly not the same for all the countries of the region, because their socio-political situations, economic structures and forms of insertion in the international setting are not the same either. What is important is to determine, within the proper analytical framework, the amount of leeway -the balance of limitations and opportunities- which each Latin American country has.

#### 1. External determinants

43. As in the past economic history of the region, the leeway enjoyed by the governments as regards policy options will continue to be linked to the type of relations which are established with the great centres. Predicting the future nature of these relations entails, first of all, setting out a hypothesis regarding the behaviour of the world economy and of international financial and trade flows over the medium and long term.

44. The emergency situations in which we find ourselves as a result of the crisis make such an undertaking rather unusual in Latin America. Nevertheless, it is important that it be done. Measures for overcoming the crisis may appear to be reasonable if it is assumed that, when it is over, the world and Latin American economies will resume their course of growth within structures similar to those which prevailed during the past three decades, but they do not appear so reasonable if it is supposed that these economies will undergo sweeping changes at both the world and Latin American levels. The studies concerning the present crisis are not devoting enough attention to the theory of long-term recessionary cycles. According

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to some observers, the world economy may be entering into another downward phase of the cycles described by Kondratieff in the 1920s, characterized by the emergence of imbalances between the requirements of the process of economic expansion, on the one hand, and the supplies of food, raw materials, inputs and technology available to sustain this process, on the other hand. It is interesting to note that, if these historical cycles are indeed a fact, then their recessionary phase could not be overcome through a mere projection of past trends, but would call for a creative response. Schumpeter has already posited that the emergence of new combinations of products, technologies and entrepreneurial behaviour is a necessary prerequisite for coming out of a cycle's recessionary phase. The possibility that we are experiencing such a phase is supported by the fact that factors related to productivity, investment, technological innovation, human-resource training and the emergence of new productive activities as dynamic sectors in the development process have come to be of increasing importance in the evolution of the world economy. The possibility that this hypothesis is correct obliges us to look beyond the adjustment policies in order to prepare ourselves for future conditions, while it also offers brighter, or at least more dynamic, prospects for the developing countries, to the extent that they have the capacity to respond actively to the new situation.

45. Whatever the likelihood of such an outcome, it would be excessively optimistic to suppose that during the course of the 1980s the region will be able to gain access to a volume of external capital flows similar to that which existed during the past decade. It is more appropriate to think in terms of a much more restrictive external context and of a mood of greater restraint in the design of resource allocation policies. The present decade will clearly be marked by a pronounced selectivity on the part of the sources of international credit, both in terms of the countries involved and the final destination of resources, and this selectivity will surely characterize international economic policies as well.

46. I have already said that the evolution of international trade will have a decisive influence on the external context. The application of effective and lasting solutions can only come as a result of an increase in the capacity for generating foreign exchange, brought about by an expansion in the volume and an increase in the prices of exports. This is why it is essential to ask ourselves about the behaviour of international markets. Will they tend to become more open or will current protectionist trends become more pronounced? In this regard, the document submitted by ECLA and SELA at the request of the President of Ecuador, Osvaldo Hurtado, states that:

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"Latin American exports of basic commodities and manufactures -the expansion of which is essential for the region's development- face in the markets of the industrialized countries a set of tariff barriers (graded according to the degree of processing of the exports) as well as non-tariff barriers. Both types of protection have a limiting and discriminatory character and are gradually bringing about a situation where the central countries have acquired the capacity to manage as they wish their trade with the developing countries and especially Latin America. This management may take place in a selective and non-continuous manner or, if necessary, may be broader, more intensive and more frequent."\*/

A no more optimistic view holds sway in the North. In the opinion of Bressand, the era during which free trade served as an organizational principle may well have come to an end. He goes on to say that, in his judgement, this does not imply that free trade is not desirable from a normative point of view: it is not a prescriptive, but rather a diagnostic problem.\*\*/

47. Given this situation, deep concern must be expressed with respect to the possible consequences of an exacerbation of protectionism and of an even greater loss of transparency in international trade, in view of the imperative need for the Latin American countries to increase their exports. All of the above suggests that it would be unwise to predict very different trade conditions from the present ones. On the contrary, just the maintenance of those conditions, without any further deterioration, would seem to be a significant achievement. Against the same backdrop, it even appears inappropriate to anticipate world trade growth rates resembling those of the 1960s and 1970s, when annual rates of 8% were reached. Nonetheless, bearing in mind the dramatic decrease in international trade which took place in the early years of this decade, it seems possible that there might be a modest recovery, which would have favourable effects on the external trade of Latin America and the evolution of the terms of trade.

48. In referring to external determinants, I began by saying that the first problem which must be cleared up relates to the nature of the cycle being experienced by the world economy and to the possibility that we are witnessing the end of one prolonged cycle and the commencement of another. I also stated that this hypothesis would open up new prospects for Latin America. Hence the importance of reflecting upon the effects that the structural changes now occurring in the production and

\*/ "Bases for a Latin American response to the international economic crisis", document prepared by the Executive Secretary of ECLA and the Permanent Secretary of SELA at the request of President Osvaldo Hurtado, 16 May 1983, p. 58.

\*\*/ A. Bressand, op.cit.

consumption patterns of the large industrial centres will have on international economic relations, the international division of labour and the structure of comparative advantages on the basis of which the developing countries have operated in recent decades. The pattern of industrial expansion which prevailed in the advanced countries during the postwar period is in the course of being exhausted, as demonstrated by the decrease in the sector's profitability, the decline of the industries which led the process -such as the iron and steel and the metal manufactures industries- and the resulting transformation of production structures. In contrast with the past, when technological innovations were often prompted by market forces, current transformations appear to be led by technological change. The great strides forward in knowledge made recently and the rising educational level of the labour force have combined with the intensification of competition among the great industrial centres and with the need to develop technology which is appropriate to the energy shortage and the need to maintain the ecological balance. It should therefore come as no surprise that the pre-eminence of 'technical progress' and 'efficiency' in the political and economic debate at the national and international levels has been observed.\* This pre-eminence of technical progress causes the leadership of industrial development to be assumed by new sectors such as electronics, biological engineering and computer science, to name only a few. This, in turn, influences social relations in the centres and their linkages with the periphery.

49. It should be remembered that one of the major causes of the changes being undergone by the centres is the growing competition of manufactures from the developing countries. At the same time, we know very little about the impact which these changes will have on the international insertion of the countries of the region. This could jeopardize their potential advantages in food production or in the provision of inexpensive manpower, but could also broaden their opportunities for gaining access to the latest technology and for participating on a more diversified basis in the new international division of labour. The world is in the midst of a third industrial revolution, which is certain to give rise to new types of relations between the centres and the periphery, and which will surely entail

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\*/ Fernando Fajnzylber, "La industrialización trunca de América Latina", Mexico City, 1983, p. 271.

some dangers but also some opportunities; it is important that these should be understood and anticipated so that they may be incorporated into the design of the development strategies of the Latin American countries.

50. The major trends in the contemporary international system are another factor of external origin that has influenced and will continue to influence the periphery's relations with the centres. The increase in interdependence represented by the many types of links existing among the different groups of countries by virtue of an increasingly broad variety of interests has made the traditional pattern of centre/periphery relations more diversified and more complex and, although on the one hand it has heightened the external vulnerability of the developing countries, on the other hand it has expanded their range of possibilities. The emergence of global problems such as those related to energy, the environment, arms, etc., has also helped to involve the developing countries to a greater extent in the solution of those problems. Worsening East-West tensions and the attempts to extrapolate them to the various developing regions of the world have also had an influence -generally negative- on North-South relations.

## 2. Domestic determinants

51. Although the traditional influence of external factors on Latin American development has become more pronounced in recent years, the markedly restrictive trends being projected onto the international scene indicate that the options open to these countries will depend -perhaps to a greater degree than in the past- on a number of domestic determinants. The first such factors relate to the long-standing structural shortcomings which are summed up by the region's economic and social underdevelopment. Thus, still inadequate rates of capital formation, the weakness of their structures of production, unbalanced and incomplete industrial development, the backwardness of agriculture and the limitations of their technological development continue to be features of the Latin American economic picture. The trend towards concentration in income distribution also persists, and there are still no solutions to the major problems posed by the inequality among different social groups, the marginality of broad sectors of our societies and the insufficient capacity of the economy to generate employment; what is more, these problems have even tended to become more acute, at least in relative terms. These are the elements

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included by Dr. Raúl Prebisch in his description of the syndrome of peripheral and imitative capitalism which has prevailed in the countries of the region during recent decades.

52. In addition to these difficulties, the problem of the acceleration of inflation, which has increased notably in recent years, is particularly severe in the majority of the countries, in close connection with the problems described above. These inflationary pressures, which are very difficult to handle even when it is a matter of "old-established inflation", can become much harder to control in countries which have only recently fallen victim to this syndrome with its inevitable social and even political traumas. Recognition of these facts makes it even more essential to have effective international co-operation bodies which, by eventually attenuating the repercussion of these problems, may provide the countries with greater leeway for reducing any depressive effects of anti-inflationary policies which might be superimposed on the recessive effects of adjustment policies

53. The restrictions imposed by the latter may, as a result of the need to service the external debt, continue to be one of the most rigid determinants of the options facing the Latin American countries in the longer term. Even if interest rates or the terms of trade improve, the servicing of the debt will continue to be very burdensome and to absorb a very substantial share of whatever resources the region may generate. It must be borne in mind that, as things now stand, the majority of the debtor countries must allocate some 30% of their export earnings to make interest payments, which certainly constitutes a tremendous curtailment of their investment capacity and a kind of mortgage limiting their future development.

54. However, the presence of these problems, both old and new, should not lead us to overlook the notable development experienced by Latin America over the past three decades and its significance from the point of view of the region's capacity to respond to the crisis and tackle new options. In the statements I made in Guatemala City, La Paz and Montevideo, I analysed the growth and change experienced by the Latin American economies during that period and pointed out how they helped to explain what on other occasions I described as being the region's increased capacity to defend itself against the contingencies of the external cycle. I believe the violent impact of the crisis on the region in the past two years due to the external and internal factors to which I have already referred has not cancelled out the advances made in the past 30 years, nor has it vitiated that increased defensive

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capacity I mentioned, so that my earlier analyses are still valid. At the Montevideo meeting in 1981, I said that in order to gain an idea of the magnitude and scope of that process of growth and change, it was enough to repeat that in the course of the past three decades the global product of Latin America has increased five-fold in real terms while that of manufacturing had grown more than six-fold. At the same time (and in particular over the past decade), agriculture had made considerable progress and diversified significantly, financial activities had been expanded and modernized, and the investment coefficient had risen gradually but steadily. Of even greater importance, however, was the fact that in the course of those 30 years (and, here again, more notably in recent times), there had been a marked improvement in both the level of education and the structure of skills of the labour force in nearly all the countries of the region. As a result of that progress and change, Latin America now possesses a broader, more diversified and more flexible production base than in the past.

55. I do not think it necessary to spend more time on the analysis of this process, since I have referred to it more extensively in statements made in the past. I should, however, like to note that the growth and transformation of the Latin American economies and societies represents, together with the negative factors I have already mentioned, one of the basic issues which the new development strategies of the Latin American countries should take as their starting point.

V. DEVELOPMENT POLICIES: SOME OPTIONS

56. It would be pretentious to present a new economic paradigm for Latin America at this time. I have already given the reasons why I believe this cannot be done. There are many good reasons for being modest and prudent in these circumstances. The most important, of course, is the well-known diversity of situations in the different countries of the region; the difference which exists between countries as big as continents (such as Brazil) and the micro-States of the Caribbean is enough to discourage any generalized scheme. In addition to this reason there is the no less convincing one of the unknown quantities represented by the process of change and the economic policies of the big industrial centres, and hence of the shape which relations between them and the Latin American countries might assume in the future. Recognition of these limitations does not detract, however, from the importance of the task of working on the basis of alternative medium and long-term hypotheses and scenarios and moving forward on the basis of a set of non-controversial points around which a future development pattern might emerge. These points are related both to the major development objectives and to the renewal of the instruments of economic policy. Without attempting to deal with them exhaustively, I should like to refer to certain aspects which appear most relevant.

1. Concerning the objectives of a development policy

57. It seems important to draw attention to three objectives which development policies should seek in the future: greater efficiency of the economy, accompanied by a considerable increase in the rate of development; greater equity in the distribution of the fruits of growth, and greater autonomy of the development process.

58. These three objectives are of course very closely related, but are not always easily brought into harmony with one another, as the evidence of history shows. It is therefore worth reflecting on the experience of the Latin American countries with regard to these options. Those which tended to favour economic efficiency at any cost sacrificed social progress, giving rise to an accumulation of problems which finally jeopardized the initial progress made and created explosive situations from the political point of view. In other cases, where the development strategy concentrated solely on social objectives, the result was uncontrollable forms of

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economic populism which shortly fell victim to the general inefficiency of the production system. Thus, experience shows that the most feasible options are those which, instead of unilaterally giving priority to some of these objectives over the others, seek to reach all those goals harmoniously, taking a global view which can be achieved only within the framework of an integral economic and social development project in which the thrust is balanced, serene and realistic.

a) Growth

59. As regards the growth objective, it is worth mentioning some ECLA publications in which some possible scenarios for the longer term are proposed. To illustrate our analysis, it seems appropriate to refer to a scenario which deals with the impact that would be produced on the region by a growth rate of the product of the order of 3.5% in the OECD countries up to the end of this decade, with annual growth of the region's exports of about 3% and a real interest rate of close to 6%. With this hypothesis (which assumes more favourable conditions than those prevailing at present), the region could achieve average growth of approximately 4% a year during the rest of the 1980s. With that growth rate, Latin America would not return to its 1980 levels of per capita income until 1990, so that it would have lost a whole decade from the point of view of its economic and social progress, with the consequent worsening of the living conditions of the population. These considerations show the ineluctable need to embark upon policies and programmes qualitatively and quantitatively different from those which are nurturing this tendency, so that the problems created by extreme poverty, failure to meet basic needs, and unemployment can be dealt with more effectively.

60. It is important to stress, as I already noted, that in any scenario for the economic development of the region in the medium term, the external opportunities will be much more restricted than in the past. This means that the development of the countries of the region should be based to a greater extent on a process of internal accumulation, the mobilization of their own resources and the use of their own markets instead of relying basically on the inflow of foreign capital and on external markets. In other words, as noted in the documents prepared

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by the Secretariat of the Commission, the region will have to learn to "do more with less".\*/ This calls, on the one hand, for a substantial increase in domestic savings and, on the other, for greater efficiency in the use of the available resources, especially labour and the installed production capacity.

61. The concept of efficiency has had various connotations in economic literature and in the attempts made to incorporate it into economic policies. In recent years this efficiency was sought basically through the market forces and external openness. While it is true that some of those attempts have been successful in terms of the achievement of greater competitiveness of activities exposed to competition from the external market, it is also clear that, when applied unilaterally and in circumstances such as those which now prevail in the international economy, this policy may produce the opposite results to those expected. Thus, if not accompanied by coherent domestic policies and support systems appropriate for the stage of development which each country has reached, this could lead to a severe weakening of their production capacity. In mixed economies like those of the majority of the Latin American countries, it is necessary to bring the quest for efficiency through the use of the market forces into harmony with the necessary presence of the State, by applying global policies in support of the systems of production and by being very consistent in the handling of the main macroeconomic variables.

b) Equity

62. In the development of Latin America, the tendency towards inequality in the distribution of income is a chronic problem. Suffice it to recall, in this regard, the size of the social sectors suffering from critical poverty, unemployment, or underemployment. These and other difficulties have been aggravated as a result of the recession of the 1980s. One of the imperatives of the development strategies, therefore, both immediately and in the long term, is to give more importance to objectives linked to equity of growth -which, moreover, it is essential to pursue if the necessary expansion of domestic markets is to be achieved.

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\*/ See ECLA, The international economic crisis and Latin America's capacity to respond to it, Santiago, July 1983.

63. As regards immediate goals, decisive importance is attached to the design of programmes for taking care of the most urgent needs, such as the need for employment or for goods to satisfy basic needs, by ensuring that available manpower and capital are mobilized more effectively and that better use is made of idle production capacity. In the medium and long term, there is a need to seek to enhance the quality of investment so that, in addition to making economic growth more dynamic, it will also help to make good the big social defects which now mar development. In all these areas, the region has already outgrown the simplistic approaches which relied merely on the nominal redistribution of income. In recent years, the Latin American countries have carried out a number of experiments which show that there are specific and differentiated mechanisms, according to the particular cases, for pragmatically reconciling equity with efficiency.\*/

c) Autonomy

64. In addition to the objectives related to dynamic and equitable growth, there is the need to seek a reasonable margin of autonomy in the development process, without which the countries are at the mercy of external forces and do not manage to acquire the necessary ability to take advantage of the potential benefits of their international economic relations. If the countries of the region are to be able to develop ways of fitting more actively and independently into the external economy, that economy must begin to show signs of becoming less restrictive than in recent years, by, for example, putting into practice some of the structural reforms which the developing countries have been proposing over the past 20 years. However, there is also a need for a more dynamic, pragmatic and selective development strategy on the part of the latter countries. In addition to the increase in the importance of external factors and the

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\*/ On the subject of the most effective policies for tackling extreme poverty, see ECLA/UNDP, ¿Se puede superar la pobreza? Realidad y perspectivas en América Latina, Santiago, Chile, 1980, and ECLA/UNICEF, Pobreza crítica en la niñez: América Latina y el Caribe, Santiago, Chile, 1981.

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consequently greater international vulnerability of our economies, note must be taken of numerous successful examples of the management of our external economic relations in certain specific sectors.\*/

65. The autonomy of the Latin American countries' development would also be considerably strengthened if the processes of integration and regional co-operation were made more dynamic, since they are called upon to play a role of renewed importance in the development strategies which the countries formulate to confront an international scenario which is restrictive and uncertain. Similar factors should be taken into account in redoubling the efforts to increase Latin America's participation in the process of South-South co-operation.

## 2. Regarding some key instruments

66. Along with the reformulation of the objectives of development policies, some of their key instruments will also have to be reviewed. At this time, I will confine myself to a few comments about some of them which seem to be the most important for confronting the challenges posed by a new type of economic and social development and which are related to the driving forces behind economic growth, the role of the State and of planning in the process, and to external economic relations.

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\*/ See, in this respect, the studies published by the ECLA/UNDP Capital Goods Project, such as La situación y las perspectivas de la producción y el abastecimiento de bienes de capital en América Latina, Santiago, September 1983 (mimeo). See also the publications of the ECLA Export Promotion and Development Project, particularly the final report of the round table meeting on the financing of exports of manufactures in Latin America (Santiago, 1981) and the final report of the Latin American meeting of export credit guarantee agencies (Santiago, 1981), as well as the book El financiamiento de las exportaciones en América Latina (Santiago, 1983). It is also worth referring to some of the publications of the Programme of Joint Studies on the International Relations of Latin America (RIAL), which is another joint UNDP/ECLA project, such as América Latina y el Nuevo Orden Económico Internacional, Belgrano Press, Buenos Aires, 1982.

a) The driving forces of growth

67. What should be the driving forces behind economic growth in this new stage of regional development? When this topic is considered, the discussion tends to become divided into two usually opposing sides in the intellectual and political debate: that which stresses policies based on the domestic market, and that which opts for the opening up of the economies involved and the expansion of exports. The first position reflects to some extent Latin America's diverse experiences with development during the period since the war. The advocates of the second viewpoint, whose popularity has been more recent, commonly point to conspicuous examples of successes, such as those achieved by the countries of Southeast Asia, without duly explaining all the central elements that have played a role in the development policy of those countries and which accompanied the birth and consolidation of its export-based growth model. They generally omit all those elements relating to government support policies for the systems of production, the selective protection applied in respect of the domestic market, the income distribution and land ownership policies, and the specific geographical and political features of their economies. In the case of Latin America, when discussing these options, another gap in the debate usually occurs, in that insufficient consideration is given to the substantial differences existing among the countries of the region with respect to the size of their economies, their resource endowment, their level of development and their forms of international linkage -all of which are essential elements in defining the context for the discussion of these policies.

68. Over time, Latin America has adopted diverse options in connection with its development process, and these have taken on individual features according to the countries and the different historical stages in which they have been chosen. Thus in the 1950s, faced with strong population pressures and growing urbanization, moved by the desire to incorporate technical progress into their production processes, and confronted with some international markets which were either closed or lacking in transparency, most of the countries in the region opted for industrialization based on the utilization of domestic markets as the basic driving force for growth. The efficiency of this option notwithstanding, it risked facing severe constraints after a time, due to the predominance of

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limited and disconnected markets. At that point, ECLA drew attention to the dangers of these constraints and, as early as the mid-1950s, proposed the first experiments in expanding these markets by means of the establishment of regional or subregional integration schemes. Later on Dr. Prebisch, who played a leading role in the formulation of these proposals, advocated from his position as Secretary-General of UNCTAD the opening-up of world markets to exports of manufactures from the peripheral countries. In this way, originally as the result of contingent past experiences, the first stages of Latin American industrialization took place. Any description of this phase must not, of course, overlook the protectionist excesses which were applied by some countries and the anti-export and anti-agricultural bias which was present in some of these policies.

69. In more recent periods, with a more dynamic and open international market, the countries of the region were able to apply systematic and consistent policies which enabled them to expand their exports actively, largely as a consequence of their prior stages of industrialization, which gave rise to a significant body of experience on the part of the public authorities and greater entrepreneurial capacity in this field. This provided momentum, with considerable success in some cases, for the expansion and diversification of exports of manufactures, so that the international markets came to play an ever more important role among the factors which stimulated demand and promoted development. Just as the industrialization policies based on import substitution encountered certain constraints and ultimately shut themselves within highly protectionist frameworks, however, these policies of opening up to the exterior also erred in some cases by committing definite excesses as regards the elimination of protectionism and the reduction of the State's promotional role. As Streeten noted very perceptively some time ago, the inefficient use of resources may be due to causes which have no direct or even indirect connection with industrialization based on a high degree of protectionism. It is just as possible to have inefficient export expansion policies as it is to have inefficient import substitution policies.\*/

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\*/ See Paul Streeten, "Outward-looking industrialization and trade strategies", North-South Round Table, 1982.

70. When one analyses the slump and the setback in the evolution of the Latin American economies in recent years, with their aftermath of social and economic effects, as well as the extremely serious problems created by foreign indebtedness and the currently existing international uncertainty, it must be concluded that serious mistakes were frequently committed in leaving the dynamics of growth entirely up to external stimuli. Under such circumstances, and always excepting the major differences existing among the various countries, priorities should be given among the generators of growth, in the future, to those connected with the enlargement of the domestic market on all fronts. This attitude should not fail to take account, however, of the positive experiences of the immediate past, nor should it accept a repetition of already known sources of inefficiency that would end up by eroding this process. For that reason it is important to recognize that better utilization of the domestic potential of our economies must necessarily be linked to a growing degree of external opening, albeit a more dynamic and selective one than in the past. The latter involves the intelligent use of government action, the employment of the countries' import capacity, and, at the same time, a vigorous effort on behalf of the expansion and diversification of exports of both traditional and manufactured goods. With the two objectives -better utilization of domestic markets and selective opening up to the exterior- thus conceived, an effort must be made to find the ways in which the two may be combined in accordance with the individual situations of the different countries, so that they become complementary, rather than antagonistic, sources of growth.

71. The strengthening of the domestic markets also involves giving an impetus to the region's agricultural development, which is far from having reached its physical and technological bounds, and which could give Latin America a privileged position within the Third World in this area. It also involves, of course, an exploration of the new possibilities for industrial development, both in the production of consumer goods to meet the people's basic needs and in the development of more complex activities in which the region is particularly deficient -such as the production of capital equipment- or which would give it a possibility to accede more rapidly to the new technologies. Economic complementarity among the countries of the region should constitute a basic element of this policy, especially as regards these more complex sectors. In

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reconciling the aims of strengthening domestic markets and achieving a selective opening-up of the economies, a determining element will be the development of appropriate, more dynamic technological policies that are attributed more priority than in the past.

72. Seen from a historical perspective, the debate regarding the different options that should be favoured as the generator of growth appears to be too simplistic and removed from the historical situations experienced by those countries which are today put forward as examples of alternative options. Nor must it be forgotten that each country's take-off point strongly affects the changes which it is capable of making in its development strategies, not only on the economic level, but also the political and social. Some projects aimed at bringing about deep-rooted structural changes based on the domestic market, for the benefit of the majority of the population, ended up by jeopardizing the efficiency of the production system, creating strong inflationary pressures and generating serious external bottlenecks.

73. One of the major tasks facing the region is to seek, within each country, a dynamic balance between the strengthening of the domestic market and an external opening capable of generating increasing amounts of foreign exchange earnings. This balance calls for the execution of structural changes in the orientation of investment and in macroeconomic policies. Under these circumstances it is more necessary than ever to have international mechanisms for co-operation capable of giving substantial and imaginative support to the efforts of the region's countries in the difficult task of reallocating resources, strengthening their capacity of accumulation and imbuing their production systems with a greater measure of flexibility in order to enable them to face up to the changing conditions of the external cycle.

b) Modernization of the State

74. A basic element in the new development policies of our countries will necessarily be the modernization of the State. In the future, the latter should support the central objectives of the development policies more deliberately, control to a greater extent the process of external opening, and mediate among the complex and conflicting demands of the different social groups. At the same time, it should intensify the efficiency and selectivity of its activities.

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75. The subject of the State is not new in the intellectual and political debate, both at the world and at the Latin American levels. In recent years the need to modernize the State has become one of the major challenges to both capitalist economies and to countries with centrally planned economies. In one case, it was a matter of the crisis of the "Welfare State", while in the other, it was a question of the crisis of the bureaucratic State. The analysis of the Latin American situation could be enriched by those experiences, although they contain some elements which are peculiar to the countries in question. In this part of the world the State was not the result of a national project, but of the superimposition of various subprojects which were designed to respond pragmatically to the circumstances of the moment; they did so by accumulating in the State a growing number of heterogeneous functions without any overall view of the essential objectives of its action or the most efficient way of achieving them. In this way there was a gradual enlargement of the functions traditionally exercised by the liberal State, and its action began to extend to the vast and complex field of macroeconomic policies and the management of a significant portion of the country's resources and its production activities. The results, in many cases, were inefficiency and incoherence. At the same time, and as a natural outcome of the process of development of the region over the past thirty years, civil society enlarged and became quite diversified in those countries, acquiring a growing capacity for handling an increasingly broad range of interests and competing with the State for that management.

76. The growing participation which the State necessarily assumed in the distribution struggle among the various social groups frequently had a great deal to do with its expansion and crisis. As I stated a moment ago, the limitations on the State's action in Latin America today are not quite the same as those which shaped the crisis of the "Welfare State" in the industrialized countries. In the latter case, the crisis of the State was due mainly to the excessive social expenditure, after this had played a significant role in invigorating the economic development of those countries during the post-war period. In the case of Latin America, the social policies of the State were aimed at meeting the demands of different social groups, but in the long run this tended to go beyond its capacity for action, because a multiplicity of particularistic policies intended to channel resources toward given groups were accumulated and superimposed on one another. Hence the reform of the State in

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Latin America, as regards its social function, constitutes another of the requisites for attaining a more egalitarian growth with full participation by all.

77. The criticisms expressed in connection with the State, from the ideological standpoint, tend either to consider that everything the State does is bad by definition or to demand that it should assume the majority of the functions necessary for furthering economic and social development. In the former case it is held that the State should be relieved of all those functions, save for the traditional ones, which should be exercised by the automatic operation of the market. In the latter, the State would once again be strongly present in each of the sectors involved in the development process, in a way not significantly different from that of its early stages. The experience of recent years, however, clearly shows that while not everything the State does is bad, nor should it carry out all the development projects. At the same time, it has also become clear that the market forces, while capable of introducing a greater degree of efficiency into the economic system, cannot of themselves provide answers to the complex problems of modern society -especially in the area of social needs- nor can they foresee or anticipate the course of events; as a result, they lack the "social horizon" and "time horizon" which are essential for directing the process of development in the medium and long run.

78. Under the existing critical conditions, in which a high degree of efficiency is required from the entire economic system in order to make a new development project feasible, a thorough revision must be made of both the objectives and the instruments on which the State's action is based. This revision should extend both to the formulation of macroeconomic policies and to the management of the resources and production activities entrusted to it. The management of any mixed economy must necessarily rest on the full and active utilization of all of the instruments of macroeconomic policy available to governments, with the greatest degree of coherency possible. At the same time, no development project will be feasible unless it is inscribed within an overall view of the national economy and its external context, and within certain medium and long-term forecasts on which a modern system of national planning can be based.

79. With the same criterion, an effort should be made to ensure that the management of State enterprises, which with the passing of the years have become one of the main sources of the fiscal instability of the region's governments, attains a maximum degree of efficiency. Inasmuch as in many cases these enterprises account for a considerable proportion of the country's productive capital, it would not be possible to enhance the efficiency of the economic system in general without first achieving a growing degree of efficiency in that part of the system.

80. The modernization of the Latin American State is certainly not an easy matter, and involves decisions of a political nature which are frequently bound to come into conflict with vested interests, with the views of certain leaders, or with the expectations of particular social groups. The need to overcome the temptations to move towards either a populist State or a laissez-faire State and to progress instead towards a State vigorously committed to economic and social objectives without any decline in its efficiency and contribution to the general vitality of the system, is seen at present to be one of the major political tasks of Latin America. This new State will be better equipped to reconcile economic efficiency with social equity in its policies, while at the same time creating a system of incentives and disincentives which persuades the other major agent of the development process -the private sector- to modernize itself and contribute to economic growth within the objectives of general interest.

c) External economic relations

81. In the foregoing considerations the crucial importance of the external sector in the coming stages of the region's development has been clearly brought out. Certainly it is nothing new to underscore the significance of the relationship between internal development and the external sector. On the one hand, it is obvious that the surmounting of the existing payment problems will depend in the final instance on an increase in the capacity for generating foreign exchange earnings by means of trade. On the other, in earlier paragraphs it was maintained that the very enlargement of the domestic markets will depend on the capacity to generate foreign exchange at the rate required for the efficient progress of that enlargement.

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82. This makes it essential to act on three simultaneous and complementary fronts: that of the efficacy of export promotion policies; that of the strengthening of the regional market, and that of the full exploitation of the international markets.

83. The events of recent years made it possible to advance and acquire experience in the coherent management of export promotion policies; they also made it possible to appreciate the dependence of the latter on clear and sustained stimuli deriving from adequate price systems and support for both internal promotion and penetration of the international markets. The results of the experience with exports in the 1970s, which are certainly instructive despite the costs of the overpromotion observed in some cases, leave no doubt as to the existence of a considerable potential and, in some cases, an idle capacity that should be mobilized.

84. A clear definition of the role of the regional market is undoubtedly necessary, for in the present circumstances regional co-operation is especially important. It would be utopian to expect it to furnish a solution to all our problems, but it would likewise be futile to join negative and simplistic currents of opinion that keep on repeating, without many grounds for doing so, that no progress had been made in this area. On the contrary, it would appear appropriate to recognize the projects and experience built up, without being complacent with regard to the great potential for regional co-operation that is as yet unexplored.

85. In the first place, it is necessary to appraise this potential for co-operation, as well as the diversion of trade from outside to within the region, as this would contribute to a more adequate use of production capacity. But it is also necessary to augment the trade flows on the basis of pragmatic proposals and instruments for regional co-operation and links in keeping with the present conditions and circumstances. In many cases, the mistakes made may be attributed to the setting of over-ambitious targets whose cost was difficult for the economic and political authorities, to evaluate, so that this often hindered their fulfilment and led, sooner or later, to inevitable frustration. Considerable progress has now been made in this terrain, however, and the reforms and attitudes adopted recently by the integration schemes themselves and bilateral policies recognize the need to proceed with a great deal of pragmatism. It therefore seems necessary to insist on these pragmatic approaches in every way

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possible, both bilateral and multilateral, public as well as private. This obviously calls for political definitions and a clear preferential attitude on the part of the governments in order to give the necessary political impetus to the possible modes of regional co-operation and complementarity.

86. It is likewise essential to continue penetrating the international markets where the appearance of important new competitors and the growing protectionism of the centres make it essential to forge a clear alliance between the private sector and the State in our countries. It will be difficult to tackle the stormy stages of the future unless interests are clearly harmonized and complemented, as is done in all the other countries of the world without exception. The opening of markets necessarily involves a growing diversification of customers. And in this connection, without losing sight of the fact that our traditional markets will continue to hold the greatest potential, a realistic but persistent aim should be to give support to co-operation with developing countries and regions. This is a difficult task, as it is extremely hard to enter the North-South channels which today predominate in the trade and co-operation relations of the developing world; nevertheless, these aims must be incorporated in the foreign policies of our countries as both a political and economic option.

#### FINAL CONSIDERATIONS

87. It goes without saying that no attempt has been made in the thoughts above to propose or build a new model for the region, and even less to pretend to exhaust the many targets and instruments of the new stage of its economic development. All that is sought is to call attention to several aspects that will require important definitions and to which consideration must be given in the devising of the new development policies.

88. There is a key factor, that has necessarily had to be kept out of the appraisal, but which it would be naive to overlook, namely, the political element. There can be no doubt that the mobilization of social efforts to construct the new stages of the economic development process must be framed within explicit political projects. The permanent and irrevocable ethical aim of building open, pluralistic societies with full participation assumes fundamental importance under the present circumstances. Indeed, it seems

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inconceivable to try to harmonize the many social demands that have been postponed, nor those that will necessarily arise, without democratic and participative processes making it possible to arrive at the new social compacts that will permit the attainment of major goals. This awareness appears to be spreading throughout the region. It will be the responsibility of the political leaders and of their parties to make this essential contribution to a society which, in governing its own destiny, will arrive at great consensuses that will permit, if not the elimination of conflicts, at least the reduction of the social, economic and political costs they involve.

