

A
UNITED NATIONS

ECONOMIC COMMISSION
FOR LATIN AMERICA
AND THE CARIBBEAN - ECLAC



1945-1985

Distr.
LIMITED

LC/L.332 (Sem.22/3)
27 April 1985

ENGLISH
ORIGINAL: SPANISH

High-Level Expert Meeting on Latin America
since the Crisis

Santiago, Chile, 29 April - 3 May 1985

CRISIS AND DEVELOPMENT: THE PRESENT SITUATION AND FUTURE
PROSPECTS OF LATIN AMERICA AND THE CARIBBEAN

Volume I

CHANGE AND CRISIS: LATIN AMERICA AND THE CARIBBEAN 1950-1984

85-4-459

CONTENTS

	<u>Page</u>
I. DEVELOPMENT STYLES OF LATIN AMERICAN PERIPHERAL CAPITALISM FROM THE POSTWAR PERIOD TO THE CRISIS	1
1. Introduction	1
a) Background to the policy of the postwar period	1
b) The projects of change and their orienting values	2
c) Significance of the ideas of ECLAC	3
2. From the postwar period to halfway through the 1960s	5
a) The economic process	5
b) The political process	12
c) Aspirations and behaviour of the socio-economic groups	14
3. From the 1960s onward. The boom in foreign trade and the oil crisis	19
a) The economic process	19
b) The political process and the social groups	23
c) The situation towards the end of the period	24
4. Irruption of the transnational banks, external indebtedness and crisis	25
5. The outbreak and nature of the crisis	32
6. The policies of economic and financial adjustment	36
7. The political conflict at the outbreak of the crisis	38
a) The crisis in the societies characterized by early modernization	38
b) The crisis in the societies characterized by late modernization	39
c) The case of Brazil	41
d) The State as agent of politico-social consensus: Mexico, Venezuela and Costa Rica	41
II. AN EVALUATION OF DEVELOPMENT STYLES, 1950-1984	44
1. Economic and social changes during the past three decades	44
a) Mixed economic and social results	44
b) Economic and social heterogeneity	64
2. The crisis in the development style	70
a) Introduction	70
b) The formation of inequitable societies	72
c) The asymmetry and vulnerability of external economic relations	73
d) The nature of the economic transformation and its dynamism	75
e) Democratization and participation	76

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

I. DEVELOPMENT STYLES OF LATIN AMERICAN PERIPHERAL CAPITALISM FROM THE POSTWAR PERIOD TO THE CRISIS

1. Introduction

a) Background to the policy of the postwar period

The postwar stage is characterized in Latin America by attempts to shape an economic and social policy which would structure and give a specific character to partial policies arising out of reactions to internal and external phenomena. The international conflicts and crises which upset the Latin American economies up to the Second World War and their gradual transformation from rural into urban societies are outstanding among the events which gave rise to these policies.

Among the internal changes that took place between the First War and the end of the Second the most important was the initiation and impetus of industrialization. Nevertheless, these changes cannot be reduced to the mere emergence or reinforcement of the industrial sector, since there was a simultaneous increase in urbanization, a domestic market emerged which largely replaced the international markets in the role of booster of economic dynamism, new social groups began to take shape which would change the social structure and, in the political field, responses arose destined to channel the aspirations of these groups and the discontent resulting from the economic crisis. Hence this set of phenomena is grouped under titles such as "development inwards", in order to give an idea of the vast coverage involved.

Industry was not totally absent in many countries of the region before the 1929 crisis, but it was largely restricted to the export sector or to the production of textiles, foodstuffs, building materials or other goods associated with light industry.

From 1929 onwards industrialization was mainly impelled by the balance-of-payments problems deriving from the decline of exports or of the revenues they generated; in the absence of external financing this decline was reflected in a reduction in the capacity to import. With this constraint on supplies from abroad the measures aimed at maintaining activity and employment and restoring the level of income created favourable conditions for industrial expansion.

At the same time, during both world wars, the growing demand for Latin American exports and the region's incapacity to import produced similar conditions of income and external supply, both favouring industrialization. It should also be borne in mind that, with the United States replacing Great Britain as the main centre, a relative decline developed in the growth rate of demand for raw materials, since the former country had a more closed economy which largely supported its production with its own abundant natural resources.

Simultaneously, in Latin America the growth of revenue was accompanied by a high elasticity of demand for industrial goods which caused trends towards external disequilibrium leading to changes in relative prices in favour of industrialization.

/Thus, for

Thus, for various reasons, conditions arose between 1914 and 1945 which favoured spontaneous industrialization, a process which acquired some vigour in a group of countries of the region. In others these conditions did not arise, either because they did not adopt measures designed to restore the income level prior to the crisis or because of the lack of other factors needed for industrialization, such as infrastructure, manpower with a certain level of skill, the existence of a group able to assume entrepreneurial functions or a State capable of transferring income between sectors and groups. In these countries the crisis resulted in the contraction of income and the general activity level instead of industrialization.

In the first group of countries spontaneous industrialization fostered urbanization and helped to create a domestic market, thus conferring more importance on the entrepreneurial groups and the middle classes, which found favourable conditions in the expansion of the State, while at the same time there was an increase in the worker groups and the popular urban strata, which accentuated the "presence of masses".

These economic, demographic and social processes were accompanied, in a complex interaction, by political phenomena which, broadly speaking, characterized the crisis of the régimes which had based their development style on the export of primary products ("crisis of oligarchy") and the emergence of reformist and populist régimes. The dialectical relationship between these régimes and the reality from which they had emerged and which they desired to guide and transform is one of the leading threads for the understanding of the varied historical process of those years.

b) The projects of change and their orienting values

The deliberate projects of transformation and the political régimes which stimulated them, which arose in the heat of those internal circumstances so profoundly influenced by the external, acquired very diverse concrete forms which largely responded to the historical and structural differences of the countries. The terms reformism, populism and developmentism with which they have been habitually described reflect in their vagueness the difficulty of including this diversity in a general comprehensive view.

Nonetheless, all these countries shared certain common denominators which, in principle, related to the basic values with which they were imbued. Chief among these values were economic, social and political modernization, nationalism and statism. Even so, there was little unanimity as to the precise significance of these values, not only among the different projects but even among the social groups which furnished each of them with support.

Modernization related to the generic idea of constituting urban-industrial societies following, in broad outline, the model provided by the developed countries, although to achieve it a course had to be followed very different from theirs. This idea embraced economic transformation headed by industrialization, improvement of the living conditions of the population through the raising of income, expansion of consumption and access to the social services, and modification of the political structure in order to concede participation and power to social groups previously subordinated or margined.

/ Nationalism manifested

Nationalism manifested itself in two main forms. The first was self-assertion vis-à-vis the developed centres to which the Latin American countries had been in greater or lesser degree subordinated during the period of development outwards. This nationalism, however, was not intended to break the link between these countries and the centres but to redefine it in such a way that a relationship of equality would be established between them in both the economic and the political field. The second was the national integration of societies and economies which were still profoundly heterogeneous. On the economic plane, they had to overcome the barriers that blocked communication between the different zones of each country or separated the rural from the urban market, and to try to even out the regional inequalities inherited from the colonial period and frequently aggravated by growth oriented towards the external sector. On the social plane, there was an obvious need to integrate societies which were frequently divided by profound ethno-cultural differences, while at the same time safeguarding indigenous cultures which had tended to be submerged. On the political plane, it was expressed as an affirmation of a national identity and the formation of a political community through the expansion of civil and political rights.

Statism consisted mainly in conferring on the State machine a decisive role in the formulation and execution of the transformation project. In face of the strength of the external powers and the exigencies of the project, the internal social agents which supported the reformist and populist régimes presented a weak and heterogeneous front. Hence, the State machine was conceived as the higher authority which could integrate and orient internal interests, bolster their economic and political weaknesses, and take the lead, on an equal footing, with the external private and public nuclei of power.

With natural differences and shades of emphasis these values penetrated into all the "national-popular" movements and régimes which had arisen out of the crisis of oligarchy, such as Aprism, the Mexican Revolution, Varguism, Peronism, and others. But there was a considerable gap between these values and their concrete and systematic application as a programme of action. During the decades of the 1930s and 1940s different governments of this political colour provided a rich theoretical and practical experience which was to open the doors to an all-out effort of synthesis. This effort was carried out mainly by ECLAC, to the point where the ideas which it formulated at the end of the 1940s were converted into a "Latin American manifesto".

c) Significance of the ideas of ECLAC

The success and ensuing dissemination of the ideas of ECLAC during the years which followed the Second World War are explained by the role they played in the theory and practice of the economy. It is not our purpose to expound them systematically here but merely to give the reasons for the historic role they played throughout those years.

First, they provided an analysis of the nature and functioning of the development model based on primary exports, which predominated up to the crisis of the 1930s, and, in particular, they gave an explanation of the limitations of this model in achieving the economico-social modernization of the Latin American

/countries. At

countries. At the same time the clarification of these phenomena led to the refutation of the prevailing economic theories which gave theoretic, doctrinal and practical support to this model, thus establishing a major obstacle to the persistence of these theories. This last point had great significance, since it provided a solid basis for argument to all the pragmatic politicians and economists who, impelled by circumstances, were groping for a new road.

Second, they supplied the outlines of a development policy which would overcome the peripheral situation, the main source of the backwardness of the Latin American societies. Indeed, their theoretico-doctrinal function was linked with a practical utility which presented ideas on what to do, how to do it and who should do it; it was a matter of general guidelines to be adapted to the concrete national situations, but they fulfilled their orientational function, since they renewed and substantiated the values of modernization, nationalism and statism. This substantiation was expressed in the great policy areas --industrialization, foreign trade, technology and capital accumulation-- in the politico-institutional framework for advancing the process, which combined the public and private spheres, and in the elaboration and diffusion of planning as a suitable instrument for increasing the rationality of collective action. In other words, the said objective acquired explicit content in the proposals for industrialization, construction of physical and social infrastructure associated with urbanization, expansion and reform of the State, transformation of the traditional agricultural structure, national control of the basic wealth, adjustment of industrial development and foreign trade to the needs of the nation, and increase in the sovereignty of the State.

There has been considerable discussion on the theoretical and practical validity of this proposal, of its relationship to concrete experiences, of its implications for the historical development of Latin America, and other similar questions. It is not our purpose to deal with these issues here, among other reasons because a profound assessment of the ideas formulated by ECLAC in those years is a very complex task in that they involve value judgements (what reality should be like), factual judgements (what reality is like), methodological criteria (how we ought to analyse it or act on it) and proposals for action (what we ought to do to reorient and transform it). In these paragraphs we have only sought to place it within the general framework of the historical process which ranges from the postwar period to halfway through the 1960s.

2. From the postwar period to halfway through the 1960s

a) The economic process

i) General evolution and differences between countries

The development style that was evolving in some Latin American countries in the decades before the Second World War acquired a new impulse during the war and subsequently tended to consolidate and spread to the rest of the countries of the region.

In general terms, the international markets, except in a few boom periods, did not provide favourable conditions for the expansion of exports. Hence, industrialization was favoured by the meagre possibilities of expansion of foreign trade and by the interest of the United States in European reconstruction, which seriously limited private credit available for the region, which received only moderate amounts of international public capital. These last tended to be concentrated on works of infrastructure, which merely reinforced the development style which it was desired to establish.

The economic policies gave permanence to the conditions that had made possible the spontaneous substitution of imports, investing with special importance the exchange-rate and tariff policies which protected the expansion of the branches producing non-durable consumer goods and some intermediate inputs. At the same time, the State transferred resources to industry to facilitate capital accumulation, frequently through deposits of surpluses of the more profitable export lines. Simultaneously, the public sector made changes in the physical and educational infrastructure which facilitated industrialization and in many countries created, through public enterprises, basic branches of industrial infrastructure.

Nonetheless, in examining the economic process in more detail, and taking into account differences between the countries, we can see the decisive influence on this process of the conditions of foreign trade. Thus, we can distinguish two different types of foreign-trade situations in accordance with the volume and type of exports of the countries. One type covers the countries, in general those of large and medium size, which exported raw materials in significant percentages of the world trade in these products. We refer to the role played in the markets for coffee, meat, wool, copper and other basic products played by countries such as Brazil, Argentina, Uruguay and Chile. The demand for these products declined for various reasons, mainly the substitution processes adopted by some developed countries and their attempts at a geographic diversification of supplies. As a result of this, the volume of exports grew only slowly and the terms of trade deteriorated. For example, during the period 1950-1965 the annual rate of the purchasing power of exports declined by close on 2% in Uruguay and 1% in Brazil and grew less than 3% in Argentina and Chile and around 2% in Mexico and Venezuela (see table 1).

Table 1

LATIN AMERICA: ANNUAL GROWTH RATES ^{a/} OF THE PURCHASING
POWER OF EXPORTS, 1950-1980

	1950-1965	1965-1974	1974-1980
<u>Latin America</u>	<u>1.9</u>	<u>7.3</u>	<u>6.8</u>
Argentina	3.1	3.9	8.1
Bolivia	0.4	8.1	0.2
Brazil	-0.9	11.9	5.6
Chile	3.2	2.4	6.2
Colombia	0.9	6.5	9.8
Costa Rica	3.6	8.8	7.3
Dominican Republic	3.0	13.2	-2.1
Ecuador	3.4	14.5	6.6
El Salvador	4.5	3.2	7.1
Guatemala	4.2	4.9	8.9
Haiti	-8.4	3.8	11.3
Honduras	2.8	1.6	10.7
Mexico	1.8	7.0	16.2
Nicaragua	5.6	3.5	-4.5
Panama	5.3	7.2	1.2
Paraguay	2.3	6.2	12.2
Peru	6.9	3.4	7.8
Uruguay	-2.3	2.5	10.0
Venezuela	2.2	8.1	0.7

Source: ECLAC, on the basis of official data.

^{a/} Percentages obtained through regression.

/In contrast

In contrast, the countries of smaller size economically and demographically, which in face of the foreign trade crises had been reduced to lower levels of income, found in the postwar period possibilities of expanding their foreign trade. In effect, their current participation in foreign markets was small and generally marginal. As a result of the postwar situation, in Peru and in a group of small countries including most of the Central American countries, Panama and Ecuador, exports grew rapidly at an annual rate of over 5%, and in five countries they exceeded 7%. Although the decline in the terms of trade appreciably reduced this achievement, the purchasing power of exports grew at rates very much higher than those of the first group (see tables 1 and 2).

At all events, in view of the widespread unfavourable evolution of the prices of primary commodities, it is clear that the decline in the terms of trade would have been even more acute if the countries had devoted all their efforts to increasing their exports, which, without prior industrialization, would have consisted only of primary products.

Despite the different conditions and results of external trade achieved by these two groups of countries, both applied a domestic policy aimed at industrialization, although these policies were carried out with very differing amounts of imported supplies. In the first group there were the extreme cases of Brazil and Uruguay, in which imports decreased at annual rates of 1.5% and 2.7%. With the sole exception of Chile, the countries of this group recorded a slow increase in imports. In contrast, the countries of the second group recorded annual rates of over 5% in most cases; indeed, three of them reached 7%: Costa Rica, Nicaragua and Panama (see table 3).

Thus two types of transformation and growth took shape, originating mainly in external economic relations. The first was adopted by the countries which had already made important advances in industrialization during the 1930s and after the Second World War. These were the larger countries in which the main primary export product or products came to have influence in the world market; they suffered the greatest constraints in their capacity to import and had to make notable efforts to implement their industrialization strategies. The Southern Cone countries, which were those that had made most progress in previous phases, showed little dynamism, in no case exceeding an annual rate of 4%. Colombia reached an annual rate of 4.7% and Brazil and Mexico were close on 6% (see table 4). These differences were accompanied by a general trait: the ratio between imports and output was slowly decreasing. With the acceleration of this process, the restriction on imports led Brazil and Mexico to force the substitutive process to degrees which affected the desirable level of efficiency. The acceleration of dynamism was centred in the manufacturing sector, but its advance called for the increasing use of capital goods and intermediate inputs, which derive from branches that are more difficult to introduce. At the end of the period (1965), the ratio between imports and output in Brazil, Mexico and Argentina was under 10%, substantially lower than those recorded at the beginning of the 1950s.

Table 2

LATIN AMERICA: ANNUAL GROWTH RATES a/ OF EXPORTS, 1950-1980

	1950-1965	1965-1974	1974-1980
<u>Latin America</u>	<u>4.7</u>	<u>3.6</u>	<u>6.4</u>
Argentina	2.9	1.3	11.8
Bolivia	-1.7	7.0	-1.1
Brazil	2.8	10.6	9.5
Chile	3.0	1.6	13.7
Colombia	3.6	5.8	3.9
Costa Rica	4.9	11.9	1.9
Dominican Republic	3.4	11.5	1.3
Ecuador	7.1	10.4	2.7
El Salvador	8.0	4.2	2.7
Guatemala	7.8	8.6	2.9
Haiti	-14.2	3.7	9.7
Honduras	3.6	4.5	8.4
Mexico	4.4	5.4	12.6
Nicaragua	8.7	4.6	-4.8
Panama	6.5	6.9	6.7
Paraguay	3.9	4.7	12.1
Peru	8.7	-0.4	9.4
Uruguay	0.5	-1.7	9.4
Venezuela	6.0	-0.1	-4.0

Source: ECLAC, on the basis of official data.

a/ Percentages obtained through regression.

Table 3

LATIN AMERICA: ANNUAL GROWTH RATES a/ OF IMPORTS, 1950-1980

	1950-1965	1965-1974	1974-1980
<u>Latin America</u>	<u>2.0</u>	<u>9.1</u>	<u>6.5</u>
Argentina	2.6	4.9	10.3
Bolivia	2.8	2.5	3.3
Brazil	-1.5	19.5	0.7
Chile	5.2	5.7	9.6
Colombia	1.6	6.5	9.0
Costa Rica	7.0	8.8	7.7
Dominican Republic	5.5	11.9	2.4
Ecuador	5.1	12.0	10.1
El Salvador	6.4	3.0	4.7
Guatemala	5.5	4.2	9.5
Haiti	-1.9	3.1	12.6
Honduras	4.8	3.1	7.9
Mexico	2.2	8.6	11.9
Nicaragua	7.5	3.7	-6.1
Panama	6.9	8.2	-1.0
Paraguay	4.5	3.8	16.0
Peru	6.0	3.7	-6.9
Uruguay	-2.7	7.0	12.5
Venezuela	1.4	6.0	10.4

Source: ECLAC, on the basis of official data.

a/ Percentages obtained through regression.

Table 4

LATIN AMERICA: ANNUAL GROWTH RATES ^{a/} OF THE GROSS
DOMESTIC PRODUCT, 1950-1980

	1950-1965	1965-1974	1974-1980
<u>Latin America</u>	<u>5.2</u>	<u>6.7</u>	<u>5.1</u>
Argentina	3.1	4.4	1.8
Bolivia	1.5	5.6	4.2
Brazil	6.4	10.0	6.1
Chile	4.0	3.1	5.6
Colombia	4.7	6.4	4.5
Costa Rica	5.8	6.9	5.4
Dominican Republic	5.0	8.3	4.6
Ecuador	4.9	8.7	6.7
El Salvador	5.4	4.5	2.4
Guatemala	4.4	6.1	5.4
Haiti	-2.6	3.5	4.2
Honduras	3.7	4.5	6.4
Mexico	5.9	6.6	6.3
Nicaragua	6.0	4.2	-3.1
Panama	6.6	7.4	5.0
Paraguay	3.2	5.3	10.2
Peru	5.4	3.9	1.9
Uruguay	2.1	1.5	4.9
Venezuela	5.9	3.2	2.9

Source: ECLAC, on the basis of official figures.

^{a/} Percentages obtained through regression.

/In the

In the second group of countries, those of medium and small size, substitutive industrialization began at relatively incipient levels of manufacturing development, which enabled them to advance without encountering the external constraints of the first group. The annual growth rates of output were higher than in the first group, bordering on or exceeding 6% in several cases. Moreover, towards the end of this period the Central American countries entered upon a fruitful stage of subregional integration. Had it not been for the external conditions mentioned above and these efforts at integration, the small size of the market would have been from the outset a serious obstacle to industrialization.

All in all, the development of industrialization was qualitatively and quantitatively greater in the larger countries than in the rest. The share of Argentina, Brazil and Mexico in the regional product was 80% in 1960. At the same time, while in the small countries the branches of foodstuffs, beverages and tobacco contributed 57% to the value of the production of the industrial sector, this percentage fell to 32% and 27% in the medium-sized and large countries respectively. A group of intermediate and metalworking branches of a more complex technology and larger scale, called at that time dynamic,*/ contributed in 1960 almost half of the industrial output in the large countries, 38% in the medium-sized and only 17% in the small countries. These values show that the entire region was undergoing a rapid process of industrialization, which nevertheless originated in very different situations, differences which increased with the passage of time.

Lastly it should be noted that for different reasons Bolivia, Haiti and Paraguay did not succeed in giving dynamism to their economic transformation; Venezuela based its growth on the surpluses derived from petroleum exports and the Dominican Republic achieved a moderate dynamism in an external situation without serious constraints.

ii) Difficulties in the 1960s

As it developed, industrialization encountered obstacles of different types in the various Latin American countries. The most advanced countries were faced with the installation of branches of durable basic intermediate inputs and capital goods that involved greater technological complexity and large-scale production. The smaller countries, which began the process at a later stage, were faced with the disadvantage of their small markets, a situation which was aggravated by the high concentration of income. In both cases, the links between the new products which the high-income groups incorporated in their demand and the technologies of the centres became closer. Hence the problems of scale and technology called for the expansion or restructuring of the markets in order to attract investment.

At the same time, from the 1930s and especially in the postwar period, urbanization and industrialization had incorporated important social groups into the money goods markets. As these groups increased, sometimes with great dynamism, their demands could not be met by the existing type of economic growth. In proportion to their growing political power, the battle to enjoy the fruits of growth became fiercer and presented a strong challenge to political agreements.

*/ Paper and its products, rubber, chemical industries, petroleum derivatives, non-metallic minerals and metalworking industries.

In these circumstances the style of development was subjected to heavy strains. When the markets were small in relation to the new technology the efficiency of the investment was limited, underutilization of installed capacity increased and higher investment coefficients were required to sustain the same rate of growth. At the same time, the new branches called for a concentration of capital which the national private sectors could not always meet; this meant giving new functions to the State or permitting the entry of the transnational agent. The raising of savings coefficients clashed with the eagerness of the groups to enlarge their consumption. The very instruments of economic policy which, by means of exchange-rate, tariff and public-expenditure policies had produced the savings of the earlier periods and yielded abundant fruits were found to be insufficient in face of the growing pressures to maintain or raise investment, and on no few occasions produced problems of acute inflation or balance-of-payments crises.

In effect, to the institutional and capital-accumulation problems were added in many countries the crises of balance of payments. Import substitution had meant a fall in the import coefficients for the large and medium-sized countries. Gradually supply began to become more rigid precisely at the time when new stages of industrialization had to be faced which would inevitably put pressure on the balance of payments, and when the growth of popular demand was meeting a rigid agricultural supply and was passing the pressure over to the external sector. Hence external disequilibrium was added to the problems confronting the style of development.

These crises, coupled with the change in the role of the State and the incorporation of transnational enterprises, appeared to call for adaptations or changes in the political agreements which had sustained the development style based on substitutive industrialization.

b) The political process

The political process that took place during those years involved a great variety of situations, both within and among the countries. From an overall standpoint, however, the most outstanding was the sequence of phenomena consisting of the crisis of oligarchy, the emergence and establishment of populist and developmentalist régimes and, lastly, the conflicts and contradictions encountered by these régimes which, in many cases, were driven into profound crises. Naturally this panorama does not include all the countries of the region; in some there was no crisis of oligarchy or no formation of populist or developmentalist movements on a large scale or, if they formed, they did not succeed in consolidating as stable political régimes.

When they took over the government, these régimes faced serious challenges: first, to settle the economy on new bases owing to the crisis of the development model outwards; second, to re-establish a stable power structure --the former had been weakened by the crisis of oligarchy-- in which the middle and popular classes would be fully incorporated; third, to meet the demands stemming from the groups which provided their political support; and all this was to be done, in most cases, without changing the economic bases of the oligarchical power.

/Despite these

Despite these challenges, several of these régimes succeeded in establishing themselves in the government, becoming the central pivot of the transformation process in their countries, and others, although not stabilized, constituted a decisive force in the evolution of their countries; hence they can be considered the most important moulding force in the historical development of Latin America between 1930 and 1960, and in certain cases up to the present.

One of the main features of these régimes was that they were based on political movements whose social foundation was very broad and heterogeneous; the diverse groups had united in the common fight against the oligarchical system but in fact they embraced orientations and interests which were frequently at variance. This "polyclass" composition was a decisive factor in the success of these régimes but it was also the source of a large proportion of the internal obstacles they had to face. For example, the heterogeneity of their social base frequently prevented them from reaching a clear definition of their objectives, provoking a sort of "ideological heterogeneity" which hampered coherent action by the State machine, gave rise to a policy of "compromise" between the different interests, and weakened the régime vis-à-vis the other internal and external powers, etc.

Indeed, the most successful of these régimes have been those which were able to integrate this diversity of interests through institutional mechanisms which brought order into the political process; because of their corporate complexion these mechanisms have resulted in heterodox forms of participation, but they have given stability to highly disruptive situations.

On the basis of these conditions the State re-organized itself and broadened its political and economic functions, at the same time converting itself into the organizer of the new groups by directly fostering the organization of such associations as trade unions, welfare centres and others. Bearing in mind that not only were the popular masses incorporated into the new coalition but also other groups such as the organized middle sectors and the entrepreneurial sectors, the State machine tended to exercise functions of arbitration in the inevitable conflicts of interest that arose in the coalition.

The diversity of interests which served to support these régimes made them heavily dependent on the economic dynamism that enabled them to dispose of sufficient resources to satisfy the conflicting demands. Besides, the attempt to reconcile the immediate interests of the different groups conspired against the possibility of designing long-term development strategies, since the corporate interests were always present. With some exaggeration it might be said that the State, in constituting the different sectors, both the entrepreneurial and the middle and popular sectors, as an organic whole, determined that the sphere of action of these sectors should be in the hands of the State itself, with the result that the social battle was converted into a corporate rivalry to control it.

Developmentism was in a sense a later attempt to cope with the problems referred to by means of more decided State action and an intensive use of planning. It was a question of designing a political strategy which, by administering a set of diverse stimuli, would promote economic growth in a specific direction. It was mainly concerned to direct public expenditure towards a rational

/investment in

investment in development projects. Nevertheless, this simple scheme presented complications which arose out of the characteristics and modalities of the political agreement in which the planning was taking place, and which defined its limits and possibilities. As already said, the entrepreneurial groups and the middle and popular sectors put pressure on the State in an attempt to direct the planning in favour of their own interests; most of the arguments in favour of economic rationality, structural needs and others clashed with the social and political interests of the different groups. There was a pronounced opposition between technical rationality and political rationality, which was aggravated by the fact that the political parties generally showed little interest in planning.

At the same time, as is well known, planning requires relative stability, but this was lacking in most of the régimes, which were much more sensitive to the situational changes forced upon them by the conflict of interests of the different participating groups. The corporative organizations of the entrepreneurs and of the middle or popular sectors acted as pressure groups in representation of sectoral interests.

In view of the importance for these régimes of the social groups which served them as support, the next section describes some of their attributes and orientations, attempting in particular to indicate the gap which existed between the actual groups and the existing assumptions on the role they should fulfil in the process of transformation.

c) Aspirations and behaviour of the socio-economic groups

The urbanization and economic development of the period ended by consolidating a number of social groups which supported in one form or another the development style of this period. The State endeavoured, as their policies became deliberate, to orient the transformation of production in the direction indicated by the leading groups, while the industrial enterprises, the middle and worker sectors and the peasantry strove to abandon their role of passive agents of development and to convert themselves into active participants.

As already stated, the political support of the development project was based on the behaviour attributed to these groups and on the possible conciliation of their interests. Frequently, however, difficulties arose which stemmed, among other factors, from the fact that the actual groups did not behave in accordance with the concept of their character and from a growing contrast in demands which was difficult to reconcile and satisfy simultaneously. It is of interest, therefore, to present some of the orientations of these groups in order to understand the roots of the crisis of some of these political projects.

i) Private industrial enterprise

Industrialization was based on the assumption that a social group, the industrial entrepreneurs, would play a key role in the process; in fact, it was claimed that these, in conjunction with the State, were the dynamic agents of transformation and modernization. This was not always the case.

Industrialization required rational and modern economic conduct and a break to some extent with the patterns of orientation in force during the period of "development outwards". Nonetheless, some of the private industrial entrepreneurs

/had their

had their origin in the expansion of economic activity into the industry of the older productive classes of the primary-exporter period. This frequently meant that they did not, as anticipated, support a policy of transformation of the traditional rural sector, which might have resulted in an expansion of the market and a better complementarity between the rural and industrial sectors.

Furthermore, the entrepreneurial group tended at times to associate itself with the more powerful economico-social groups, which weakened the "industrializing" alliance, ideally constituted by industrial entrepreneurs, middle sectors and workers. Apparently, the largest entrepreneurs identified themselves more with the interests of the groups that wielded economic and social power.

Nor did they have an easy relationship with the State; there have been frequent references to an apparent paradox in the conduct of the Latin American industrial entrepreneurs, who, while owing much of their own development to the State and even participating in the management of the State, profess an ideology opposed to State economic action. In fact, the fears of the entrepreneurs related to a State which was oversensitive to distributivist pressures, and inclined to interfere in what they considered the proper sphere of free enterprise.

As is well known, the initial industrializing effort implied some degree of external linkage, although not as great as that which took place from the following years up to 1965. This linkage, which was more significant in the large enterprises, weakened the option of a "national" industrialization. The entrepreneurs who favoured an option which would incorporate the middle and worker sectors in a political agreement were found in industries which were frequently traditional, low in technology and dependent on a mass consumption market.

In brief, the expectation that industrial development would lead to the rise of a group of national entrepreneurs who might support transformation projects encountered obstacles which were difficult to remove.

ii) The middle sectors

During the period analysed there was a general strengthening both numerical and politico-social, of the middle sectors; despite this, the nature of their economic and social function remained ambiguous owing to the heterogeneity of the groups composing them.

Notwithstanding, there was a widespread expectation that these groups would serve as intermediaries for the attainment of a compromise which would make it possible to control the conflicts and tensions arising in the processes of change; in fact they were considered the main element of political stability and democratic coexistence.

The actual behaviour of the middle sectors depended largely on the character assumed by the process of change in the different countries of the region; this was not lineal but was plagued with vicissitudes which affected the middle sectors and aroused their apprehension in the face of uncertain or conflictive situations. Moreover, the international scene also presented dramatic options, which had an ideological impact and influenced the degree of attraction exercised by the transformation projects on these middle sectors.

/Likewise, in

Likewise, in the countries in which indigenous ethnic groups constitute one of the most important nuclei, a large proportion of the middle sectors came from the mestizo group. This ethnic origin, and the prejudices associated with it, had a considerable influence on the behaviour of these sectors both in the cultural dimension and in the type of relations of all kinds which they established with the rest of the society.

Generally speaking, during the period of social ascent these sectors showed a tendency to rely on the popular sectors, but in the stabilization phase this alliance faded and the elements of compromise with the existing order gained force. Undoubtedly in their social ascent the middle sectors had to break with the traditional political scheme, into which they introduced important changes, but it is equally certain that some defects arose in the political system they created, when this became a régime of "clientele". In these cases, the political parties became prebendary institutions directed to satisfying the electoral clientele, offering very unequal opportunities to the different social sectors. When this type of régime has predominated it has resulted in the formation of a feeling of privilege in these sectors; conscious that the régime had become a channel of mobility, they were afraid of being politically displaced and viewed with resentment the effort to restore democracy.

Regarding their economic aspirations, they tried to correct the more obvious distortions in the traditional structure; they welcomed the idea of State intervention and of its redistributive role, and industrialization was frequently the pivot of their economic platform. Even so, the vicissitudes of the process often led them to emphasize, over and above the options of change, the objectives of security and stability.

Although the policy followed by the middle sectors sometimes appeared to be vacillating and even contradictory, it must be recognized that, thanks to their influence, effective progress was made in the expansion of citizen participation and education and the substantial improvement --or creation in some cases-- of social legislation.

iii) The worker sectors

The period under analysis was characterized by the presence of masses; these acquired political importance, took part in consumption, had access to social legislation, etc. Nonetheless, the expectation that industrialization would have the same effects on the workers as it had in the centres was not confirmed by events. The peculiarities of Latin American industrialization exerted their influence, creating a unique situation for the working class in the region.

In fact, only a few countries, such as Argentina, Chile and Uruguay, had substantial nuclei; in most of the others they were of recent formation. Frequently their contingents came from internal rural-urban migration, a massive and speedy process in the decades of the 1940s and 1950s, and even in the countries which modernized early, like those quoted, migration produced a radical modification of the urban situation in general and of the working class in particular.

/It was

It was frequently found that these migrant masses were unskilled and had great difficulty in integrating themselves into the socio-professional medium of the pre-existent working class. A gap tended to be produced, sometimes very wide, between the unskilled mass and the group of workers who had more experience and industrial tradition. This gap in many cases affected the orientation of the trade-union movement and even some political manifestations; there was no sharing of the same values and interests and the better qualified group tended to be regarded as a privileged élite.

Moreover, the migrants tended to favour incorporation into the urban milieu, which they identified with such things as better living conditions or access to education instead of industry, which gave rise to a certain indifference to the traditional ideas of the industrial world and to incorporation into the workers' movement; industry appeared to be only a means of integrating themselves into urban life.

If the problems of incorporation into urban life predominated over those relating to industrial life, the solution of this type of problem was beyond the scope of the unions, since they depended much more on overall policies. This fact did not go unheeded by the régimes of the period, and in many cases the union movement was turned into a dependency of the State; the union came to be a provider of social services, which in the last instance depended on the State. This reaffirmed the elements of paternalism and patrimonialism in the relationship between the unions and the State.

At all events, the very conditions of insertion into the city gave rise to certain forms of awareness. In this connection, the problems of access to consumption acquired great importance, and the feelings of inequality of opportunity and of distribution of benefits took precedence over those which centred on the relations of production. In brief, political awareness and the demands linked with it tended to centre on urban problems and not on those of work; hence the groups of workers preferred to define themselves as the popular class rather than the working class. Moreover, the predominance of the problems of urban insertion intensified the distributive aspects of workers' demands above any other type of claim.

iv) The peasantry

In the first five years of the 1950s the agrarian problem was one of the main concerns, both because of the effect that the sector might have in terms of a possible market for domestic industrial expansion and through its condition of producer of wage goods, which was a key factor in sustaining urban and industrial growth. The awareness of agrarian backwardness was predominant and the topic of agrarian reform acquired particular importance. Nevertheless, the clarity of the proposals was obscured by the great diversity of situations in the countries and in the conglomerate which in generic terms was known as the peasantry.

/In effect,

In effect, the fundamental factor in the agrarian structure was the existence of the two predominant types of organization --the hacienda and the plantation-- and their significance in social, economic and cultural relations. The system of "seigneurial" relations proper to the hacienda permeated the network of relationships and behaviour of the different groups involved in it --both the dominant and the dominated-- and constituted the de facto stamp which defined the traditional society as a whole; its disappearance or transformation was a key element for the achievement of a modern society.

But it was not only the definitions that stemmed from outside the rural world that were important; the demands of the peasant movement itself also played a part. From the beginning of the 1950s the "land problem" acquired great significance. In the countries where there was a high proportion of indigenous peasant groups there arose a claim for the right to communal appropriation of the land, which tended to be expressed through the direct occupation of the territories. These claims, however, were also accompanied by a political mobilization, a strong desire for change and an evident intention to share "modernity", which was usually expressed in the demand for education.

In addition, when the working of the land was carried out by more or less permanent wage labour as in the plantations, the protests and demands assumed forms approaching those of the urban unions.

The intensification of the peasant movements at the beginning of the 1960s marked one of the limits of the alliance which had been based in many countries on the introduction of industrialization. They put at risk the solidarity between the economically dominant groups; the subject of ownership acquired great importance and it also became clear that the cost of the possible agrarian transformations would accentuate the unstable equilibrium between accumulation and redistribution, one of the bases of urban agreement in favour of development.

3. From the 1960s onward. The boom in foreign trade
and the oil crisis

a) The economic process

From the middle of the 1960s the evolution of world trade, both through its dynamism and through a greater openness to supplies from Latin America, gradually increased the opportunities of the region. The potential of diversification and expansion which had not existed during the 1950s was changing one of the decisive elements which had characterized the development style of some countries since the 1930s.

The external commercial and political changes originated in the recovery of Europe, the rise of Japan, the emergence of an incipient multipolarity and a greater degree of détente following the cold war. The new situation brought with it a greater dynamism and capacity of access to world trade, a potential expansion of the degree of political action in the developing countries, and a greater interest on the part of foreign investment to share in Latin American economic activity.

At the same time the external capital market began to change for Latin America. The European economies, which had absorbed an appreciable percentage of this capital in the postwar period, was freeing part of it and the transnationalization of enterprises was rapidly increasing. Thus, together with the greater availability of funds, a very aggressive agent was coming to the fore, which meant that the external changes, while offering opportunities, involved pressures and sometimes constraints on the possible options.

Nor should it be forgotten that the triumph of the Cuban revolution signified a radical change in development style for one of the countries of the region. Already in 1961 the United States was countering this in Punta del Este with a new organization project through which the region would be more fully incorporated into the world economic system and in which foreign capital would play a new and decisive role.

As a result of these events, and of the economic and political difficulties of a domestic nature described above, midway through the 1960s changes began to be introduced into the policies designed to modify the previous style of economic development. This first attempt at a change in style should have been completed when the crisis unleashed in 1973 and the major changes that occurred in the international scene from 1974 necessitated new qualitative changes in the style of development.

In this first stage, which covers from halfway through the 1960s to the crisis of 1973-1974, the countries were gradually modifying their economic policies in an effort to profit from the dynamism of external trade and the rise of new poles of demand. They promoted schemes of integration or co-operation on regional, subregional and bilateral levels in an effort to give external markets a more important role than in the previous stage; they tried to adjust industrialization

/to wider

to wider markets and extend their technical advances to agriculture in order to profit from the new external conditions; they gave a major role to the promotion of exports and at the same time, with the improvement in their current and capital accounts in the balance of payments, they explored the liberalization of imports and tended to give uniformity to the exchange rates. All this was aimed at eliminating the distortions of the past and creating conditions for fuller incorporation into the central capitalist economy.

They also reformed the legislation affecting foreign capital with the double purpose of obtaining greater amounts of direct foreign investment and of yielding to external pressures. Some countries limited their action to certain sectors and put restrictions on the returns of capital, while others had a more liberal attitude. On the whole, the criterion at this stage was to give a complementary role to foreign capital, limiting its action to the productive sectors and restricting its access to the financial sector. Nonetheless, in the sectors of more dynamic demand and more advanced technology, the penetration of foreign capital was significant. On the other hand, in relation to natural resources, with the exception of agriculture there was a general trend towards nationalization, which enabled the countries to maintain or recover control of their activity in the mining and energy fields.

The external changes were accompanied by changes in domestic policies. The transformation of production represented a change in emphasis rather than direction. Industrialization continued to be its pivot, but the projects now included not only the domestic market but also an attempt at complementation with the subregional, regional or world markets. This entailed, in some cases, an increase in the processing of the natural resources exported, whether traditional or new. In others it meant the incorporation of new branches aimed at consumer durables, basic intermediate inputs or capital goods.

In several countries reforms were also attempted in the agrarian sector. In theory, the aims simultaneously pursued were the expansion of the domestic market by the incorporation into the money markets of groups hitherto margined, a more intense exploitation of natural resources which had been little used, and a greater penetration of technical progress. Industry not only produced the supplies for this transformation but also took advantage of the domestic expansion of the markets.

In the Central American countries the expansion of modern agriculture diversified supply on the national plane by incorporating products such as cotton, sugar and meat in countries which were not exporting them with a view to entering the North American market. In view of the difficulties in expanding the agricultural frontier, growth in some countries meant pressure on land already occupied and the displacement of peasants dedicated to traditional crops or the eradication of small farmers.

There were no doubts about the role of industry in the transformation, but it became involved in wider markets and was technically integrated in other sectors both domestic and subregional. In the large and medium-sized countries where

/foreign trade

foreign trade had been restricted to small percentages of the output, the new productive approach sought to flexibilize supplies, but it was not claimed that it was the external markets that gave direction to the transformation.

The new external conditions provided opportunities, but it was by no means easy to take advantage of them within the framework of the prevailing development style. It was imperative to change the functions of the State and to establish a new type of relationship with the transnational enterprises and different conditions for the functioning of foreign trade and finance. Naturally such changes depended on the particular conditions of each country, and especially on the stage it had reached in its productive transformation and its resource endowment. In some cases there was a need for a vigorous expansion of the role of the public enterprises; in others, for the support of national private groups which had to modernize some sector; and everywhere for a greater capacity of manoeuvre for transnational enterprise, an enlargement of the tasks of the general government and reforms of economic policies. As will be seen, the countries reacted in different ways and obtained very different results.

Many countries made major changes in the institutional structure of their economies. Little by little the governments advanced in the planning of their activities both in the short and the long term. Although they did not always succeed in fitting their action into the framework of a formal plan, public activity did in fact gain in coherence and clarity of aim. The growing experience of the public bureaucracies and technocracies enabled major investments to be carried forward both in infrastructure and in industrial sectors, and led to a management of economic policies which facilitated the adoption of long-term strategies and their adaptation to the changing external conditions.

Advances were also made, although with more disparity, in taxation, administrative and agrarian reforms. Naturally these reforms, especially the agrarian, aroused more reactions than the rest, so that the results fell short of the aims that had been proposed.

The financial markets were organized by means of changes in the process of accumulation and a greater insertion in the international sphere. Mechanisms for adjusting inflation were gradually introduced into these markets, which lessened the distortions of the past and added a new instrument to the management of inflationary situations.

As will be seen later on, the changes in style on the political level differ widely from country to country. In some, in accordance with the economic changes and even as a prior condition to them, the economic and social support of the governments was re-established. A greater role was given to transnational enterprise, to the armed forces, to technocracies and bureaucracies representing middle groups in ascent and excluding the popular urban groups which had been one of the mainstays of populism. In others an attempt was made to broaden the base of the populist and developmentist régimes by increasingly incorporating into the electoral processes large urban and rural groups. In general the governments which

/arose from

arose from these latter processes faced growing contradictions as a result of pressures to satisfy rapidly increasing demands. Lastly, in other countries the government alliances managed to consolidate the functioning of the political machine and were able to curb and absorb the demands of the economic and social groups that supported them.

The economic results of this period can be summarized, for the region as a whole, in a notable increase of economic dynamism and a visible enlargement of the role of foreign trade in the transformation of production. This summary, however, conceals a wide range of results.

Between the middle of the 1960s and 1974 the economic dynamism of the region exceeded an annual 6.5% and between 1970 and 1974 it exceeded 7%. The acceleration of growth was common to the great majority of the countries. In some net oil-exporting countries, especially in Venezuela, the smaller growth in output was accompanied by the positive effect of the terms of trade and an appreciable dynamism in national revenue (see table 4).

The two largest countries from an economic and demographic standpoint notably increased their economic growth, especially Brazil, whose average rates bordered on 10% per annum. This growth was due to a vigorous process of industrialization and a growing utilization of natural resources, including an expansion of the agricultural frontier.

Other small countries, such as Bolivia, Costa Rica, Ecuador and the Dominican Republic, combined the dynamic incorporation of new natural resources into their export products with progress in the first stages of industrialization, since they had begun the period with only slight advances in this direction. In this way they achieved high rates of economic growth. Agricultural and industrial modernization enabled Guatemala and Colombia also to grow at a rapid pace.

In contrast to these successes the countries of the Southern Cone, which had been in the vanguard of the region in their economic and social transformation, achieved only moderate and sometimes very low rates of growth. The growth rate likewise slackened in other countries in which industrialization had made little progress, so that they failed to cope with the problems relating to restricted external markets and incorporation into regional and international trade.

The disparity in results observed in the economic dynamism is also noticeable in external trade. The changes in economic policies and the new conditions of external trade enabled the annual growth in the volume of exports during the period 1965-1974 to reach or exceed 7% in seven countries and 10% in four of them, while the purchasing power of exports exceeded 7% in eight countries and 8% in six of them (see tables 1 and 2). In contrast, in some countries, such as those of the Southern Cone, the growth of the volume of exports did not reach an annual average of 2%. Similar differences can be noted between the countries as regards their capacity to obtain direct foreign investment or external credit.

/As a

As a result of these performances the capacity to import suffered appreciable changes in relation to the postwar period analysed above. Some countries which had severely compressed their import coefficients, such as Brazil and Mexico, rapidly increased their imports and gave more flexibility to supply. The first of these countries performed a notable feat in reaching an annual average rate of 19% of growth in the volume of its imports, which, although they may have been partly destined for accumulation of stock, assisted the industrial transformation and the economic growth achieved during the period. In contrast, some of the small and medium-sized countries suffered a fall in the growth rate of their imports, which had a negative effect on their economic dynamism; the imports of Peru and the Central American countries, except Costa Rica, grew at annual rates of between 3 and 4%, very much lower than those of the former period.

b) The political process and the social groups

In political terms, this period underwent major changes. The transformation in the external conditions seemed to provide economic and political support for developmentist alliances which succeeded in reconciling the interests of very dissimilar groups by means of moderate reforms and economic dynamism. Sometimes, as in the case of the countries which created the Andean Pact, these alliances sought to rely on a subregional framework, through the creation of social, economic and political institutions which reflected the national agreements in a wider context. This project, however, made progress only in a small group of countries; in general these alliances dissolved and the democratic mechanisms which supported them were displaced by authoritarian régimes.

The incorporation of the rural groups through the agrarian reform encountered stronger social resistance than had been foreseen, especially when its economic cost competed with public expenditure on consumption and accumulation which benefited other more powerful groups.

The expansion of the economic base of the industrial sector involved the need to undertake new stages of development. Faced with this challenge, the industrial enterprises linked with the exporting and financial sectors, both national and foreign, regarded the latter as more reliable partners in the new conditions than those who formed part of the developmentist alliance, and increased their criticisms of a State which they now considered to be an ineffective entrepreneur.

The middle sectors likewise felt threatened by the growth of popular demand, which they regarded as affecting their own possibilities, especially when the satisfaction of this demand involved inflation.

The changes in performance were the reflection of potential tensions which were barely and badly concealed by the régimes. The rapid growth of the urban sector found no outlet in the capacity of the economy to absorb it sufficiently and at an adequate level as a labour force. The agrarian structure, in growing contrast to the urban, raised the political status of its population and land-tenure problems. The rising proportion of the juvenile groups in the population

/called for

called for the channelling of demands which put a strain on the education and employment systems and on the very values which sustained the political alliances. It is interesting to observe that these strains were manifest more often within the power coalition than as an independent expression of the sectors affected.

The political system required for its functioning complex equilibria which only a very favourable social and economic framework could provide. If the economic and social situations, internal or external, were adverse, this equilibrium tended to fall apart owing to the enormous difficulty of generating self corrective policies; any change in the position of some groups affected all the rest, since the equilibrium had little scope for manoeuvre. The maintenance of the equilibrium was based on the capacity of the State to reconcile the demands of the groups that supported it with the flow of resources that it was capable of generating or obtaining.

In the aforesaid countries the delicate internal equilibrium could barely resist the domestic problems, and succumbed when it had to cope at the same time with the challenges of the international system. In such circumstances the complex polyclass equilibrium was replaced by an elite which monopolized power and attempted not only to rearrange economic relations but also to reformulate the system of social and political relations; it believed that the solution of the crisis should be based on a reinforcement of political and economic ties with the centres. It proposed, therefore, to reorganize the very structure of the productive system as well as the nature of the State and the civil society. This alternative made it necessary to restrain wages and public expenditure, lay emphasis on export economies based on comparative advantages, abandon a backward industrial sector to envisage, in a possible future, a new industrial economy which would be selective and highly modernized. The project was bound to come up against a hostile popular demand.

The solution of this antagonism was in some cases reached at the cost of democracy and participation. Nevertheless the economic aspects of the project did not always develop in accordance with the assumptions of its supporters.

c) The situation towards the end of the period

Towards the end of the period it was evident that the economic, social and political bases of the style of development had undergone drastic changes.

In the economic field these changes were concerned with the linkage between industrialization, markets and external trade. Industrialization continued to be the support of the economic transformation and of its dynamism. Gradually, however, its linkage with the domestic markets declined in relative terms, while it increased with the external markets, both regional and international, as a reflection of the new government alliances and of the new external conditions. Economic dynamism varied widely from country to country, since it depended on the degree of solidity of the social support of the government, on whether its international insertion was favourable and consolidated, and on the extent to which it had strengthened its capital accumulation.

/In the

In the social and political field one group of countries had met the challenge by maintaining the democratic system, while in others there was a predominance of elites in which the military sectors had increasing power.

At the beginning of the 1970s the attempts to establish a new style were, however, only outlined; the economic changes were not yet sufficiently consolidated to be able to sustain in stable form the new political schemes. The equilibrium between a rapid accumulation, the stability of the new markets and the quest for a viable form of productive transformation in the medium and long term was still not attained.

The two largest countries, economically and demographically speaking, appeared to make better progress and to increase their distance from the rest; but the smaller ones, including those which had achieved greater dynamism, still had a productive structure which was industrially incipient and depended decisively on external markets. Their domestic markets, small and generally concentrated, could not by themselves assure a stable process of productive transformation. In some cases, particularly in Central America, the scale of peasant exclusion and impoverishment was very high and in the urban area they had not established middle groups of a size comparable with those in the large and medium-sized countries and even in small countries like Costa Rica and Uruguay. As the situation of the marginated groups deteriorated and the middle groups could not find an adequate response to their demands, a general questioning of the style of development arose which on occasion resulted in violence.

The oil-exporting countries appeared to have the best chance of stabilizing their processes through their privileged connection with the world economy, while in the countries of the Southern Cone the political changes and attempts at reorientation occurred towards the end of the period, when international conditions were again beginning to change.

The following years were to demonstrate how unstable and dependent on external conditions was the position achieved, and bring to the fore the defects inherent in the new development styles that had been planned.

4. Irruption of the transnational banks, external indebtedness and crisis

The Latin American countries were making efforts to change their styles of development and, as already said, one of the central aspects was to adapt them to the new external conditions. In this respect, the bulk of the effort had been devoted to commercial aspects and to the role of the non-financial transnational enterprises.

From midway in the 1970s the international economy was undergoing changes of the greatest importance. There was a notable increase in the role of the transnational banking system. The supply of credit to the developing countries and especially to Latin America rose significantly. World inflation soared and there was a rise in interest rates.

/The changes

The changes in international prices that occurred from 1973 caused major changes in the balance of payments of the Latin American countries. The sources of supply of commercial energy evolved in Latin America in parallel with that of the world economy. In 1950 hydrocarbons supplied somewhat more than a third of the world consumption of commercial energy, a proportion which rose to over two thirds in 1975, relegating coal to second place. Latin America recorded even higher percentages owing to the cheap access to petroleum and to the limitations on use imposed by the poor quality of the coal.

The widespread policy of consumption was not in line either with the spatial distribution of production or in general with the reserves of hydrocarbons. Hence, when prices changed radically between 1973 and 1980, the countries of the region faced very different situations. The net oil exporters saw their revenues vastly increased and for some years enjoyed large surpluses on their trade balance. A few countries had and maintained a certain equilibrium between production and consumption, but a majority were faced with serious imbalances which were manifest in large deficits on their balance of payments.

The notable differences in performance which this situation might have caused were largely annulled by the influence of the transnational banks. In fact, the attraction of easy borrowing is reflected in the fact that all the countries, practically without exception, incurred an enormous debt. In other words, early or late in the period 1974-1980 the economies altered their economic policies to have access to or permit the entrance of the abundant financial resources.

The economic and political irruption of the transnational banks into the development styles gave rise to very different forms of economic and social transformation in the region.

At one extreme, the two largest countries from an economic and demographic standpoint used external indebtedness to make further advances in their industrialization.

Brazil, which began the period with a large trade deficit, did not use the credits for promoting a liberal import policy. On the contrary, it initiated a set of large projects destined simultaneously to replace imports and expand exports. These included energy and industrial infrastructure and the capital goods industry. Thus the indebtedness, despite the errors and excessive consumption which may have taken place, served in the main to convert what might have been a period of recession into one of expansion of the productive capacity. It is worth noting that the volume of Brazilian imports grew at an annual average of 1% between 1974 and 1980, while the volume of exports increased by close on 10% per annum, a large share of which were of industrial origin.

Mexico during this period made a great effort to expand its oil production, as a result of which in the 1980s it became one of the leading oil exporters in the world. The volume of its imports grew at rates of around 12%, largely owing to the fact that the country had not yet the domestic productive capacity to be able to carry out more ambitious plans on this basis.

/Ecuador and

Ecuador and Paraguay also grew rapidly in this period, relying on their energy resources. Ecuador, which had a very backward industrial structure, concentrated its efforts on this sector. In Paraguay the expansion was mainly associated with the construction of the great dam at Itaipú but it also achieved a high industrial dynamism.

In these countries, especially in Brazil and Mexico, there were no notable changes during the period in the development styles current at the time. The governmental sector was strengthened by the expansion of public enterprises. The political system did not undergo radical changes, although the power of the transnational banks was reinforced by the increase in the debt. In both cases the real and potential expansion of exports continued to strengthen their hope of incorporation as a semi-periphery in the international economy. Rules for the non-financial transnational enterprises remained in force in the productive sector, with a view to creating a style in which the internal sectors would maintain an appreciable quota of power in the government alliance.

At the other extreme, the countries of the Southern Cone introduced a radical change in their economic policies, with the adoption of a neo-liberal style of insertion in the international economy. To this end they liberalized their external trade and financial policies, reducing tariffs to very low levels, especially in Argentina and Chile. Similarly they granted great facilities of access to the transnational, banking, and non-financial enterprises.

At the outset the main emphasis seemed to be placed on the promotion of exports. Nonetheless, the explosive dynamism of imports created deficits on the trade and current accounts which gradually made it essential to obtain new external credit. Hence the economic policy concentrated on financial aspects, eventually favouring the maintenance of a high real interest rate and undervalued exchange rates. As a result, the policies of export promotion clashed with those of obtaining new external finance. The position adopted revealed the power acquired by the internal and external financial sectors. Imports increased in the Southern Cone countries at rates close on 10% per annum in the period 1974-1980 and with the reduction of tariffs and the undervaluation of the exchange rate many industrial branches were faced with a competition which they could not sustain. This encouraged many entrepreneurs to replace industrial by commercial enterprise, in view of its greater profit and lower risk. Hence the share of the output of the manufacturing sector in the total fell in Argentina from 30% to 27% and in Chile from 19% to 16% (see table 5).

In these countries the neo-liberal scheme did not succeed in raising the rate of accumulation or in giving a clear meaning to the productive transformation. Only Uruguay, which did not substantially reduce its tariffs maintained public investment and succeeded in channelling foreign investment into capital goods, thus achieving a high economic growth which reached close on 7% per annum in non-agricultural goods (see table 6).

Table 5

LATIN AMERICA: SHARE OF MANUFACTURING IN THE GROSS DOMESTIC PRODUCT
(Percentages)

	1950-1952	1964-1966	1973-1974	1979-1980
<u>Latin America</u>	<u>16.5</u>	<u>20.7</u>	<u>24.1</u>	<u>24.3</u>
Argentina	22.3	27.6	30.5	27.4
Bolivia	10.8	11.1	12.9	13.7
Brazil	20.6	26.7	30.7	31.0
Chile	15.5	18.7	19.2	15.8
Colombia	13.7	16.9	19.5	17.2
Costa Rica	10.5	12.4	15.7	16.9
Dominican Republic	13.8	14.8	18.7	18.8
Ecuador	12.7	13.3	11.5	14.6
El Salvador	12.7	16.0	17.6	17.0
Guatemala	11.4	13.6	15.3	16.0
Haiti	10.1	10.2	13.5	13.8
Honduras	9.9	13.4	14.9	16.5
Mexico	16.1	18.9	21.6	22.3
Nicaragua	11.8	16.5	20.9	22.1
Panama	8.5	13.2	13.6	11.9
Paraguay	15.2	15.5	17.4	16.2
Peru	15.6	20.7	22.4	21.4
Uruguay	23.8	24.3	25.7	25.9
Venezuela	7.7	12.1	14.3	16.7

Source: ECLAC, on the basis of official data.

Table 6

LATIN AMERICA: ANNUAL GROWTH RATES a/ OF OUTPUT OF
NON-AGRICULTURAL GOODS, 1950-1980

	1950-1955	1965-1974	1974-1980
<u>Latin America</u>	<u>6.2</u>	<u>7.1</u>	<u>5.0</u>
Argentina	4.0	6.1	1.3
Bolivia	0.3	6.7	2.7
Brazil	7.5	11.8	6.8
Chile	4.4	2.4	3.0
Colombia	5.9	7.4	1.9
Costa Rica	7.0	9.3	7.2
Dominican Republic	5.5	14.0	4.5
Ecuador	6.0	15.7	6.1
El Salvador	6.5	4.9	1.9
Guatemala	4.6	6.9	8.9
Haiti	-3.9	7.9	4.3
Honduras	3.0	5.7	7.1
Mexico	6.9	7.9	7.2
Nicaragua	8.9	6.3	-5.3
Panama	9.7	8.2	3.6
Paraguay	3.7	6.9	13.9
Peru	7.1	4.5	1.7
Uruguay	1.4	2.3	6.9
Venezuela	6.5	1.0	0.8

Source: ECLAC, on the basis of official data.

a/ Percentages obtained through regression.

/In the

In the case of Chile, the annual overall growth of 5.6% was achieved with a reduced rate of growth in the value added generated in the sectors producing non-agricultural goods (3%) and originating basically in the annual increase of over 10% in the commercial and finance sector. This last was closely associated with the expansion of imports and the external indebtedness.

Between these extreme cases of the use of external indebtedness come the rest of the countries of the region. At all events, there was a noticeable fall in the growth rate of the industrial sector and a general declining trend in the share of the sector in production. External indebtedness was used, in most cases, to support a greater growth of consumption than of output. The attempts to find a new development style did not produce an economic solution which would accelerate accumulation and channel the productive transformation, despite which, during part of the period (1976-1980), most of the countries managed to increase the value of their exports at very high rates, in some cases through price rises and in others through increases in volume.

The lack of economic dynamism in many countries may suggest economies that underwent few changes in their form of functioning. The truth is quite the opposite. External indebtedness and the growing internal participation of the transnational banks profoundly altered the relations of domestic power and the attitude to accumulation and economic policy. As the countries increased their debt a change was produced in the relations between the non-financial productive sector and the financial sector. A capital market was admitted and fomented which ended by strengthening financial capitalism.

The separation of entrepreneurial productive functions from financial capitalist functions is accentuated with the emission of securities not directly associated with productive enterprises but with investment societies. The revaluation of these securities may depend on speculative operations, both in their launching and in their rounds of the markets of financial securities. It is then possible to concentrate a large part of the saving in the guise of financial capital, which is not necessarily converted into investment of physical capital, but may favour the concentration of previously accumulated wealth in the hands of those who dominate the financial capital. Simultaneously the credit system may transform part of the saving into consumption, especially if external indebtedness enables the pressure on the balance of payments to be met by way of imports. This tends to accentuate the monopolist aspect of capitalism, its speculative character and the subordination of the productive sector.

In the countries in which this type of operation was in general use, the public sector gradually lost control over financial procedure. Through a credit policy in which new and varied forms of quasi-money made their appearance, the monetary policy lost part of its impact and the State its capacity for control. The same effect was produced when the private sector was able to obtain credit from abroad without the sanction of the public sector. In the cases where this practice became widespread the public sector lost part of the control over the balance of payments, which it was only to recover in the crisis when on occasion it was pressed to guarantee these debts. At the same time, the exchange rate policies produced patrimonial and operational effects on all the indebted sectors.

/Thus the

Thus the indebted productive sectors became dependent not only on the domestic monetary and credit policy, but also on the international interest rates and the situation of the balance of payments.

As these financial changes became more extreme the productive system lost an appreciable part of its economic and political power. A new pivot for the organization of the national economies was introduced. Taken to extremes, it might be said that the mechanisms of control of the national economy tended to be reduced since the composition of certain norms for the functioning of the international economic system restricted the sphere and capacity of the local groups for autonomous decision.

The dominant groups set themselves to reorganize the domestic system so as to facilitate the introduction of a new mode of dependence. To ensure their participation in power, as already said, they found it necessary on occasion to change their centre of activity from the productive system to the financial system.

As growth declined and demand was concentrated in the high-income groups it became impossible to satisfy the demands of the masses. The policy of wage restraint, which was frequently applied, often led to repressive practices against the union organizations.

With the worsening of economic conditions, only the countries which maintained a democratic system could negotiate solutions without restricting participation. In the authoritarian régimes extremely repressive measures had to be applied. With the passage of time the demands for a return to democracy increased, as a mechanism capable of channelling the demands for participation. In other countries, in which the very process of modernization sharpened conflict, movements arose which favoured revolutionary reforms of the development style and fomented riots which in some cases ended in civil war. It should be borne in mind that the struggle of the popular sectors, and particularly of the workers, is not necessarily only a protest against deteriorating economic conditions. The worker groups with a greater union tradition also tend to claim better working conditions and some degree of participation, not only in their own enterprise, but also at national level. In the societies where this type of conflict does not find "valid spokesmen" the problem can acquire a general political dimension through the association of other groups whose problem also lies in the absence of channels of participation.

At the beginning of the 1980s it was obvious that the endeavours to create a new style of development were in worse shape than in the middle of the 1970s. The external changes ended in many countries with the disarticulation of the schemes of economic policy designed to take advantage of the commercial dynamism. The productive transformation was curbed by the very abundance of financial resources. The entry of the transnational banks and the creation of a financial market conspired at times against the accumulation of fixed capital by stimulating a consumption which was satisfied by imports. On the political plane the lack of economic dynamism led to a hardening of the system, restricting democracy and participation. This scheme was called into question in some cases by a demand for democratization and in other countries by armed conflict. Naturally these situations, coupled with the absence of a long-term project for economic transformation, discouraged capital accumulation. By contrast, in some countries the government alliance based on democracy showed its vitality and helped to find a negotiated solution to the situational crises. Lastly, the two largest countries broke into world trade and finance with greater vigour and in better conditions. Their foreign trade, in close association with their domestic markets and with their productive transformation, gave the impression that they were beginning to create a new development style based on a new form of international insertion.

5. The outbreak and nature of the crisis

In 1981 most of the Latin American countries were caught up in an economic and financial crisis which may be regarded as the most profound and prolonged since the world crisis of the 1930s, and which arose from an accumulation of negative factors of external and internal origin.

From the middle of the 1960s the dynamism of international trade and the economic growth of many countries of the region called into question the arguments in favour of the need to transform economic relations at international, regional and national level. From midway in the decade of the 1970s the abundant external credit encouraged in many groups the conviction that the best solution for the external disequilibrium would be the liberalization of external economic relations, since the orientation of production should be increasingly guided by the signals coming from the world market.

Thus they continued to develop, or attempted to reintroduce, a policy of economic growth based on liberal principles of national and international economic relations. These were based on a particular view of the functioning of the international economy, on the validity of market signals and on a forecast of the evolution of the developed world.

On the theoretical plane, the promotion of wider external relations was assigned a more important role in the development process than it had had in the past. Despite this, the different countries and groups of opinion differed as to the function that these external relations should fulfil. For some foreign trade should be the fundamental engine of growth. Others gave it a role of essential complement in a productive transformation directed basically by the domestic market. In each case there was a desire to increase the share of external trade in the national economy.

It was commonly thought that the evolution of production in the developed countries and the trend of world trade would be in the last instance relatively favourable. The recession in the years 1974-1975 in the industrial countries was largely attributed to the effects of the rise in the price of fuels, although the incidence of other factors was not overlooked. Some recovery in the growth rates of a number of developed countries in the period 1974-1979 (more than 4% in the United States and 5% in Japan) encouraged the belief that the fuel crisis would be gradually surmounted and that this growth would soon accelerate. Hence world trade would once again play a very active role in the region. This optimism was fostered by the dynamism displayed by Latin American exports, since it was thought that if these results were achieved at a slack time in the world economy, they could be expected to continue or even increase in the near future.

The combination of theoretic support and optimistic expectations gave rise to policies of expansion and diversification of exports and the acceptance of external trade deficits which were assumed to be transitory. The net oil-exporters looked forward to a slow but steady improvement in real fuel prices, and the importers relied on plans of substitution and conservation and on the development of their own sources of energy. Others saw in the increased

/oil prices

oil prices the possibility of an improvement in the prices of raw materials, and trusted that a liberalization of external relations would reactivate the old idea of comparative advantages and bring with it a steady increase in the value of exports.

The trends of foreign trade and external financing during the period 1976-1980 supported in many countries the view that, by following market signals, they were surmounting a severe recession with a moderate rate of growth. During this period exports increased in volume and value at the most rapid rates since the war. Imports likewise increased, and in some years did so at surprising rates in the countries of the Southern Cone and in some net oil-exporting countries. At the same time, in most cases and in most years the deficit on the trade balance of goods and services was maintained. Thus a situation arose, uncommon in the postwar period, of a very dynamic foreign trade which showed a permanent deficit in the medium term.

The rapid growth in the value of exports had different origins. In the countries which were net exporters of oil or fuels it arose from the rise in prices, combined in some cases with falls and in others with increases in the volumes exported. In the other countries the situation varied: there were diversions of production previously destined for the domestic market, diversification of the production of raw materials, greater industrial processing of the raw materials exported, and expansion of the exports of manufactures. In the last case use was made of previously installed capacity which was idle or in process of maturation, and of the rapid expansion of the industrial sector that had occurred in some countries. The evolution of prices was very uneven so that the domestic effort which accompanied the growth in the value of exports also varied considerably.

There was also a great variety of motivations and structures in the growth of imports. In some cases it gave rise to an intense process of investment, while in others it supported the growth of consumption and the fight against inflation. Generally speaking, there was a simultaneous rise in the volume and prices of imports, the latter being more stable in their periodic increases.

In these circumstances it was usual to find a foreign trade deficit in the transactions of goods and services. This deficit was supported, though not justified, by the inflow or availability of foreign credit, which was offered in abundance to almost all the countries, was channelled through the transnational banking system, and at the outset had low real interest rates. Gradually, however, the average maturity periods were reduced and the interest rates increased.

External credit was increasing considerably to cater for the deficits on the trade balance and the growing commitments deriving from direct investment and the external debt. Hence the volume of interest was growing in absolute and relative figures, both by way of increases in the debt and the rise in the interest rates.

/This brief

This brief description of the evolution of trade and external finance shows the simultaneous presence of three factors, common to most of the countries: dynamism in trade, deficit on the balance of goods and services and abundant net external credit.

These factors are also interwoven through causal relations which sustain their co-existence. In effect, in so far as the ratio between debt and export value is used as one of the most important indicators of the capacity of a country to make external payments, the high growth of the latter variable tends to support increased indebtedness. During the period 1976-1980 exports grew at values close on 20%, and the nominal rate of interest remained at around 10%. In these circumstances, even for countries in which the aforesaid ratio was high, the increased indebtedness could be justified on the basis of certain assumptions. Thus, for example, if the ratio was near to three, as happened in a number of countries, this could be maintained if both the debt and the value of exports grew by 20%; half of the new indebtedness would finance the nominal interest rate of 10%, while the other 10%, which represented 30% of the value of the exports, provided support for a major trade deficit and an increase in the monetary reserves.

Consequently, on the basis of a stable situation of rapid growth in the value of exports and much lower nominal interest rates, the external debt could be increased without risk in terms of capacity to make external payments, and at the same time to maintain large trade deficits and expand the reserves. This trend permitted a considerable degree of liberty in the field of economic policy and the political administration of the governments. Indeed, in many cases the policies relating to the exchange rate, credit, fiscal measures and international reserves helped to stimulate domestic expenditure, which produced a transitory boom that stimulated the needs for external finance.

Unfortunately, this form of reasoning was based on numerous assumptions which, if erroneous, could cause serious problems. Hence as early as 1977 the Secretariat, in its studies of perspective, called attention to the vulnerability inherent in the level of indebtedness which was being incurred.

It did not seem reasonable to assume simultaneously, in the medium term, a growth of 20% in the value of exports and of 10% in the nominal interest rate. As already said, there were many different situations behind that 20%. In the case of a very rapid growth in volume, it was foreseeable that this could not be sustained in the long run and, as regards primary products, it was well-known that the growth of world demand was low and that the developed countries returned to protectionism when the exports of the developing countries began to gain a significant share of their markets.

On the other hand, the maintenance in the medium term of high and significant export values on the basis of manufactured goods called for industrialization policies which very few Latin American countries were applying. At the same time the recrudescence of protectionist policies which also began to be observed in this field signified a serious obstacle to the continued

/expansion of

expansion of the value of exports. In relation to prices there was no doubt that part of the growth of the value of exports was due to a rapidly increasing world inflation. This made it difficult to maintain the nominal rates of interest which implied very low or even negative real interest rates.

With regard to the trade deficit on goods and services, it was equally irrational to treat it apart from domestic policies and the terms of trade. The persistence of the trade deficit concealed dangerous relations with the internal economy. In many cases the rapid growth of exports was achieved at considerable domestic cost which it would not be easy to increase in the event of a crisis. On the other hand, the high growth of imports was vital for the maintenance of policies of economic growth and of liberalization of the economies or anti-inflationary policies. It is common knowledge that trade deficits also depend on the terms of trade. During the period 1976-1980 the governments acted, as previously stated, on the basis of prospects of improvement or, at worse, of a stabilization of the terms of trade. An unfavourable development, whether in external demand, the terms of trade, or a combination of both, would raise the deficit beyond the estimations or would cause a drastic deterioration in the national economy. Finally, the reasoning was based on the implicit assumption that "debts are not paid but renewed". Renewal appears therefore as a relatively automatic mechanism. If the average maturity period of the debt is extended, what is renewed actually represents small percentages of the exports. With an average maturity period of 10 years and a ratio between debt and export value of three, what will need to be renewed represents 30% of the value of the exports. If the average maturity period is shorter, if it is cut year by year or, what is more serious, if the debt maturing in less than a year represents an appreciable percentage of the total, the proportion that has to be renewed may easily represent values of around 100% of the value of the exports. In this last case any unfavourable development can prejudice the automatic renewal of the debt.

From 1981 events began to contradict the optimistic assumptions postulated by the policies of economic and financial relations with the exterior. In most cases there was a simultaneous worsening of the various factors considered, which gave rise to a profound crisis in the balance of payments and in the pattern of growth.

Confidence in the recovery of the economy of the developed countries was impugned by the declining growth in 1981, followed by a fall in 1982. World trade tended to stagnate and the protectionist trends were sharpened in the central economies.

World inflation yielded to some extent and the nominal interest rate rose at real levels unprecedented in the postwar period. The terms of trade deteriorated for the great majority of the countries.

In these circumstances, already in 1981 the value of the region's exports as a whole grew at much lower rates; the interest on the debt rose substantially; the value of imports did not yield in their growth in relation to the previous year, with the result that the region acquired a deficit on current account

/of over

of over US\$ 40 billion. This deficit was 45% higher than that of 1980 and was double that of 1979, these latter deficits having been higher than those of the preceding years. New credit was granted for very short periods, so that the debt for periods of less than a year already at the end of 1981 represented more than 65% of the value of the exports (excluding from this estimate Panama and the Bahamas), and in the countries of large size economically and demographically it exceeded 70%.

In 1982 the situation grew still worse. The fall in price of many primary products ended by toppling the terms of trade, while the real rates of interest persisted or increased. The value of exports declined for the first time in many years and the ratio between debt and exports reached unprecedented values in almost all the countries, with indexes close on 4 in the three most indebted countries; at the same time the debt with a maturity of under a year exceeded the value of exports in one country and grew rapidly in the rest. Automatic renewal now became a utopian dream. Furthermore, it was obvious that the mechanisms of adjustment represented by the reduction of imports, or by the degree of utilization or the level itself of the reserves, were insufficient in themselves to pay the interest on the debt. It became imperative to renegotiate the debt and the banks had to provide net external credit and increase their risk. So in 1981 in some countries and in 1982 in the rest the process of renegotiation began.

6. The policies of economic and financial adjustment

The evolution of world trade and of protectionism had made it evident by the end of 1981 that, at least in the short term, the greater part of the debt problem would have to be solved in the financial field.

For many countries it was clear that the most serious problem in respect of indebtedness lay in the renewal of credits, especially those for a short period. In some cases these almost equalled the total value of exports and exceeded, as is obvious, all capacity to pay. At the same time the interest that had to be paid exceeded the possibilities of surplus on the trade balance of goods and services, or of a reduction in reserves. Consequently, not only was it a matter of renewing maturities or part of them but, on the contrary, it was imperative to obtain new credits. The creditors, for their part, tried to reduce to the minimum the new net financing that they had to concede.

From 1981 most of the countries embarked on a process of renegotiation which was accompanied by domestic adjustment policies designed to meet the requirements of a specific balance-of-payments programme. In these processes the governments of the region have played an active part, together with the transnational banks and the International Monetary Fund. The transnational banks do not recognize joint responsibility for the situation, and, as is natural in their situation, are in favour of greater domestic efforts to guarantee a greater capacity to make external payments. Hence they have made the renegotiation of the debt conditional on the signing of agreements with the Fund, which incorporate the well-known rules of conditionality in relation to domestic policies.

/Some countries

Some countries have managed to negotiate this conditionality on the basis of their own strategies and national policies, and in some cases considerable deviations are observable in this respect from what have been the traditional adjustments.

The general principles of traditional conditionality are widely known. As regards the general direction of development, they reaffirm the supposed advantages of the liberalization of the economies, of the reduction of the public sector and the enlargement of the private sector, and they underline the important role that international trade should have as guide in the allocation of resources. In their interpretation of the crisis they lay stress on excessive public expenditure and the inadequacy of the existing price system vis-à-vis the new circumstances, and in particular the exchange rate. Consequently, faced with inflationary pressures or severe deficits on the balance of payments, the national policies should achieve a reduction of the fiscal and public deficit, the adjustment of real wages, the limitation of domestic credit and of the indebtedness of the public sector, an increase in tax revenues and controlled prices, the elimination of subsidies, and a surplus on the external trade account.

In general terms, compared with agreements of other periods, there is now a marked change of emphasis, in underscoring the importance of the external trade account and accepting greater flexibility in the limits that were customarily placed on certain domestic goals, such as those relating to inflation.

The nature of these agreements and their objectives have been the subject of differences of opinion and argument during the whole of the postwar period. Nonetheless, in the present circumstances these are more polemical than in the past, for several reasons.

In particular, there are doubts nowadays about the central role attributed to international trade in circumstances in which this has lost dynamism and protectionist pressures have grown in the developed countries; about the efficacy of overall macroeconomic measures, in circumstances in which the crisis has pointed up the economic and social heterogeneity of the regional economies; and about the limitation of public sector action at a time when the private sector seems overwhelmed by the complexity of the problems and demands government intervention to cope with them.

These doubts about the efficacy of the agreements in present circumstances have been confirmed by events. Indeed, the results usually fall far short of the goals and objectives originally proposed. Almost as soon as the agreements have been signed it has been necessary to subject them to major revisions or suspend for some time their application. At the same time, the results in economic and social terms have not been satisfactory in every case. The falls in production and employment have been greater than was originally bargained for, and during 1983 there have been growing signs of stagnation, if not of an out-and-out fall in production. Some countries, however, have managed to control the more immediate effects of the crisis, especially as regards their balance-of-payments problems.

/The greatest

The greatest doubts arise in connection with the possible capacity of the Latin American economies to stand the current recession for much longer, if the conditions of the world economy do not rapidly change. Indeed, the tenacious effort to obtain a relatively high surplus on the trade balance of goods and services, which generally implies an even greater surplus on the trade in goods, has produced effects which exceed mere falls in output. Profound imbalances are occurring in the employment, inflationary and budgetary fields, and in some cases plants have begun to be dismantled in a process which threatens to increase; at the same time entrepreneurial discouragement is deepening, expansion projects are being abandoned and, in all probability, many branches of production will lack investment.

It is equally evident that these policies have distributed the external and internal costs of the crisis in a very inequitable manner. On the external side the Latin American countries have been severely castigated to the benefit of the international banks. The renegotiations are carried out as if the erroneous allocation of loans, when it existed, or the high real rates of interest, had been the sole responsibility of the debtors and there were no obligation to share the costs. Moreover, surcharges, fines and costs are applied in renegotiations which raise even higher the interest rates and the potential profit of the banks. Conditions have also been applied to obtain the guarantee of the State for credits which were granted to the private sector without it. On the domestic side, a large part of the costs have been transmitted to the lower-income sectors, eloquent proofs of which are the high indexes of unemployment and the falls in real wages.

In sum, up to now the adjustment process, although it is producing, and even exceeding, the trade surpluses which were its aim, has frequently turned out to be inefficient, destructive and inequitable, and requires a thorough revision. To do this it will be necessary to find external commercial and financial solutions which will distribute more equitably and gradually the costs of the adjustment, and which on the domestic side will lead to a rapid and effective reactivation of the regional economy.

7. The political conflict at the outbreak of the crisis

The present economic crisis in the region is additional to and interwoven with the dissimilar crises of the political and social systems of Latin America, so that the future conditions will necessarily be different in each of the countries. Without claiming to deal with all the situations, the following examples will illustrate this diversity and present some of the main political problems of the present day.

a) The crisis in the societies characterized by early modernization

Although the economic crisis through which the Southern Cone countries are passing is one of extraordinary intensity, it must be pointed out that for a long time they have also suffered serious difficulties in their politico-social organization.

/These countries

These countries had made considerable progress in their urbanization and, despite great difficulties, achieved the gradual extension to all the social groups of access to the fruits of economic, social and political modernization. Nonetheless, a number of structural changes, necessary for the stimulus of collective social mobility, were obstructed, or only achieved at the cost of serious conflict. The tensions between accumulation and distribution were accompanied by those provoked by the political and social incorporation of previously margined groups, whether urban or rural. As already mentioned, the reformist or populist options faced serious obstacles, aggravated even more by the lack of economic dynamism.

In these circumstances, characterized by conflicts which sometimes developed into a marked social polarization, régimes were set up which attempted to restore order in the economic and political fields by combining a firm and concentrated political authority with the adoption of new liberal principles of economic organization.

Both in Argentina and Uruguay this combination was unsuccessful: it was unable to guarantee a sustained economic growth; it sharpened social inequalities; and, in failing to satisfy the demands of the majority of the population or provide adequate channels of political participation, it lost support and legitimacy. If reformism and populism, democratic and redistributive, had failed to find an adequate solution to the economic and political problems, the régimes which replaced them merely made them worse, thus leaving a burdensome legacy to the new efforts to return to democracy. It seems clear that the future of these societies will be decisively influenced by the capacity of their inhabitants to achieve consensus and to create and consolidate institutional mechanisms which will stabilize the politico-economic process.

In Chile, the alleviation of social pressure on the State was sought, among other methods, by the decentralization and privatization of the systems of production, financing, education, health and social security. The State, through the application of the principle of its subsidiary role, leaves it to the market to regulate social allocations, which in practice implies a hierarchical system of classes and groups in which the State takes care that the social power remains unchanged. Naturally, the predominance of market relations and decentralization in societies in which the economic and social power of the different groups is unequally distributed has affected the orientations of production, the forms of accumulation, the behaviour of entrepreneurs and external economic relations. In this way a form of capitalism has developed which does not provide ready channels for the manifestation of demands for reform by large groups of the population. Hence, in face of the economic crisis, the system has responded by strengthening authoritarianism.

b) The crisis in the societies characterized by late modernization

In cases such as Bolivia, Ecuador and Peru, the segmentation of society owing to the large proportion of indigenous population is a decisive fact, which, added to the difficulties of territorial integration, hampers the constitution of an articulated national society. Hence they have frequently tried to achieve this goal by means of a simultaneous modernization of the State and the society.

/In a

In a long-term historic perspective, it is evident that the integration difficulties are expressed in the class structure of the societies. Their economies --frequently formed of enclaves-- have hindered the emergence of powerful local entrepreneurs or were closely linked with the traditional structures; likewise their urban middle-class sectors contain large contingents of traditional groups, while the industrial urban proletariat is incipient and the peasantry is in the main indigenous and associates its demands with its ethnic condition. In the case of Bolivia the politicized mining sector has acquired notable importance. Thus it is not surprising that populist movements have gained significance in these countries, one of whose aims has been to stimulate a feeling of identity in these markedly heterogeneous social groups.

If the problem of national integration creates a common background, different economic and social circumstances produce distinct situations. In Ecuador petroleum resources have made possible economic modernization, while allowing the State to play an important part as agent of transformation. This modernization gave rise to important middle-class sectors and to a new industrial proletariat, and consolidated the emergence of the entrepreneurial groups. Despite the efforts at cultural and territorial integration, however, dualities remain among which the persistence of the indigenous mass is one of the most important. In this country, from the political point of view, there have been noteworthy efforts to set up mechanisms to regulate the relations between society and the State, there being various options for reaching this objective, of reformist, populist and neo-liberal types.

In Peru there are well-known difficulties in achieving social incorporation in a society which possesses a high degree of mobilization. The political régimes which established themselves from the middle of the 1960s favoured decided action by the State and a style of development which attempted to carry out modernization and national integration. Despite this, they found it difficult to achieve a united participation in these processes by the different social sectors, especially in the case of those linked with the more important areas of economic and social power. Later experiments did not succeed in establishing a broad scheme of participation and social agreements, and the conflicts were aggravated by the crisis affecting the indigenous society.

In Bolivia the revolution of 1952 gave marked political influence to the worker sectors, especially miners and peasants; these groups form a key element in the political process, although they frequently only put in a claim for rights which does not materialize in a national proposal. The State and the groups associated with it --especially the middle sectors-- attempt to articulate the different demands, but they generally lack sufficient force to achieve this, mainly owing to the weaknesses of the national economy; hence the military power frequently re-emerges as a possible means of settling the conflicts. In addition, the problems are aggravated by regional disparities, and the zones of greater economic dynamism sometimes try to impose their individual interests on those of the nation as a whole. Finally, the high degree of disarticulation and disintegration of the public sector prevents it from carrying out policies of a national character with the efficiency that the situation demands.

c) The case of Brazil

From midway through the 1960s a series of conditions and structural specificities arose in this country which converted the State into the articulator of a development with a strong international market and a massive incorporation of technology. This development was founded on a triad of national private capital, international capital and the State, in which the last, acting with a marked entrepreneurial status and overall vision, stimulated and defined the areas of the other sectors.

Although the previous forms of social integration --populist and reformist-- have certainly been eliminated, there persists a dynamic of incorporation of the popular strata and the middle classes into the modern sectors of the economy, which expand and improve their levels of consumption.

Even so, the very process of modernization and incorporation weakens the social bases of the groups whose form of power is based on links with the traditional structures; for example, the urban EAP which in 1950 amounted to 40% of the total, in 1980 was close on 70%. In addition to the considerable agrarian modernization, in the urban sector processes of differentiation have arisen in the social structure characteristic of an advanced capitalist situation. These new groups demand greater State control, an expansion of social and political citizenship and a better ratio between accumulation and distribution. This calls for the recovery of democratic political forms and the quest for a social consensus between the middle entrepreneurial sectors and the urban popular groups, especially the organized industrial worker sector.

d) The State as agent of politico-social consensus: Mexico, Venezuela and Costa Rica

Mexico, Costa Rica and Venezuela are particularly interesting in that they have shown a notable capacity for implementing transitions and rectifications in their development processes without ruptures in their political system.

In the three countries the State plays an important role in the collection and redistribution of the economic surplus, which is very great in the case of Venezuela.

In addition to its action in the economic sphere, the State has played a central role in the setting up of political and economic mechanisms which ensure an effective articulation between the social groups; this does not mean that there are no conflicts, but these have been settled without damage to the stability of the system.

Although foreign participation in the economy is very considerable in the three countries, the State as such has become heavily involved in entrepreneurial activity and has achieved a special form of articulation with the national private enterprises. In Mexico there are large State enterprises in the fields of finance, services, infrastructure, basic products, etc., which have a clearly complementary relationship with the private sector.

/In the

In the case of Venezuela the control of petroleum, steel and other important branches has converted the State into the leading direct producer in the economy, although the private sector also has been associated with its activity. Further, the public sector has promoted industry and agriculture by incentivating the private sector; in this connection the Agrarian Reform created a middle-class agrarian sector which, besides its economic significance, represented an appreciable foundation for political stability.

In Costa Rica, from the beginning of the 1950s, the State played an important part in the diversification of the economy, setting up infrastructure in the areas of energy, highway networks and social welfare. With the nationalization of the banking sector credit was directed towards new sectors, such as industry, which was privileged by subsidized charges, soft credits and tariff protection. Moreover, the country has maintained a policy of support for the middle-class agrarian sectors, which constitute a phenomenon peculiar to Costa Rica not only vis-à-vis the other Central American countries but also in the Latin American region as a whole; there is no doubt that the existence of an agrarian middle class is a stabilizing factor in the policy of that country.

With some differences among the three countries the State has been transformed into a major source of employment and has contributed through its policies to an ample redistribution of income, above all among the urban groups. At the same time social policy, mainly as regards education, health and to some extent housing, is invested with particular importance by the governments of the three countries.

Obviously there is a close connection between the role assumed by the State and the political system in force in the three countries. In the Mexican system there is not only political competition between the governing party and those of the opposition but also great rivalry within the governing party, in which the various blocs composing it play their part; generally there is a complicated mechanism of negotiation and equilibrium among these blocs, which always tend to seek some form of co-existence, giving rise to an intricate system of agreements, relationships and compensations.

The political régime in Venezuela, which began in 1959, faced serious problems at the outset, which sometimes took violent forms such as guerrilla warfare. In the end, however, this government also achieved an elaborate system of political agreements, which resulted in the establishment of a virtual two-party system which did not exclude the possibility of other parties; in fact, in certain spheres of the national life political platforms distinct from those of the two dominant parties have significant quotas of representation and power. Undoubtedly the oil resources permit considerable political flexibility; however, the manner in which these resources are used should also be taken into account. The State invests in basic sectors, organizes and incentivates private groups, assigns expenditure to the poorest sectors, redistributes income by way of wages and services, uses agricultural credit for the benefit of the

/small and

small and medium-sized peasants, generates wide-ranging policies of employment, etc. In short, the achievement of social consensus is a basic concern of the government.

A similar trend is observable in Costa Rica, where the State plays an important economic role and its main concern is to lay the foundations of politico-social consensus.

In sum, the interesting factor in the cases described has been the capacity to achieve a social consensus in which State action has played a fundamental part. On occasion this capacity has been attributed to the availability of resources, but it would seem that not only is political consensus the result of a relatively successful or stable economy but, inversely, a politico-social consensus is a guarantee of economic stability even in less prosperous circumstances. Of course the impact of the crisis subjects them to a new and heavy strain.

II. AN EVALUATION OF DEVELOPMENT STYLES, 1950-1984

1. Economic and social changes during the past three decades

a) Mixed economic and social results

The development styles adopted by the Latin American countries have produced sweeping economic and social changes. These changes have been marked, as will be seen below, by a certain degree of ambivalence. A considerable number of traditional institutions, forms of conduct and techniques have been reformed or replaced by others in which the influence of the centres is decisive. As part of the process of urbanization, industrial growth and the expansion of State agencies, technical progress has spread, the structure of production and of employment have changed, and intermediate urban and workers groups have emerged, bringing about qualitative changes in the social structure. In many overall aspects, these societies have seemed to be imitating the earlier development of the central countries. The spread of change has not, however, eliminated traditional aspects as much as had been expected; these aspects have persisted as new economic spheres of activity, jobs, social groups, institutions and production techniques have emerged. Economic and social heterogeneity has therefore become a constant in Latin American societies.

i) Principal achievements

The principal macroeconomic and sectoral changes pointed in the expected direction as the first attempts at substitutive industrialization were made in the 1930s and 1950s. The economies became industrialized and achieved a relatively rapid rate of growth.

This economic dynamism reached levels which surely would have been considered satisfactory during the postwar period. The total product quintupled in the space of 30 years and the per capita product more than doubled. The investment process was intense in some countries and brought changes in production and technology along with it. There was a considerable expansion and diversification of the region's industry, making it possible to meet almost all of the demand for consumer goods with domestic production, as well as a growing share of basic intermediate and capital goods, and to promote an increasing diversification of exports through the incorporation of manufactures, especially during the 1970s but more recently in some countries. At the same time, marketing and agroindustry were transforming agriculture; modern production techniques were introduced and the organization and marketing of agricultural products were improved. Furthermore, the expansion of infrastructure, particularly in relation to transport, communications and energy, was considerable.

The manufacturing product increased sevenfold, thereby raising its share in the total product from 17% to 25% (see table 5). As a result, the output of products associated with industrial capacity, such as steel, increased from 1.4 million to 29 million tons. In 1980, Brazil produced more steel than the United Kingdom. Moreover, steel production appears to have attained a scale and level of efficiency which make it internationally competitive. In combination with cement

/production, which

production, which increased 10 times over during a span of 30 years, this has permitted an expansion of physical infrastructure and has served as a basis for the metal transforming industry. The output of motor vehicles, which was negligible in 1950, was over 2 million units in 1980. A significant volume of machinery and equipment began to be produced in some countries and thus came to supply a considerable percentage of imports. A major expansion of activities involving the production of chemicals began to take place in the 1960s although there have been vast differences from one country to another. Thus, for example, the output of polyethylene increased 16 times over between 1966 and 1980 to a level of 730 tons, which was greater than the combined production of France, Germany, Italy and the United Kingdom in 1963.

In addition to supplying an increasing part of the domestic market and serving as a basis for the diversification of exports, industry also made agricultural modernization possible by producing machinery and fertilizers, allowed the development of transport and communications as well as mining and, gradually, permitted services to be modernized.

Electricity production was 14 times greater than it had been in 1950. Per capita consumption was 30% higher than the average level in Europe in 1950 and was double that of Japan during the same year.

Facing great challenges, the countries had spectacular production successes, such as the increase in oil production which was achieved by a number of countries within a few years, in many cases through the action of public enterprises, the performance of large-scale engineering projects, and the incorporation of vast stretches of land into agricultural production.

Institutional changes were no less spectacular. In most of the countries, in 1950 the traditional farm, or hacienda, was one of the symbols of the system; family businesses and crafts were the norm in industry, the public sector had only recently incorporated planning and development agencies, and the banking system, as well as financial markets in general, had developed very little.

Thirty years later, the region had modern companies, especially public enterprises which were handling both plans and business volumes of a magnitude comparable to those of large companies in developed countries. The traditional sort of foreign company which exploited natural resources had been replaced, in large measure, by transnational corporations. Modern enterprises had emerged in the agricultural sector, which by making full use of the technical services and infrastructure created by the government, had established links with external markets and with the most dynamic of the domestic ones. A financial market with close ties to the transnational financial system was developed in the 1970s which eventually proved to be a key element in the functioning of these economies.

There was a notable increase in public action during the period in question. In the economic sphere, policies were designed to promote industrialization and to create agricultural, roadway and energy infrastructure. Macroeconomic policies mobilized a considerable amount of domestic and external resources. Tax, agrarian and tariff reforms were introduced. Public companies were created and expanded

/without which

without which the transformation of production would not only have proved improbable, but impossible. The action taken by private national producers was backed up and complemented by the public sector. Thus, in the space of 30 years, qualitative institutional changes took place which, in quantitative terms, were comparable to a fivefold increase in the product.

These changes in structure and in economic institutions were accompanied by changes with respect to demographics, employment and social stratification which also had overall traits similar to those which had previously occurred in the central countries.

Until immediately after the Second World War, the social structures predominating in most of the countries followed the pattern of rural societies. The population was not integrated either culturally or physically; the indigenous population continued to be separated from the dominant society, the vast majority of the population lived in rural areas, forms of production were, with some exceptions, predominantly those of non-technical agricultural and crafts, and the level of knowledge was defined in terms of illiteracy, which described around half of the population over 15 years of age. Only in the cities was there a complex system of stratification, inasmuch as the greater diversity of activity entailed cultural and organizational requirements which allowed for a greater presence of middle-income sectors and workers. The forms of social power, frequently of an oligarchic sort, combined patrimonialism, authoritarianism and paternalism in what was actually a highly personalized type of dependence.

In the course of those 30 years, a transition was made to another, not yet consolidated structure which, in some cases, had not yet been perfectly defined. Historical eras overlapped and different structural forms coexisted within a single country.

The population more than doubled, physical communication took place and massive shifts occurred to the cities and, to a lesser extent, to other rural regions. The cities were virtually "invaded" by migrants and first-generation inhabitants.

The greatest changes were seen in the educational system. Almost all children were enrolled in school; the higher educational levels ceased to be elitist and participation in them shifted to a mass scale similar to the situation in Europe a decade earlier.

Employment increased rapidly in industry and modern services, while it dropped in agriculture; the active population increasingly came to be employed on a wage-earning basis in more complex organizations requiring higher technical qualifications, and employment in non-manual activities increased at the cost of manual activities.

Social services and income expanded, although they frequently tended to be assigned on a stratified and often corporate basis rather than on a universal one.

Regardless of whether or not there was any change in the distribution of income and power, many social groups in those countries where economic growth was most rapid were gratified by the upward and horizontal shift in the social structure

/(the latter

(the latter taking place as the change was made from a rural to an urban society) because they felt they had some mobility, or at least their children would, even though their upward movement continued to be slight in relative terms.

Different collective social actors were involved depending on the country. The national bourgeoisie as well as that which represented the transnationals played a central part during this period of capitalist transformation. This should not be construed as meaning that the State did not play a role, for in some cases it was the main actor. The workers as such played a dominant role only on rare occasions, since in most of the countries their number was limited, while in others they were strictly controlled; they frequently were subsumed as part of a popular demand or a multi-class form of expression. The peasantry, in a socially explosive situation, at times formed links with political or intellectual groups, but in most of the countries, and especially the larger ones, the pressure which they could exert declined as they came to represent a smaller proportion of society and as the breakdown of the peasant economy and society occurred. The middle classes played an important role, and at times were associated with the upper-income sectors; however, they also gave rise to intellectual groups which had a strong tendency to offer social resistance. The orientation of middle-income sectors depended, in large part, on the blockage of the power structure or, conversely, on the capacity for incorporation which resulted from economic growth; they were also influenced by their relative distance from higher or lower groups, if not by a fear of the upward mobility of the latter or of the blank future left to them by the dominant groups.

The characteristics just described largely correspond to the aspirations of many economic and social groups which were attempting to modernize society. They existed alongside other economic, demographic and social traits which were quite removed from the original undertakings and which reflected the persistence of traditional aspects and the inability of these styles to incorporate large numbers of producers and groups of the population into the changes that were occurring.

ii) Changes in agriculture and industry

The development of the agricultural sector reveals a major technological and institutional change which was reflected in the expansion of modern agricultural enterprises that maintained links with urban and external sectors. These enterprises, which were provided for in the original modernization projects, existed alongside traditional peasant agriculture, which predominated; technical progress has made very few inroads in this type of agriculture, which is isolated from the demand of higher-income urban groups and of international markets.

The maturation of public investments in irrigation and transport infrastructure projects and the development of financial, commercial and administrative markets (oftentimes governed or encouraged by the State) made possible a greater penetration of commercial and agroindustrial capital, resulting in the introduction of new technologies. This led to the emergence of modern companies as a result of closer links with urban and external markets, of the development of agroindustry and the intervention of the public sector as well as, on occasion, the action of foreign capital. Nonetheless, the change did not affect large groups of small-scale

/producers and

producers and, moreover, it sometimes displaced them from their land. This type of peasant agriculture persisted and is still in the majority today in terms of the number of production units and population. Indeed, the entrepreneurial sector, which includes small business, would appear to be made up of 3 to 4 million units, of which only a small number is highly mechanized, judging from the small fleet of tractors and motor-driven threshers existing in the region in 1981: less than 900 000 and 126 000, respectively.

Peasant agriculture involves production units whose lands generally have an insufficient production potential even to sustain those who own or run them. Their importance as a source of food for low-income groups should not be underestimated, however, inasmuch as, very roughly, some 13 million to 14 million of such units exist in the region and their combined production supplies a large proportion of the diet of such groups.

It is interesting to note that the most successful type of public action relating to the creation of infrastructure and to the application of policies in the areas of credit, pricing, tariffs and the promotion of agricultural research has exhibited a marked orientation towards the development of the entrepreneurial agriculture-based economy. On the other hand, agrarian reform directed towards peasant agriculture had little technical or financial backing and, in most cases, fell short of its original objectives.

These contrasts between forms of exploitation have also had effects on the ecosystems involved. Traditional farms, plantations and enterprises at a stage of incipient modernization during the postwar period generally underexploited the land, in contrast to the well-known overexploitation of small landholdings. The establishment of modern enterprise has affected the ecosystems in various ways. The incorporation of new land using capitalist forms of farming, the expansion of the agricultural frontier by peasants who had been ejected from their land and the application of new cultivation techniques have had, inter alia, the following effects: a) the deforestation of land which is not suitable for cultivation or stock-raising; b) an unbalanced use of land, leading to waste and erosion; c) the excessive artificialization of ecosystems through the abuse of pesticides whose destructive effects are well known, along with the failure to use fertilizers as they are used in the developed countries; this has contributed to the depletion of the soil in those cases where it has not resulted in its outright sterilization.

These technological and institutional changes appear to be closely linked to changes in domestic and international demand. Urbanization has resulted in major changes in the composition of food demand. In this connection, highly differentiated consumption patterns have been adopted; those of the middle- and upper-income groups have imitated those of the developed countries, while the pattern associated with broad sectors of the population reflects their unsatisfied food needs. Although meeting the demand of the former groups has been a very dynamic factor in the development of agroindustry, it involves increasing costs in terms of imported inputs and units of food calories produced/consumed. The composition of food demand is, of course, a reflection of income distribution, whose extreme inequality stands out most clearly when its levels are low; it is

/evident that

evident that in this case it is materially impossible for the "imitative" patterns of food consumption to become widespread.

Regional agriculture's share in international trade has been declining. Agricultural exports are predominantly made up of a small number of products for which the demand is not very dynamic; one of the reasons for this is that these products represent only a marginal part of market baskets. Thus, between 1950 and 1982 Latin America's share in agricultural exports worldwide dropped from 21% to 14%. This decrease was prevented from being even more drastic by the fact that the region has been able to compete successfully in the sale of oil-bearing seeds, fruits and vegetables, for which demand has been more dynamic. By contrast, food imports rose at an annual rate of over 10% in 1970-1980 because they include staple foods in the national diets which come almost exclusively from developed countries and which are controlled by a few transnational corporations. This has also given rise to an asymmetrical trade in food which does not stem so much from "comparative advantages" as much as from the power of the central countries to implement vigorous policies for promoting their agricultural production, with protectionist policies at the fore. An illustration of this is provided by some recent estimates which, for example, indicate that if OECD protectionist measures were to be cut by half, the developing countries would then be in a position to increase their exports by approximately 15%. Such asymmetry in food trade has made national food systems highly vulnerable, especially as regards some key items where a significant part of supply comes from imports: 62% for wheat (excluding Argentina and Uruguay) and 33% for oil seeds.

In sum, the composition and amount of domestic and international commercial demand have both contributed to productive and social ambivalence within the agricultural sector.

As noted previously, industrial expansion was highly successful. Its effect on the growth of the other urban sectors is well known and is a basic part of the growth model followed by the region. Import substitution made economic growth possible in times of crisis with respect to foreign trade. The sector's great capacity for absorbing manpower, which will be discussed later, had a decisive influence on the emergence of workers and middle-income groups. Industrialization thus allowed a considerable change to be made in the economy and the society along the lines which had been projected. Nonetheless, as the industrialization process gradually ceased to meet the expectations that it would create an increasing degree of technological self-reliance and that its expansion would be based on a medium- and long-term plan to make it independent from short-term consumer demand, it also lost dynamism, became more externally dependent and its effects on this transformation were diluted.

The development of the industrial structure was, generally speaking, similar in all the countries of the region. It began with the production of non-durable consumer goods; it then branched out into intermediate products and consumer durables and ended up with the production of capital goods. An analysis of the distribution of the above-mentioned production activities' contribution to the industrial product will show that, at one extreme, the large countries made

/significant progress

significant progress with respect to the latter three product groups and, especially, made some progress in the production of capital goods, whereas non-durable consumer goods were still in the majority in most of the small countries.

If, in addition, their industrial development is compared with that of what are today industrialized countries, considerable differences may be observed. One such difference is their technological dependence and its effects on the capital-goods sector's low level of development and the asymmetry of industrial foreign trade.

At the outset of the industrialization process, it was assumed and hoped that enough learning would take place to allow the sector to expand and on a more self-sustained basis. Technical progress was expected to become widely disseminated, to articulate the different branches of activity and to provide many different opportunities for foreign trade in manufactures.

Many obstacles stood in the way of the achievement of such ambitious goals. As already noted, attempts to create subregional and regional markets produced limited results and, given the economic policy being followed, external conditions, especially in the financial sphere, proved to be an obstacle to industrialization. The small countries therefore, ran up against serious obstacles at very early stages of their industrialization. Economic policy was not always suitable either and sometimes fostered an excessive amount of protectionism in certain branches of production.

Moreover, in most cases and at most stages, the industrialization process was governed by stimuli associated with the medium- and short-term satisfaction of consumer demands which were hindered by balance-of-payments restrictions. In a few cases and stages, this was also the result of a deliberate effort to transform industry which, in addition to being an attempt to supply increases in consumption over longer periods, placed value on the creation of technology, changes in social stratification and the distribution of income which would result, the greater degree of autonomy which this would make possible and the effects on other economic sectors of strong and dynamic linkages.

The stage of import substitution of non-durable consumer goods during the 1930s and 1940s and the creation of consumer-durables production activities with an extremely small input of technology during the 1960s and 1970s are examples of moves which were based on balance-of-payments problems or on the activity of transnational corporations. In these cases, industrial investment was not a long process of accumulation intended to satisfy a new structure of consumption over the long term. On the contrary, it was intended to meet pre-existing consumer demand or demand which could easily be created in the short run. To a large extent, it therefore fitted in with the previous distributive structure.

On the other hand, some investments --such as the investments made in steel mills and petrochemical plants during the 1950s, 1960s and 1970s, which were generally undertaken at the prompting of the State-- were intended to create industrial infrastructure, were not necessarily made in response to existing demand, and served as the basis for new branches of industry. Because of their size, they were based on projections of future demand.

iii) Demographic trends

Perhaps the most outstanding characteristic of Latin American demographic trends is the rapid and steady growth of the population which caused it to double its 1950 level of 158 million by the end of 1975, when it stood at 316 million. Currently, the population is growing at an annual rate of 8.8 million people.

A considerable spatial redistribution of the Latin American population occurred at the same time. The urbanization process became very intense, causing the urban population to grow very rapidly, at rates of over 4% in most of the countries and of 5% in some of them. The population changed from being predominantly rural in 1950 to predominantly urban by the early 1980s. Major metropolitan centres have also emerged in which a large percentage of the population is concentrated.

These demographic trends appeared to be linked both to centre/periphery relations and to the sweeping economic and social changes which have occurred in recent decades. Highly significant changes have occurred with respect to trends in population growth rates. In the early 1950s, it was possible to discern certain relationships between development processes and trends in fertility and birth rates, despite the fact that some appreciable differences could already be seen in the decline of birth rates as a result of centre/periphery relations. Towards the end of this period, major changes occurred in birth and fertility rates which now appear to be much more closely related to links with the centres, both in terms of behaviour patterns and the incorporation of sanitary techniques.

Fertility rates decreased a great deal during the period under consideration, despite the fact that the countries of the region have not undergone the economic changes which were associated with a decline in fertility in the centres.

Fertility trends in Latin America have some particular characteristics which should be brought out. In those countries which are now developed, fertility never reached the levels which it did a few decades ago in the Latin American countries. Furthermore, the decrease in fertility in those countries came about roughly 80 years after mortality began to decline, with the exception of a few countries, including France, where both variables began to decrease more or less in parallel with one another.

In terms of the average number of children per woman by the end of child-bearing age, i.e., the General Fertility Rate (GFR), 80% of the Latin American population in 16 countries exhibited very high levels until 1960-1965; over 5.5 children per woman. Shortly before the beginning of the 1970s, however, fertility started to decline in most of the countries; in some cases, the decrease was greater and more rapid than ever before in any country. Costa Rica and Colombia are two examples. In Costa Rica, the GFR fell from almost 7 children per woman in 1960-1965 to 3.5 in 1980-1985. In Colombia, the decrease during this same period was from 6.7 to 3.9 children per woman. In these countries, a decisive factor in this trend has been family planning programmes. Nonetheless, similar programmes have been established in other countries without producing such astounding results. One plausible explanation may be the socio-cultural development conditions prevailing

/in a

in a country when a birth control programme is established. The greater the level of socio-cultural development, the greater the response which can be expected to family planning programmes.

On average, Latin America has reduced its fertility rate by just under two children per woman during the period analysed above.

With respect to mortality rates, the influence of modern sanitary techniques which were not available in the centre during the period when per capita income was approximately what it is now in Latin America has occasioned a steep drop in mortality, especially infant mortality.

During the five-year period 1950-1955, 80% of the population in 14 countries exhibited high levels of mortality. In terms of life expectancy at birth, the level was less than 55 years (it must be remembered that the lower the life expectancy, the higher the level of mortality). The situation changed radically during the next 30 years; during the five-year period 1980-1985, 90% of the population in 15 countries had a relatively low mortality level, with a life expectancy at birth of over 60 years. On average, in the 30 years between 1950-1955 and 1980-1985, life expectancy in Latin America rose 12.5 years: from 52 years in 1950-1955 to 64.5 years in 1980-1985 (see table 7).

In summary, it may be said that, in the countries of the region, demographic indicators, at least of mortality, are less closely associated with economic, social and cultural development. In contrast, the gain in life expectancy during the 30 years between 1846 and 1876 in England and Wales was only two years: from 41 to 43 years.

Demographic dynamics have undergone very notable changes as a result of the trends in fertility and mortality. The growth and age structure of the population have changed substantially. Between 1950-1955 and 1960-1965, the growth rates increased as a result of high and sustained levels of fertility in combination with declining mortality levels. In the five-year period from 1960 to 1965, 80% of the Latin American population (14 countries) increased at a rate of over 2.5% annually. During the five-year period between 1980 and 1985, the situation has been very different, in that this growth rate was registered among only 42% of the population (12 countries), while in two countries, Uruguay and Cuba, annual growth rates were under 1.5%. The Latin American population is still young, as shown by its age distribution, but there is a great deal of heterogeneity among the countries. As just one example, there was a great variation in the proportion of the population under 15 years of age during the period 1960 to 1965, ranging between 48% in Nicaragua to 28% in Uruguay. This range has remained virtually the same until 1980-1985. As regards the proportion of the population over 65 years of age, the changes have been moderate: in 1960-1965, it varied between 2.2% and 8.3% (Nicaragua and Uruguay, respectively) and in 1980-1985, it ranged between 2.4% and 10.5% (Honduras and Uruguay, respectively).

Domestic economic and social changes have had a more direct effect on the spatial distribution of the population. Thus, in so far as economic development has maintained its structural heterogeneity and has not incorporated large segments

Table 7

LATIN AMERICA: DISTRIBUTION OF COUNTRIES ACCORDING TO LIFE
EXPECTANCY AT BIRTH (BOTH MALE AND FEMALE)

Life expectancy at birth (years)	1950-1955	1960-1965	1980-1985
<u>Under 50</u>	Bolivia, El Salvador, Ecuador, Guatemala, Haiti, Honduras, Nicaragua, Peru, Dominican Republic	Bolivia, Peru, Guatemala, Honduras, Haiti	
Number of countries	9	5	
Percentage of the Latin American population	17	11	
<u>50-54.9</u>	Brazil, Colombia, Chile, Mexico, Paraguay	Ecuador, El Salvador, Nicaragua, Dominican Republic	Bolivia, Haiti
Number of countries	5	4	2
Percentage of the Latin American population	63	6	3
<u>55-59.9</u>	Costa Rica, Cuba, Panama, Venezuela	Colombia, Chile, Brazil, Paraguay, Mexico	Peru, Honduras, Nicaragua
Number of countries	4	5	3
Percentage of the Latin American population	8	65	7
<u>60-64.9</u>	Argentina	Venezuela, Costa Rica, Panama	Colombia, Ecuador, Brazil, El Salvador, Guatemala, Dominican Republic,
Number of countries	1	3	6
Percentage of the Latin American population	11	5	49

/table 7 (cont.)

table 7 (concl.)

Life expectancy at birth (years)	1950-1955	1960-1965	1980-1985
<u>65-69.9</u>	Uruguay	Argentina, Uruguay, Cuba	Chile, Venezuela, Argentina, Paraguay, Mexico
Number of countries	1	3	5
Percentage of the Latin American population	1	13	36
<u>70 and over</u>			Uruguay, Costa Rica, Panama, Cuba
Number of countries			4
Percentage of the Latin American population			5

Source: CELADE, on the basis of official data.

of the population into modern sectors (with few changes, for example, in the large peasant sectors), the spatial redistribution of the population has been less marked and its access to the benefits of technical progress has been more limited.

The spatial distribution of the Latin American population resulting from differences in fertility and mortality and from geographic mobility led to an increase in the amount of space being occupied during the 1960s and 1970s while the concentration of the population remained the same. Despite the fact that these two phenomena would appear to be leading in different directions, their simultaneous occurrence entails a juxtaposition of the two factors: much of the horizontal expansion linked to the extension of internal frontiers within these countries was concurrent with the emergence and development of urban centres. On the other hand, in a number of countries large sections of the central zones where long-standing settlements are located are losing population in relative terms; some of the factors which help account for this situation are the breakdown of peasant economies, the introduction of entrepreneurial forms of organizing agricultural production which tend to substitute seasonal manpower for a stable labour force, and mechanization.

As a result of the urbanization process, extensive agricultural tracts have been converted into residential areas, industrial centres and transport networks. When the growth of metropolitan centres has been very rapid, and especially when their expansion has been so great that they have become some of the most populous cities in the world, investments in infrastructure have become more expensive, agricultural land has remained idle as its owners wait for its value to rise, basic services (electricity, drinking water, energy, etc.) have been distributed very unequally between high- and low-income groups, and it has become exceedingly difficult to resolve critical problems affecting vast areas populated by the poorest strata.

In short, changes in demographic variables are certainly linked to national economic, social and cultural development processes in general terms. This link has been so close that what might perhaps be called a cause-and-effect relationship existed during the period when what are today industrialized countries began to industrialize and modernize. In other words, the countries which are now industrialized had to develop economically and socially in order to lower, for example, their high mortality rates. Naturally, this was a slow process since development first had to reach the point where significant technological progress was made in the fields of health, environmental sanitation and disease prevention.

In Latin America, this rather close relationship among some demographic variables was also observed in the early years of this century, and it could be said to have continued until the 1950s in some countries. In the 1960s, the relationship between mortality and economic and social development conditions began to grow weaker and now mortality can be considerably reduced without significant progress being made in economic and social development. While this is true at the national level, however, it cannot be said to be true of some sectors of the population within these countries, where high mortality rates which are closely associated with extremely substandard economic and social conditions still persist.

iv) Employment and underemployment

Between 1950 and 1980, the labour force in Latin America rapidly shifted towards non-agricultural activities. During this period, the agricultural labour force dropped from 54.7% to 32.1% of the total.

This change in the employment structure occurred at a time of rapid growth in the non-agricultural labour force as a result of rural-urban migration, trends in employment rates and natural urban growth. Between 1950 and 1980, the non-agricultural labour force grew at a rate of 4% annually in Latin America.

Modern non-agricultural activities --or formal urban activities, to use PREALC terminology-- rapidly absorbed manpower. The jobs created by such activities increased at an annual rate of 4.1%, which was slightly greater than the growth of the urban labour force. It should be remembered, however, that modern non-agricultural activities represented 70% of the urban labour force around 1950. Consequently, even with slightly higher growth rates, the expansion of modern urban employment was less in absolute terms than the growth of the urban labour force. Put another way, despite the fact that this process rapidly created modern jobs, there were not enough of them to absorb all of the urban labour supply (see tables 8 and 9).

The relative insufficiency of this process accounts for the increase in informal activities, where the largest pockets of urban underemployment are to be found. Between 1950 and 1980, the share of the total labour force represented by informal activities rose from 13.5% to 19.4%.

In order to avoid confusion, it should be pointed out that the growth of informal activities and of the urban underemployment which resulted is accounted for by the rapidity of rural-urban shifts and the relative insufficiency of modern non-agricultural activities to absorb the large supply of labour. Thus, the share of the urban labour force represented by informal employment remained fairly constant between 1950 and 1980 (declining from approximately 31% to 29%).

The situation with respect to underemployment is a reflection of the net effect of two opposing trends, with the former being stronger than the latter: a reduction in agricultural underemployment and an increase in urban underemployment. Underemployment consequently dropped from 46.1% to 38.3% between 1950 and 1980 (see table 8). By 1980, over half of all underemployment was concentrated in the informal urban sector, indicating that the problem had shifted to the cities. In view of present trends, this "urbanization" of the employment problem will be even greater in the future.

To sum up, the trends seen in Latin America during the past three decades can be described as follows. In the process of shifting manpower towards activities in which productivity is greater, Latin America does not, in general, appear to have departed from the model followed by the countries which are now developed. In fact, if any one trait can be said to characterize the process in

Table 8

LATIN AMERICA: SEGMENTATION OF THE ECONOMICALLY ACTIVE POPULATION
AND THE EXTENT OF UNDEREMPLOYMENT, 1950-1980

(Percentages)

		Share of the total economically active population							
		Non-agricultural			Agricultural			Mining	Under-employment
		Formal	Informal	Total	Modern	Traditional	Total		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)=(2)+(5)
<u>Latin America</u>	1950	30.6	13.5	44.1	22.1	32.6	54.7	1.2	46.1
	1980	47.7	19.4	67.1	13.2	18.9	32.1	0.8	38.3
<u>Group A</u>	1950	26.4	12.2	38.6	22.4	38.0	60.4	1.0	50.2
	1980	48.2	18.6	66.8	14.1	18.4	32.5	0.7	37.0
<u>Brazil</u>	1950	28.5	10.7	39.2	22.5	37.6	60.1	0.7	48.3
	1980	51.6	16.5	68.1	12.4	18.9	31.3	0.6	35.4
<u>Colombia</u>	1950	23.9	15.3	39.2	26.2	33.0	59.2	1.6	48.3
	1980	42.6	22.3	64.9	15.8	18.7	34.5	0.6	41.0
<u>Costa Rica</u>	1950	29.7	12.3	42.0	37.3	20.4	57.7	0.3	32.7
	1980	54.2	15.3	69.5	20.5	9.8	30.3	0.2	25.1
<u>Mexico</u>	1950	21.6	12.9	34.5	20.4	44.0	64.4	1.1	56.9
	1980	39.5	22.0	61.5	19.2	18.4	37.6	0.9	40.4
<u>Panama</u>	1950	34.9	11.8	46.7	6.2	47.0	53.2	0.1	58.8
	1980	51.6	14.8	66.4	11.4	22.0	33.4	0.2	36.8
<u>Venezuela</u>	1950	34.7	16.4	51.1	23.3	22.5	45.8	3.1	38.9
	1980	60.9	18.5	79.4	6.5	12.6	19.1	1.5	31.1
<u>Group B</u>	1950	17.1	14.9	32.0	23.2	43.0	66.2	1.8	57.9
	1980	29.1	21.8	50.9	12.0	35.9	47.9	1.2	57.7
<u>Bolivia</u>	1950	9.1	15.0	24.1	19.0	53.7	72.7	3.2	68.7
	1980	17.9	23.2	41.1	5.2	50.9	56.1	2.8	74.1
<u>Ecuador</u>	1950	21.5	11.7	33.2	27.4	39.0	66.4	0.4	50.7
	1980	25.6	28.6	54.2	12.1	33.4	45.5	0.3	62.0
<u>El Salvador</u>	1950	18.5	13.7	32.2	32.5	35.0	67.5	0.3	48.7
	1980	28.6	18.9	47.5	22.3	30.1	52.4	0.1	49.0
<u>Guatemala</u>	1950	16.6	14.0	30.6	20.6	48.7	69.3	0.1	62.7
	1980	23.8	18.9	42.7	19.4	37.8	57.2	0.1	56.7
<u>Peru</u>	1950	19.1	16.9	36.0	21.9	39.4	61.3	2.7	56.3
	1980	37.7	19.8	57.5	8.9	31.8	40.7	1.8	51.6

/Table 8 (concl.)

Table 8 (concl.)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)=(2)+(5)
<u>Group C</u>	{ 1950	54.0	16.6	70.6	20.4	7.6	28.0	1.4	24.2
	{ 1980	61.5	21.4	82.9	9.2	7.0	16.2	0.9	29.4
<u>Argentina</u>	{ 1950	56.8	15.2	72.0	19.9	7.6	27.5	0.5	22.8
	{ 1980	63.5	21.4	84.9	7.8	6.8	14.6	0.5	28.2
<u>Chile</u>	{ 1950	40.8	22.1	62.9	23.1	8.9	32.0	5.1	31.0
	{ 1980	55.5	21.7	77.2	13.2	7.4	20.6	2.2	29.1
<u>Uruguay</u>	{ 1950	63.3	14.5	77.8	17.3	4.7	22.0	0.2	19.2
	{ 1980	63.3	19.0	82.3	9.5	8.0	17.5	0.2	27.0

Table 9

LATIN AMERICA: ANNUAL GROWTH RATE OF THE LABOUR FORCE AND OF
NON-AGRICULTURAL MODERN EMPLOYMENT, 1950-1980

	Growth of the total economi- cally active population	Growth of the non- agricultural econo- mically active population	Growth of the non-agricultural modern employment a/
<u>Latin America</u>	<u>2.5</u>	<u>4.0</u>	<u>4.1</u>
<u>Group A</u>	(2.9)	(4.8)	(5.0)
Brazil	3.2	5.1	5.2
Colombia	2.4	4.1	4.4
Costa Rica	3.4	5.2	5.5
Mexico	2.5	4.5	4.6
Panama	2.4	3.7	3.8
Venezuela	3.3	4.8	5.2
<u>Group B</u>	(2.1)	(3.7)	(3.9)
Bolivia	1.5	3.3	3.8
Ecuador	2.5	4.2	3.1
El Salvador	2.7	4.1	4.0
Guatemala	2.2	3.3	3.3
Peru	2.0	3.7	4.3
<u>Group C</u>	(1.4)	(1.9)	(1.8)
Argentina	1.3	1.9	1.7
Chile	1.8	2.5	2.6
Uruguay	0.8	1.0	0.8

Source: Data prepared by PREALC.

a/ Or, in PREALC terminology, formal urban employment.

the region, it is its intensity. Three aspects appear to play a significant role in differentiating these trends. The first is the greater pressure exerted by the urban labour supply in Latin America. The second is the relative inability of modern sectors to absorb all of that supply, thereby producing an expansion of informal employment. The third is the slowness with which employment in traditional agricultural activities has been reduced. This explains why, after 30 years of rapid absorption, a considerable amount of underemployment still exists.

Finally, it should be noted that the changes in employment have not been a continuous process within the region during the period under consideration. The three factors just mentioned have evolved differently over time. Population growth, and especially the growth of the urban population, accelerated until reaching its peak in the late 1960s. However, this peak was reached in the 1970s in a significant number of countries, and the average annual rate exceeded 3%. With a time lag of somewhat more than a decade, during the 1970s and 1980s, the growth of the labour force neared 3% annually and was over 4% annually in urban areas. The productivity rates inherent in the pattern of the introduction of technology did not escape from this acceleration of growth. In view of this, ECLAC has directed attention on various occasions to the employment challenge of the 1970s and 1980s. Preliminary figures for the 1970s indicate that the employment problem, and especially the various forms of underemployment, held constant in those instances where they did not grow worse, despite the economic dynamism seen in some countries.

The slower rate of growth in 1981, the depression of 1982-1983 and the slight recovery seen in 1984 have, in many cases, already resulted in higher open unemployment; everything would seem to indicate that the same thing has occurred with respect to underemployment.

v) Changes in the educational structure

Over the past three decades, there has been a considerable expansion in education and the quantitative progress made in this respect is perhaps the most positive indicator of improving social conditions in the region.

Illiteracy, which has primarily been a problem among adults, tended to be residual in a number of countries during this period, although illiteracy rates were still very high among the more populous societies of the region and in countries where a considerable rural and especially indigenous population exists. Virtually all children now have access to primary school, but the entire population is still not assured of complete basic schooling. Secondary education, which was only within the reach of a minority, has become the norm in vast urban sectors; finally, higher education, to which only an élite had access, has enrolment figures similar to those of European countries; this points to a very considerable cultural and human resource potential for the future.

Despite these advances, the entire population has not yet been provided with a minimum basic education. Latin America therefore presents a paradoxical situation, in that its quantitative levels of primary education are comparable to those of

/the European

the European countries during the early decades of this century, whereas its university coverage is comparable to that of these same countries scarcely ten years ago. This has implications relating to inequality, the failure to create a shared form of socialization, the reproduction of an unjust type of social stratification, insufficient training of human resources on a mass scale and the concentration of the region's collective resources in the financing of prolonged periods of study at the cost of basic education.

The educational situation in the region can be broken down according to different groups of countries. The first category includes countries where the educational system was modernized early on; in these countries, primary schooling is nearly universal and there has been a corresponding development of secondary and higher education. The second category takes in those countries which, in the space of a few years, brought about a sort of "mutation" in the level of education by achieving a considerable increase in coverage. This has given a new cultural outlook to young generations, although one sector of the population remains excluded from primary education. At the same time, higher education was expanded, and these countries are therefore those with the greatest university coverage in the region. In the third category of countries, educational processes have been very unequal between rural and urban populations or between one region and another within the same country where the increase in education mirrored regional economic development or the concentration of income. A fourth category includes small rural countries where education is virtually unavailable to the rural population or only exists to the extent necessary to eliminate illiteracy, while the limited middle-income sectors in the cities are assured not only of secondary education but also of a quantitatively significant opportunity for higher education which does not fit in with the weakness of the corresponding labour market. A fifth category is characterized by integral planning of the educational process, with a great deal of emphasis being placed on primary and basic education and on eliminating illiteracy among marginal sectors, as well as by a policy towards using education to introduce greater equality into society; this policy would subsequently be converted into a mechanism for the selection of human resources which is closely tied in with the economic system and estimated manpower needs.

From the standpoint of society, in most of these countries education constitutes a privileged sector with respect to collective demands and to the channelling of these demands by the power system. The population places a very high value on education because it is seen as a way to become integrated into the national society and as the best means of gaining upward social mobility. This gives rise to an unceasing demand for education, with the material problems it entails. Inasmuch as the demand for education comes from groups having unequal amounts of power and dissimilar perceptions of the significance of education, the results of a system whose expansion is based on those demands are just as unequal as the groups which generate them. Thus, marginal rural and urban sectors are the main driving force behind the expansion of primary education; while middle- and upper-income sectors attain a relatively greater and higher quality supply of secondary and higher education.

/Nonetheless, faced

Nonetheless, faced with strong pressure to make education more democratic, the higher-income social groups try to reconstruct the bygone elitist role of education by establishing systems covering the entire range from preschool to university which are separate from the education received by the majority of the population; the members of the highest-income families receive a qualitatively better education in these schools than the rest of the people and, thus, by the end of their studies they are objectively better educated.

The situation with respect to juvenile illiteracy was very different for young people living in rural areas than it was for those in urban areas, and even more so in the case of those living in the largest urban centres. Around 1970, three-fourths of all illiterate young people resided in rural areas, making residence in rural areas in Latin America a clear disadvantage in so far as the possibility of incorporation into society is concerned. It was found that in the 20-29 age group, 65 out of every 100 young people who had not received educational training were farmers and another 10 rendered domestic and other personal services; this indicates that exclusion from education has an impact on exclusion from employment.

During the period from 1970 to 1980, there was an acceleration of the changes in young people's educational profiles; in the more advanced countries in this respect, there was a virtual disappearance of the category of persons having between 0 and 3 years of studies in the 15-19 age group --this being the case in Chile and Panama-- while, at the same time, persons having 10 years of education or more came to constitute between 25% and nearly 45% of all young people.

Some countries --generally those where modernization came early and is at an advanced stage-- have followed policies which promote social integration and basic schooling; in these countries, illiteracy has practically ceased to exist and the development of higher education is therefore the norm (e.g., Argentina, Cuba, Chile, Costa Rica, Uruguay). Others rapidly and simultaneously developed their entire educational system and have readily provided opportunities for the middle classes, but do not have universal primary schooling for all (e.g., Panama, Venezuela, Ecuador, Peru). Still others have a segmented system which, depending on the region and people's social position, either excludes them from education or provides a reasonable possibility of engaging in higher studies (e.g., Brazil, Mexico, Colombia, Bolivia and Nicaragua). Finally, the other countries' educational systems have developed on a more exclusive basis where only a minority has access to education.

vi) Changes in stratification

Urbanization, economic growth and modifications in the structure of production, along with changes in technology and the quality of life, have produced countless changes in the various ways in which Latin American societies are stratified.

/The expansion

The expansion and modification of the production and institutional structure are a primary factor of change in social occupation-based stratification and the differences in status which it entails. Although these changes have not necessarily resulted in major modifications in the distribution of income, except among recently-established middle-income sectors in some countries, they have gratified broad social sectors which have felt they are participating in a mobilization process involving the entire society. Moving from a rural area to an urban area, even without any increase in monetary income, gives people access to social income such as educational or health services which are scarce or non-existent in rural zones or to mass-scale training. For illiterate parents, the fact that their children know how to read and write means that they gain access to written codes of communication and escape from a situation of extreme marginality, even though the position of a literate child may, in relative terms, be just as low as that of the illiterate parent in his time. When the children of manual workers find jobs in non-manual activities, they pass over one of the symbolic and historical barriers of social separation in Latin America, even though this change may not afford them a higher income.

In so far as many societies tend towards structures of production which will undergo very little change in relation to the changes seen in the period examined here, fewer changes in social stratification on the basis of employment may be expected. From that point onwards, significant changes which go beyond individual instances of rising or falling on the social scale will primarily be brought about on the basis of income distribution, culture and power.

An increase in the relative importance of non-manual versus manual jobs is a second factor of change in social stratification. The use of modern methods and technology reduces manual employment while increasing the number of non-manual jobs, both because the substitution of men by machines in tertiary activities has not yet taken place on an intensive basis and because, in some countries where the main sources of wealth are mining or petroleum (these being activities which require little manual labour and which usually allow the government to expand services), the relative number of technicians and merchants increases.

A third significant change in stratification involves the relationship between manual wage-earners in secondary occupations (including construction and basic services) and non-manual wage-earners employed in secondary or tertiary activities (managers, professionals, semi-professionals, civil servants, merchants). This relationship can be regarded as a reflection of the relative importance of the working class and some sections of the middle class, although the latter's income may not be in line with their status. In this connection, it has been seen that manual employment has exhibited a tendency to decline in relative terms throughout the region. In some cases, this has not been as marked because of the intensive development of the construction industry; in others, it has been sped along by policies which set back industrialization; in a third group of countries, manual jobs did not become established as a typical urban occupation and, by virtue of the modalities of urbanization without industrialization, the employment of non-manual wage-earners took their place as the dominant form of occupation. It is unlikely that these trends will undergo any major change because production technologies are beginning to come into use which utilize less manpower for industrial

/production. Moreover,

production. Moreover, during this period the emergence of sectors of middle-income wage-earners, or a new middle class, has been a very important phenomenon.

Lastly, a fourth significant change involved the relationship between the categories of independent non-manual workers (merchants, carriers, etc.) and non-manual wage-earners. In a very general way, these two groups can be regarded as representing the "old" and "new" middle classes, the residual and emerging groups. As is obvious, it is the latter whose participation in economic growth and social modernization is on the upswing.

However, the changes described above, although significant, did not reduce the proportion of the population living in poverty, which continued to represent 40% of the population in the early 1970s (there being no indication of any major change in these figures), nor did they eliminate urban poverty, significantly increase the upward mobility of poor groups, or prevent the living conditions of large numbers of small landholders from deteriorating.

b) Economic and social heterogeneity

The description given of economic and social changes might lead one to draw a relatively optimistic conclusion. In many respects, the region seems to be heading towards desirable patterns in relation to its growth potential and access to the benefits derived, at least in theory, from change and dynamism. Unfortunately, a more detailed analysis of the branches of production in the Latin American countries during different periods indicates that the overall results conceal a persistent heterogeneity which clearly differentiates the events in the Latin American periphery from those in the central countries. This heterogeneity impedes a suitable distribution of the benefits of growth and an increase in the degree of autonomy enjoyed by the countries in the region, hinders attempts to achieve national and regional integration and eventually limits the potential for growth and change.

Naturally, these are phenomena which also occurred to some extent in the centres. There, the existence of overlapping technical strata exhibiting differences in productivity tended to result in the disappearance of the more backward strata. In Latin America, numerous strata with very low productivity continue to exist and account for a significant part of the total labour force.

Indeed, the most worrisome feature of the Latin American economic and social structure is the prolonged coexistence of backward or traditional structures with modern structures. This heterogeneity was shown in an extremely mobile way in the contraposition of the rural and urban ways of life, or of the two economic and social institutions which help to shape the social relations of them both: the hacienda and the industrial enterprise. As is to be expected, the old and the new tend to coexist during any time of change, and their coexistence would appear to be very characteristic indeed of a period of transition marked by a hybridism of forms which, in the contraposition of the countryside with the city, appears to be a structural dualism.

/However, the

However, the transition has often seemed to take too long; this has been a cause of concern, not only because of the nature of the forms which coexist, but also because the question arose as to how it was possible for one form to give way to another or, in very broad terms, how was a traditional society to give way to a modern one, inasmuch as something appeared to be preventing such a transition from taking place in the Latin American societies.

Furthermore, it began to be seen that this "heterogeneity" was not only visible in the relationship between the agrarian and the industrial sectors, as has been said, but also took the form of intrasectoral heterogeneity, thus underlining the limited nature of the modernization processes.

In searching for the causes of these phenomena, ECLAC has always maintained that this heterogeneity is linked to the type of insertion and external relations of the Latin American economies. The "demonstration effects" inherent in external relations --and particularly in relations with more developed societies-- have resulted, for example, in the modernization of consumption patterns which, through demand, generate pressure for the creation of specialized structures of production which have few links with the existing economic and social structure as a whole.

In the period prior to substitutive industrialization, the export sector --which has always been important in the economies of the region-- generally exhibited dynamism which was linked to the external market rather than to the national economy. Development or progress in this sector often left the rest of the domestic economic sectors untouched. However, it was supposed that self-sustaining growth based on the dynamism of a domestic sector could eliminate the existing heterogeneity. Thus, in many cases hope was placed in the creation or promotion of an industrial sector which would be capable of transmitting its dynamism to the economy as a whole; at the same time, it was hoped that an autonomous body of industrial entrepreneurs would emerge locally which would be capable of acting as the driving force behind development.

There are a series of factors involved in industrialization itself --some of which have already been discussed-- which help to account for the partial fulfilment of expectations regarding the dynamism of the industrial sector and the autonomy of entrepreneurs.

As already stated, industrialization was expected to cause the spread of technical progress within the industrial sector itself and in the rest of the economy. In addition, it was thought that the capacity to generate technical progress would gradually be created. An analysis of the process of Latin American industrialization shows that this self-generation of technology on a national basis has occurred to a very limited extent and in very few countries. The introduction of new production processes has therefore been the result of the incorporation of technology from the centres in most cases. The integration of such technology has, furthermore, been precarious and skewed, as well as not being of sufficient strength to cause the disappearance of the less productive strata in the branches of production where it has come into use. This is a far cry from the case of the

/centres, where

centres, where the self-generation and dissemination of technical progress has taken place in a very continuous and integrated sequence. In the Latin American economies, the longer the delay in the incorporation of technical progress and the more it is superimposed upon peasant farming and traditional mining or pre-industrial crafts activities, the greater the technical differences in productivity.

During the initial stages of the industrialization process, a large part of new investments in the industrial sector were concentrated in the production of non-durable consumer goods, where pre-existing crafts-industry forms of production were in use. In many instances, the latter did not disappear, not did they undergo any significant development or establish links with the new companies. Later, investment was channelled towards the production of other types of goods, such as intermediate products or consumer durables, in which the countries of the region did not have previous production experience; on occasion, this involved the production of goods which had not even been consumed before. The imported technology had a high rate of productivity and did not have the linkages of the sort characterizing previously-established non-durable consumer goods activities which would have existed if there had been a capital goods production sector or if there had been greater integration among the branches of industry. Thus, an inter-branch heterogeneity was added to the intra-branch heterogeneity of production. The disparity existing among sectors proved to be no less significant. In so far as industrial growth was accompanied by a relative lack of change, persistent rigidity in agriculture or an expansion of low-productivity services, intersectoral heterogeneity was added to the inter-branch heterogeneity mentioned above.

In summary, obstacles were posed to the dissemination of technical progress within and among branches of industry and among sectors by the economy's lack of technical integration and by the lack of an adequate degree of endogenous development of technology. Certainly, significant differences in productivity always emerge initially when technological innovations are introduced in any development process. What are not inherent characteristics in these processes, but do characterize Latin American heterogeneity, are the persistence of backward activities, the relative lack of a relationship among the innovations introduced over time and in different branches and sectors, the small extent to which technical progress has been disseminated and the lack of productive and technological articulation.

To sum up part of what has already been said, there are three groups of factors which, together, have militated against a reduction of the heterogeneity in production and the gradual replacement of traditional elements.

Firstly, the process of economic and social change is a part of the relationship between the centre and the periphery, in which the former transfers consumption patterns and technology to the latter. In the periphery, these consumption patterns are adopted by many social groups, especially middle- and high-income sectors, even though their per capita income may be lower than that of the central countries. This transfer is very dynamic and has posed an

/enormous challenge

enormous challenge to the peripheral countries. As noted previously, the development styles in question resulted in a very small degree of technological development within the countries themselves; in most cases, technology was used which had been designed on the basis of the resources available in the centres and was therefore usually intended to save on manpower. As part of the centre/periphery relationship, the activities of transnational corporations should be considered; they have incorporated capital goods as they have seen fit for their own purposes, and usually do not take the reduction of heterogeneity into consideration.

Secondly, the system's ability to absorb labour depends on the magnitude and nature of accumulation and on the growth and composition of the labour force. As already stated, through their imports of capital goods, the peripheral countries absorb the same type of technology as is in use in the centres, although this is done with a certain delay and in a skewed and incomplete manner. The use of a common technology based on automation and involving very large production scales and a greater indivisibility of capital by countries with lower income levels which import a large part of their capital goods, however, calls for a greater domestic investment effort, relative to income in the periphery than in the centre.

If the ability to create jobs was reduced by the nature of the technology that was adopted, the process was further complicated by the growth of the labour force; its growth accelerated and, according to the available information and projections, reached a peak in the 1970s and 1980s. The estimates prepared by ECLAC show that, in the context of the prevailing development style and as a result of the increases in the average product rates per employed person and in the labour force, in order for absorption to be great enough to reduce underemployment and heterogeneity, investment and savings would have to account for an increasingly greater share of the product, so that they could sustain an accelerated rate of economic growth.

Thirdly, as mentioned previously, the orientation of the industrialization process has not always been based on a long-term view; on the contrary, it has tended to satisfy a previous level of consumption during relatively brief periods which has been reduced as a result of the crisis in foreign trade or a slightly higher level whose consolidation on the medium term is dependent on economic policy. Providing the supply for this type of consumption, which has increasingly been based on that of the centres, has been hampered by balance-of-payments problems or by the problem of ensuring a stable income and, hence, demand for high- and middle-income groups which would guarantee that the establishment of industries producing durable consumer goods would be profitable. This situation limited the industrialization process' capacity to modify the employment structure by means of sustained accumulation oriented towards intermediate and capital goods activities. At the same time, the persistence of underemployment, if not of open unemployment, made it less likely that workers groups could take advantage of their employment to bring about a progressive increase in their income. The established distribution of income and of economic power has thus ended up by orienting the transformation of production, and groups representing a small percentage of the population have controlled the bulk of increases in demand. This is amply demonstrated by estimates prepared by ECLAC based on seven Latin American countries, which indicate that

/the richest

the richest 10% of all households accounted for 50% of the increase in income between 1960 and 1970 and for 45% of that increase in the period 1970-1975, while the richest 30% of the households accounted for 80% of it during the 1970s (see table 10). On the basis of this unequal distribution of income, the structure of consumption has tended to reproduce that of the central countries on a smaller scale. This has made it necessary to incorporate technologies designed for other scales of production; they therefore operate with a high level of idle capacity, thus increasing the cost of investment per unit produced. Moreover, in following the trends in developed capitalist economies, changes in models and brands often entail the rapid obsolescence of capital goods; transnational corporations have played a major role in this process.

Finally, although the factors discussed above are very important, it should not be forgotten that heterogeneity is also the result of other internal processes, including some which are related to the social and political structure. The constant thread running through the varied forms of political organization in Latin America has been the coexistence of traditional and modern elements, either because of the former's staying power or because of the latter's weakness. In the history of the region, perhaps the first clear manifestation of such coexistence was seen in the so-called oligarchic structure, in which the externally-oriented modern economic and political pole not only coexisted with backward regions but was also based on economic and political relations of a traditional nature.

Nonetheless, in interpreting the events of recent decades, it is more important to remember that the crisis in the oligarchic structure did not result in the total loss of power by leadership groups in most of the countries; in those countries where such a crisis occurred, these groups generally lost some political power while conserving their economic power. The modernizing political systems which emerged from these crises therefore had to limit the extent to which they encouraged change in deference to the pre-existing nuclei of traditional economic power. Furthermore, heterogeneity was not only manifested in the division between modernizing and traditional social forces, but also often permeated the former; indeed, in most cases the innovative systems included both traditional and modern elements in the social forces which served as their base as well as in their principles of orientation and action. This essential heterogeneity --exacerbated by the great number of social groups which made up such systems-- prevented them from following a clear-cut course; they always seemed to be overwhelmed with the tasks of solving short-term problems, meeting pressing demands and reconciling opposing interests. This could clearly be seen in their industrialization policy which, although it was to be the core of their economic programme, never had the thrust, staying power or scope which would have been needed for them to conclusively improve upon the old systems.

The economic, social and political factors underlying and accounting for such heterogeneity thus mutually reinforced one another, thereby giving rise to a vicious circle which was difficult to break.

Table 10
LATIN AMERICA: HOUSEHOLD INCOME DISTRIBUTION IN THE REGION AS A WHOLE AROUND 1960, 1970 AND 1975

Income strata	Share of total income		Income per household a/ (in dollars at 1970 prices)			Increase in income per household			Total increase by stratum (millions of dollars at 1970 prices)		Increase in each stratum as a percentage of the total increase	
	1960	1970	1975	1960	1970	1975	1960-1970	1970-1975	1960-1970	1970-1975	1960-1970	1970-1975
							Percentage	In dollars at 1970 prices				
Poorest 20%	2.8	2.1	2.3	334	294	394	-12.0	34.0	-40	100	494.1	1 409.9
Next 20%	5.9	5.0	5.4	707	715	902	1.1	26.2	8	187	1 871.2	2 855.1
Poorest 40%	8.7	7.1	7.7	520	505	648	-2.9	28.3	-15	143	2 365.3	4 265.0
30% above the poorest 40%	18.6	17.4	18.1	1 483	1 660	2 023	11.9	21.9	177	363	8 030.4	8 840.1
20% below the richest 10%	26.1	27.5	26.9	3 110	3 922	4 497	26.1	14.7	812	575	15 143.5	11 026.5
Richest 10%	46.6	48.0	47.3	11 142	13 677	15 829	22.8	15.7	2 535	2 152	25 476.7	19 981.0
Total	100.0	100.0	100.0	2 389	2 652	3 348	19.4	17.4	463	496	51 015.9	44 112.7
											100.0	100.0

Source: ECLAC estimates based on national surveys for seven countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela).

a/ Corresponds to the estimated available income per household based on the national accounts of each country.

The industrialization pattern in place from the second half of the 1960s onwards should be examined in the light of these factors. As has been said, this pattern can be described as a form of industrial development based on an urban market which, despite the large-scale dissemination of some products, continued to be a restricted one; consequently, the exclusive tendencies of the economy and, ultimately, of society as a whole became stronger. There was a marked external presence in this industrialization, indicating that the industrial structure itself had become heterogeneous, as it included a modern sector, whose main trait was its high level of productivity and technology, and a traditional industrial sector which was basically formed during the period of "easy" import substitution. This had a number of consequences. Firstly, some of the industries controlled by foreign capital did not necessarily reinvest in the national sphere in which they were operating. This helped to weaken the development of the domestic economy as a whole, thereby exacerbating the existing level of heterogeneity. Secondly, from the standpoint of consumption patterns, the internationalization of industry went hand in hand with the internationalization of the domestic market for those groups which had access to it --the higher-income sectors-- and thus reinforced the existing degree of economic and social heterogeneity. Thirdly, the technological, administrative and financial organization of the so-called spearhead industries followed the most advanced standards of the international system, even though such standards were not necessarily in line with the situation in each specific country; they also pressured the State for policies which would favour them over the traditional sector. The overall result was that some processes of social exclusion were intensified and economic heterogeneity was manifested in the stratification of society. All social groups, including entrepreneurs, middle-income groups and workers were separated into modern and traditional camps.

2. The crisis in the development style

a) Introduction

The modality of economic and social change prevailing in almost all the Latin American countries has been marked by major contradictions.

The region as a whole increased its production and technological capacity and showed itself to have a great production and export potential; this was not enough in view of the fact that, at the same time, the transformation of the economy became less self-sustaining and external dependence and vulnerability increased.

Large groups of the population were able to assume consumption patterns similar to those of developed countries, gained access to decision-making levels, and incorporated themselves into the systems of economic, political and social power; meanwhile, the large majority was bypassed and received only a minimal part of the benefits of technical progress.

/Modern branches

Modern branches of production and companies achieved some degree of integration at both the national and international levels. Linkages were created within the industrial sector among modern enterprises in agriculture, industry and services. Many took part in international trade and financial flows. Peasant family units, urban artisans, and large groups of independent urban workers lacked any technical or financial link with the modern sectors except in other functional spheres associated with the distribution of income or wage levels.

Incorporation and exclusion, integration and disarticulation, modernization and heterogeneity appear to be reproduced almost as if they were a condition of the way in which this modality functions. In effect, high- and middle-income groups' struggle to retain the consumption patterns of developed countries became increasingly costly in terms of external resources and savings in relation to national income. The structural tendency towards gaps in external resources and accumulation became stronger. The concentration of a portion of investment in meeting the consumer demand of limited groups reduced its effectiveness and made it necessary to increase accumulation; in turn, this put pressure on the balance of payments and reinforced heterogeneity. Heterogeneity is conducive to a decrease in real wages, thereby increasing the consumption opportunities and accumulation of high-income groups.

Naturally, these characteristics of the modality in question are present to widely varying degrees in the countries of the region. In many countries, these effects were mitigated by such factors as income derived from natural resources or economies and populations whose size is conducive to economies of scale; this occurred especially in those cases when the political system was able to establish relatively stable rules for participation and democracy. In addition, during the period from 1974 to 1980, external financing made up for shortages in savings and foreign exchange. Factors such as those mentioned above will no doubt influence future economic events as they limit or reinforce tendencies towards heterogeneity.

According to the optimistic view which was held in the 1970s of the way in which the international economy functioned, the negative effects of this modality could, in theory, be borne. It was felt that the profitability and potential attributed to exports would reduce the pressure on the balance of payments and would contribute to accumulation. From 1981 onwards, it has become clear that this view of the world was a mistaken one. It might be asserted that this modality was already in crisis during the 1970s, inasmuch as extremely inequitable societies continued to be formed, the decline in the growth rate was not a temporary one, and external relations continued to be just as asymmetrical, if not more so, and were coupled with growing vulnerability. The belief that a new type of external relations would eventually resolve these problems through economic dynamism has been belied by the facts.

The discussion presented below of this modality's negative aspects shows that the crisis revealed and exacerbated elements which the modality had already generated.

b) The formation of inequitable societies

The confidence which existed after the war that an increase in per capita income would be accompanied by an improvement in the distribution of the benefits of technical progress dissolved with time. The results of the late 1960s and early 1970s were particularly discouraging. Since the countries exhibited greater economic dynamism, yet there was no evidence of improvements in income distribution. Moreover, during the crisis period which began in 1981, everything has indicated that the social and economic system is incapable of distributing the costs of the economic slump in an equitable way.

General statements, however, conceal what has gone on among different social groups. Intermediate social sectors in urban areas expanded rapidly, received a considerable percentage of total income and participated actively in political life. However, a significant percentage of the population is still living in extreme poverty in the large metropolitan centres and is engaged in forms of work whose productivity is very low. Those groups representing the richest 5% have been successful in maintaining, if not increasing, their income. The fact that these situations exist side by side in urban areas has important economic, social and political implications. The situation in rural areas is no less significant in many countries. The incorporation of the modern entrepreneurial sector and the spread of technological advances in agricultural production are modifying the structure of rural society and the way it functions and are increasing its integration with the rest of the system, at the same time that the differentiation between entrepreneurial and traditional or peasant agriculture is growing.

The determinants or inherent factors of these structures are essentially related to the concentrating forces of the prevailing modality of change, public-sector action oriented by the most powerful economic and political groups, private appropriation of the surplus and the extent to which it is used to expand constantly-diversifying non-essential consumption, as well as investment in consumption, which follows the lead of those industrial countries where per capita income is highest.

The continuance of inter- and intra-sectoral heterogeneity in production gives rise to very uneven levels of productivity. Given a social structure and power relations that are characterized by inequality, these differences in productivity reinforce a poor income distribution, thus strengthening an inequitable process which is both concentrative and exclusive, rather than rectifying it.

The results of this process are alarming, especially in the light of the legacy that will be left by the crisis. The Secretariat has estimated that around 40% of the Latin American population was living in poverty during the early 1970s, and there is no evidence of any significant change in this regard. The proportion of poor families is much higher in rural areas and accounts for nearly two-thirds of total poverty. The large metropolitan centres in many countries already seem to be reaching a size where the economic and social costs involved result in growing dissavings. The system's ability to provide work, although it has been considerable judging from the growth rates of urban employment as compared to the

/experience of

experience of developed countries, has not been sufficient to meet the employment challenges faced by the region. Under these circumstances, urban employment does not provide the means of adequately dealing with the problem of urban poverty, nor does it provide the answer to rural poverty through internal migration.

The crisis added another adverse element to this picture. The drop in the per capita product significantly increased open unemployment, and everything appears to indicate that something similar occurred with respect to underemployment. The increase in the economically active population alone in Latin America during the period 1981-1983 was somewhat more than 10 million people. Naturally, if new sources of employment are not created, the vast majority of this population, which is mainly made up of young people, will not find work. Once there is a recovery of economic growth, the backlog of unemployed people will still have to be dealt with in the future, since unless it were extraordinarily rapid, such growth would absorb the new contingents entering the labour force but would not absorb a large percentage of the unemployed. The reduction in investment which has accompanied the crisis tends to have the same kind of effect.

In short, although the modality of economic and social transference was the factor which created extremely inequitable societies, the crisis has exacerbated and revealed these characteristics.

c) The asymmetry and vulnerability of external economic relations

Their external economic relations caused great upheaval in the Latin American countries during the 1930s and 1940s. Immediately after the war, it was hoped that a transformation of production based on industrialization would increase the countries' decision-making autonomy with respect to external factors as well as their self-sufficiency in technology and production. People were confident that the asymmetry of trade and financial relations at that time would be reduced.

Thirty-five years later, it can be seen that external relations have undergone sweeping changes. In the sphere of trade, the countries diversified their exports of primary products and incorporated manufactures and semi-manufactures to different degrees. The composition of imports also changed considerably. Imports of non-durable and durable consumer goods were gradually reduced and often virtually eliminated, substitutes were found for a large part of imported intermediate inputs, and imported capital goods came to represent declining percentages of investment. Despite the production effort which was behind these changes, Latin America continues to exhibit an external trade structure which is typical of developing countries. Exports still include a high percentage of primary products involving varying degrees of industrialization and a relatively small proportion of industrial products. On the other hand, imports are mostly made up of fuels and industrial goods which include products with a large value added to the natural resources they contain. If the technological content of trade is analysed, the asymmetry of these relations becomes even more evident and the lack of a self-sustaining basis for the Latin American transformation process becomes more striking.

/The expansion

The expansion of the transnational corporations' sphere of action adds another, sometimes less visible, element to the external dependence of the Latin American production process. These corporations have broadened their sphere of action and dominate the more dynamic sectors where technological progress is most rapid, particularly in the chemical, basic metals, machinery and automobile industries. The bulk of their operations are directed towards the domestic market and, to a lesser degree, to exports. A large part of the region's greater self-sufficiency in supply is thus based on the payments for technology and management which must be made to these corporations.

The most striking change in the modality of external relations came about in the financial sphere during the 1970s. Taking their lead from the abundant external financing which was available, the governments liberalized their international economic relations, although the degree to which they did so varied in each case. Private banking and commercial sources channelled large flows of financing to the region. Foreign loans came to play a very active part in both investment and current operations. They played a far greater role than direct foreign investment had in the 1950s and 1960s. They also not only went far beyond the central function which public international banking had performed in the period between 1950 and 1965, but also altered their operating mechanisms. Long-term low-interest loans for large investments in physical and industrial infrastructure were replaced by medium- and short-term loans which could be used more flexibly and whose interest rates gradually became higher and more variable.

Thus, through its loans, the transnational banking system penetrated deeply into the economy of the Latin American countries. In many cases the government lost some of its control over the movement of external financing flows. Domestic companies, both public and private, went into debt, to a great extent on their own initiative. The vulnerability of these economies increased considerably.

The asymmetry of financial relations became notable. The setting of interest rates and the availability of funds moved entirely beyond the sphere of action of the Latin American countries' policies and decisions. Moreover, the abundance and widespread nature of indebtedness caused the operations of most sectors, including those whose type of production gave them very few links outside the country, to be dependent on external decisions. The failure to renew a loan could, in many cases, spell bankruptcy for a large number of companies.

The renegotiation of the external debt has clearly revealed the degree of power which has been acquired by the transnational banking system. In most cases, the countries have found it necessary to obtain large external trade surpluses, and this goal has been achieved at the cost of high unemployment in some cases and high inflation in others, as well as entailing numerous domestic costs of various sorts. The common denominator has been the need to achieve such surpluses, since they are necessary in order to maintain the debt at its existing level or to increase it as little as possible. The exacting terms on which the debt has had to be renegotiated are further evidence of the power of this transnational agent. The most serious aspect of this situation is that, after

/three years

three years of sacrifices on the domestic front, the region is just as vulnerable today to the decisions of the transnational banking system as it was before; this therefore belies the prediction so widely made by the advocates of these adjustments that once an effort was made, these problems would be overcome.

In sum, the changes which occurred in external economic relations did not substantially change their asymmetry; on the contrary, the use of technology and financing not only changed their forms of dependence, but brought in the additional factor of a dangerous sort of vulnerability.

d) The nature of the economic transformation and its dynamism

The gaps in terms of quantity and composition between the countries' domestic demand and their production are, as is well known, filled by trade and external financing. During the 1930s and the Second World War, the region experienced a crisis in its foreign trade due to causes beyond its control, and the disadvantages of sustaining domestic demand by relying on asymmetrical trade based on the exportation of primary products and the importation of industrial goods became evident.

Substitutive industrialization was a response to the imbalances caused by the trade crisis. Beginning in the 1950s, industrialization became a deliberate policy in many countries. The idea was to create a production base capable of satisfying a larger part of the domestic demand for industrial products and to lay the foundations for a more balanced form of foreign trade.

The historical circumstances which gave rise to this process led to the establishment of the simpler consumer-related branches of technology during an initial stage. When deliberate policies were introduced or when transnational corporations expanded their activities, plants were set up in these countries which have always been associated with industrial infrastructure, such as iron and steel mills and petrochemical plants. This course of action --which, in an integrated industrial structure, entails the production of capital goods and a wide range of basic intermediate inputs-- ran up against increasing obstacles, which stemmed from the countries' insufficient technological development and the size of the markets involved. It is not surprising that the countries with large economies and populations, especially Brazil, have been the ones which have come closest to the original goals relating to self-sufficiency in supply and a greater symmetry in trade.

Size is not the only factor, however, which has hampered the development of a more self-sustainable type of production. The distribution of income and the employment situation have tended to distort demand in relation to the prototype on which the economic transformation of the centres was based. The heavy concentration of income and the imitation of the consumption patterns of the centres resulted in a structure comprised of goods and services corresponding to demand in the centres during many different decades, including the present one.

/Thus, the

Thus, the tendency to use sophisticated modern services has not been long in making its appearance in the periphery. As was explained earlier, the accumulation which is required in order to respond to these demand stimuli goes hand in hand with many external imbalances and internal costs. Furthermore, the persistence of unemployment and underemployment makes it possible for high- and middle-income groups to continue or to begin to make use of personal or commercial services provided by those who cannot find employment in areas related to the production of modern goods or services.

Under these circumstances, both the structure of demand and of production are distorted in relation to what these structures were like in the centres when their income levels were similar to present income levels in the Latin American countries. This is why modernization in Latin America is more costly in terms of accumulation than in the centres and involves forms of employment whose existence is accounted for by the distribution of income and which are not necessarily similar to those which were created as the centres developed.

The orientation of the transformation of production and its degree of integration were influenced, inter alia, by such factors as the size of the economies involved, the endowment of natural resources, social and political organization and the nature of the State, income distribution and the countries' degree of urbanization. Until the mid-1970s, external commercial and financial conditions either sped up or slowed down the dynamism of this transformation, but the decisive factor in almost all of the countries was how much progress was being made in industrialization. In the second half of the 1970s, a substantive change took place in most of the countries, in that the abundance of external financing and the rapid increase in the value of exports eventually curbed their economic dynamism and lessened the relative importance of the industrial sector in this growth. In the period from 1981 to 1984, external influences proved to be decisive since they not only slowed the pace of change but also resulted in disinvestment in some branches of production, reduced or eliminated investment in others and, in general, led to confusion with respect to the orientation of the transformation in production.

In short, by the late 1970s it had become evident that the transformation of production had ceased to follow its earlier orientation, yet there was no other clearly-defined alternative in sight. The fact that economic dynamism had diminished during a period when economic financing was abundant and imports were available was, in large part, a reflection of this dilemma. The crisis has only exacerbated this situation and highlighted the need to mark out a new path for such a transformation to which the countries can devote their accumulation efforts.

e) Democratization and participation

Some major aspects of the development style which have been gaining in importance since the mid-1960s have proved to be incompatible with the democratization process. As already stated, the manifest tendency, particularly of the upper strata, to imitate the centres' consumption patterns in countries

/where the

where the social structure and level of economic productivity are quite different from what they are in the centres resulted in an unequal distribution of income, an insufficient level of capital accumulation and difficulties in incorporating and integrating the entire population into the modernization process.

This development style has tended to give rise to contradictions between its characteristic form of growth and democratization processes, inasmuch as a democratic system permits the expression of social demands for a more equitable distribution of surpluses. In a situation marked by the inequalities discussed above, these demands tend to cause conflict and often lead to an inflationary spiral, thereby increasing the temptation to re-establish order in the economic process by authoritarian means.

In view of this tension between the prevailing development style and a democratic system, some concluding comments should be made about the relationships between democracy and an alternative development style. If, for a time (primarily at the outset of the industrialization process), it was thought that economic growth and modernization would almost inevitably lead to an expansion of democracy, current experience compels us to inquire beforehand if the suggested economic options would allow for a greater degree of participation, if they would afford broader freedoms and whether or not they would tend to consolidate democracy.

Democracy can therefore not be regarded simply as a derivation of economic growth and modernization, but must instead be seen as an objective in itself, although it is obvious that there is a very real relationship between economic and democratization processes.

In Latin America, two basic dimensions of democracy have often been confused: the first relates to the possibility of taking part in government orientations, while the second is connected with natural, civil, political and social rights.

While these two dimensions are of a similar value, some groups have tended to stress one over the other. Thus, for some, participation is the essential aspect because the above-mentioned rights, although important, do not ensure greater social and economic equity.

Although the demand for participation is of vital importance, it has often tended to be expressed as a corporative pressure whereby emphasis is placed only on the particular interests of the group or groups in question. This type of approach would be eliminated if all groups were able to take a real part in the overall orientations of development, i.e., in deciding the "what", "why" and "for whom" of production; this would overcome political and social subordination, economic isolation and exclusion in all its forms.

Eliminating the conditions which foster such corporative behaviour is, then, a necessary element in building viable forms of democracy. This means that action taken by the various social groups should be political action in the true sense of the word, i.e., they should organize their capacities for learning, acting and creating.

/Finally, another

Finally, another subject which comes up constantly in the Latin American debate should be discussed: the relationship between politics, on the one hand, and the society and State, on the other. In recent years, the idea has been advanced that civilian society should be strengthened vis-a-vis the State as a way of protecting it from excessive State control and of creating an opportunity for the expression of the new dimensions of present society.

These are not proposals for democratization because they are an attempt to resolve a supposed antagonism between the State and society, but because the organization of civil society entails the possibility of dealing with a major contemporary difficulty, i.e., the way in which democracy functions in a mass society. Massification, as a phenomenon which runs counter to a diversified, pluralistic and organized civilian society, involves widespread conformism and the political indoctrination and manipulation of the masses. Furthermore, the perils of bureaucracy and technocracy are not alien to a mass society inasmuch as, under such conditions, they are the only possible form of administration.

These issues are challenges to be met in the immediate future and, because they are highly abstract, they should be considered within the global context outlined in this paper.

The process of social integration which was described earlier has, since the 1950s, basically been an urban one; it has primarily been supported by the mobilization of social groups in urban areas and, with some exceptions, they have tended to benefit from it more than rural groups have. The legitimization of the social system and social control have been linked to the expansion of economic structures, especially of their modern and dynamic sectors, and this has made it possible for some incorporation processes to take place, albeit selectively. Nonetheless, the possibility of incorporating the growing urban masses into the modern sector of the economy has decreased, as has the possibility of providing them with access to social security and to political and cultural participation by that means.

The period reviewed here (1950-1984) saw various combinations of the factors of integration that were being promoted. At times, it was the political citizenry that was expanded; this was an important development because it meant that the barrier of exclusion in national society was being overcome. At other times, to a greater or lesser degree depending on the case, the incorporation of the social citizenry was increased through educational, health, cultural and other institutions. In recent years, access to consumption has been stressed, but the distortions and limits of this type of integration are well known.

