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

Volume III

CHALLENGES AND OPTIONS FOR
FUTURE DEVELOPMENT

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INTRODUCTION

This third part --Volume III-- is aimed primarily at proposing an agenda for the consideration of new forms of economic and social development in the countries of Latin America and the Caribbean. On the basis of the description of the previous form of development, with its achievements, drawbacks and specific national characteristics, given in Volume I, and of the analysis made in Volume II of the generation and responses to the recent crisis which we are still experiencing and which has changed the direction of regional development and will determine its future evolution, an attempt is made below to identify some topics and questions which seem relevant to the consideration of new forms of Latin American development.

The first item to be considered in this respect is the question of the guiding principles of economic and social development, which provides the basic background for the specific questions to be tackled subsequently. There follows a schematic presentation (second chapter) of the characteristics of the international scenario within the framework of which the activities of the countries of the region are likely to be carried out in the next few years, with special attention to its limitations and its great challenges. In the third chapter a contrast is made between the profile of the previous style of development and the main characteristics of the type of structural adjustment required to give rise to new directions in the region's economic and social development.

This consideration of the guiding principles of development, the international frame of reference and the characteristics of the structural adjustment which has become necessary permit the analysis, in the following two chapters, of the topic of creative and technically progressive modernization, which is characteristic of the approaches explored and is viewed ---independently of national peculiarities-- as a vital ingredient for enabling the countries of the region to tackle the domestic shortcomings which have accumulated and the external challenges of the next decade, on the basis of the potential inherited from the old model.

These topics are divided up into two main components: industrialization and technical progress (fourth chapter), with special attention to import substitution and export-oriented strategies, and the articulation of the structure of production (fifth chapter), in which a distinction is drawn between the case of the small countries and those of the other countries and stress is laid on the links between industry, services, agriculture, natural resources and the environment.

In the sixth chapter a schematic description is given of international negotiation and regional co-operation activities, with emphasis laid on the areas of trade and finance.

/Finally, consideration

Finally, consideration is given to the role of the State in confronting the crisis and the inevitable structural adjustment, as well as the way it ties in with social movements and political actors, in a perspective of concerted action and democratization, seen as a widespread aspiration and as essential for lending legitimacy to the solid leadership required for articulating the demands and facing up to the contingencies of the foreseeable future.

The dimension of regional co-operation and integration, whose relevance has become even more obvious in the present international context and in the framework of national political change, recurs as a topic in the various items included in this list of matters proposed to the region for reflection.

I. PRINCIPLES AND CONDITIONS OF SELF-SUSTAINING DEVELOPMENT

1. Guiding principles of economic and social development

Although it is usually said that economic growth should be guided by principles of equity, social integration, national sovereignty, self-sufficiency, etc., these great goals of human conduct and social activity tend to remain in the sphere of abstractions, while the effective options are decided on the basis of the more down-to-earth criteria of power relations and group interests.

In times of crisis like the present, however, perhaps it becomes more generally recognized that economic growth in itself is not the final goal of human effort, but a means to increase well-being and to achieve the aims of personal and societal development. If development is conceived as the expansion of the capacities of individuals 1/ --and, in the international context, of societies-- this implies not only an increase in the supply of goods and services as a whole but also their effective availability to the population and the institutionalization of the latter's rights to them, so that all human beings have access to a full life through the free exercise of their capabilities. If economic growth is really to represent development it must be oriented explicitly and demonstrably by the principles which, at least nominally, are accepted in our societies and form part of the ideology of present-day civilization.

If the principles which constitute this concept of development are applied to the present situation through which Latin America and the Caribbean are passing, they will result in the reorientation of the style of development so as to achieve the maximum growth (both in level and composition) compatible with: a) a sustained increase in long-term equity; b) a lessening of vulnerability to external causes and the consolidation of a greater degree of autonomy in taking decisions on the orientation of the national society itself; and c) the progressive development of a democratic political system in accordance with criteria of social rationality which incorporate these objectives in the quest for an efficient allocation of societal resources which will provide a solution to the problem of trade-offs between policy options in a context of social consensus.

To be able to use these principles as a criterion for judging the various politico-economic options it will be necessary to describe them in terms which can be applied in practice and to lay down the conditions in which each principle may be fulfilled, instead of defining them in general terms; likewise, it will be necessary to specify the form in which the instruments used in the functioning of the socio-economic systems will be drawn up and kept compatible with these principles.

a) Equity

This principle should be made operational in terms of the maximization of equity over time through criteria or conditions which can incorporate the possible trade-offs between well-being in the short and in the long term, between the well-being of the prosperous groups and the underprivileged, and between access to goods and services to satisfy needs and equality of opportunity for personal development.

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The setting up of mechanisms to make the principle of distributive equity operational is crucial for assessing the strategic options. To postulate as a guiding principle of growth the maximization of equity in the long term implies that economic and social inequalities are only tolerable in so far as they help to increase the benefits that the unprivileged members of the society can hope to obtain, from which it is inferred that a certain type of accumulation is needed --compatible in level and composition with that equity-- together with efficiency criteria which take adequate account of the well-being of different social groups. It is a question of finding a formulation that will enable us to decide which pattern of growth, out of the set of viable options, guarantees --through its reproductive potential and its composition-- maximum future well-being for the least privileged groups.

This procedure may lead to the exclusion of schemes of immediate redistribution which put at risk this type of equitable growth in the long term, but it equally invalidates overall judgements on the existence of an inevitable trade-off between equity and growth which do not take into consideration the content of the growth and its relation to other societal processes. It also excludes, on the other hand, the successive or indefinite postponement of the goals of redistribution for the sake of a restructuring of the economic or growth mechanisms, when these would have uncertain implications for equity in the long term.

It would be particularly pertinent to the clarification of these trade-offs to establish social discount rates for the well-being of the different social groups or to employ indexes for measuring economic performance or well-being which incorporate in their weightings the aims of equity through the different values placed on the well-being of different social groups.

In using the aggregate growth of the product or of per capita income as an indicator of well-being there is an implicit weighting of the growth of income in each group in proportion to its share in the total income: the higher the income level of a stratum, the higher the rate at which the relative growth of the income of that stratum is valued. Although this weighting accords with the assumptions whereby productive efficiency is consonant with the distribution of the existing income, it gives little importance to the aims of redistribution: in the conditions prevailing in Latin America, in which close on four-fifths of the total income corresponds to the 40% richest homes --and between half and two-thirds corresponds to the 20% at the peak of the distribution-- the growth rate of the product basically measures the growth of income in the upper strata. If, on the other hand, a high social value were given to redistribution, then the lower the income of a stratum, the greater the weight which the aggregate index of well-being should give to the growth of the income of that stratum: i.e., the weight should be in inverse proportion to the share of the stratum in the total income. An alternative principle of well-being might be to grant equal social value to the increase of income of any member of the society, in which case the variations in the income of each stratum or social group should be weighted in proportion to the size of the group in the total population.

The principle of equity, which is applied not only to the quest for a just distribution of societal resources within the framework of the existing institutional

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structures, but also to the consideration of the inherent justice of these structures, represents an attempt to articulate instrumentally the concern about different aspects of social inequalities.

In the first place, there are the degrees of such inequalities which are socially acceptable in the short and long term. This is a question of subtle processes of social and political interaction, in which it is nevertheless essential to distinguish between the political powers of expression of the different social groups and the capacity of those groups to exert economic pressure on the mechanisms of collective choice. But the necessary and continuing public discussion on this subject might be enriched if a distinction were made between the distributions of rights, capacities, incomes or goods and if the social conditions of access to each one of them were accurately assessed.

Further, there are the minimum socially acceptable levels of living and the degree of tolerance of poverty situations, along with the definition of the minimum standards for the guidance of public action. In this respect, we must recognize the multidimensional nature of poverty, the interrelations existing between the different basic needs and the conditions for their satisfaction in terms of resources, income, consumer goods and public services. At the same time, we must acknowledge both the absolute dimension of privation in terms of human capacities --and, in consequence, its independence of the average income of the community--, and its relative dimension in terms of the goods required (and the real value of their content in resources) to meet the same absolute minimum of needs in different communities or at different points of time in history, so as to reach acceptable minimum levels of participation in the prevailing life-style.2/

Finally, concern for equality of opportunity for the development of capacities and access to societal resources has a great deal to do with the effective justice of the institutional arrangements in force and with the extension of the power of rights and the consequent limitation of the power of the market. In contrast to economic assets, rights --political and social-- are acquired and exercised without charge, although not without costs associated with their exercise. In so far as they are applied universally, they promote equality. In so far as their exercise diminishes the scope of the market, since they are not articles of trade, the extension of the predominance of rights restricts market supremacy. Hence the extension of rights involving public contributions which use economic resources fosters the equality of socio-economic opportunities. But this extension implies, on the one hand, the withdrawal of their exercise from the field of economic incentives, while on the other hand it competes with the market mechanisms in the utilization of available resources. Finally, it raises the question of the need for access to these contributions to be genuinely universal, since otherwise the aims of equity may be seriously distorted.

b) Autonomy

This principle, understood as the reduction of external vulnerability and the gradual overcoming of the more oppressive aspects of dependence, within the context of the interdependence required by full participation in the development of the world system, should be the subject of a careful formulation, in view of the

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situation and trends of the world economy and the critical condition of the external sector of the Latin American economies. Rather than abolishing basic dependence, which represents the permanent method of insertion of the Latin American countries into the world system, perhaps it should rather be a matter of diminishing it and "renegotiating" it in a way which will be more advantageous for the development of our countries. To achieve this it seems necessary to distinguish between those relations which are essentially a reflection of structural dependence in the international division of labour and those which instead reflect the genuine interdependence of the world system, or to analyse in what conditions relations of the first type may be effectively converted into relations of the second type. An appropriate formulation of the principle should make it possible to decide on the degree and direction of openness desirable and the level of State control of international economic relations.

c) Democracy

The progressive development and consolidation of pluralist and participative forms of access to and exercise of power, of the formulation of public policies, of the articulated expression of demands and of the equitable internalization of societal costs constitutes an inescapable principle of the process of the expansion of human capabilities which is implicit in the concept of development.

The progressive development of a democratic system constitutes not only a basic social principle but also an instrument for guaranteeing overall efficiency in terms of the sum of societal costs and the whole set of benefits --quantifiable or not-- deriving from the options chosen. Moreover, in so far as it articulates useful social functions and the possibilities of finding the best trade-offs between development aims, methods and programmes, it ensures greater efficacy in the measures adopted, defines the areas and forms of State intervention, and enables control to be maintained over the necessary action of the State.

2. The conditions for self-sustaining development

The pursuit and consolidation of economic and social development, guided by the principles described, is founded on basic social processes which are mutually dependent and mutually reinforced.

a) Modernization and creativity

Modernization is a contemporary form of social change, of general and universal validity. It implies self-sustaining economic growth, the full availability of social resources, the dissemination of rational and secular cultural norms, freedom, growth in social mobility, and the changes in attitude that go with this.

For modernization to take place there must be mechanisms of empathy incorporating values, behaviour patterns and aspirations which originate in the most dynamic centres of civilization and mould demands. Institutions themselves, however, cannot be transferred: they must be transformed; lifestyles cannot be taken over as a result of the free functioning of the "demonstration effect": they must be adapted creatively if they are not to cause upheavals. The capacity for adaptation is perhaps the most distinctive feature of modern societies. Although modernization, /because of

because of its essential empathy, responds to exogenous influences, our societies need to internalize it in terms of their historic characteristics, their autochthonous resources and their potentialities, through the development and free exercise of creativity. It is obvious, moreover, that technological development, which must be adaptive --in the broad sense-- and self-sustaining, is a central component of modernization, although the latter goes beyond it as a social process.

b) The environmental supporting base

Development implies the transformation of the natural environment into a structured environment. This transformation takes place through the production of the goods and services that society requires, but it can at the same time cause the deterioration and depletion of environmental wealth and natural resources, with negative effects on the quality of life, productivity and the conservation of the environment. To minimize the negative and maximize the positive effects, adequate systems of environmental management must be applied, together with creative approaches to options regarding technology, location, scales of production, forms of organization and patterns of production and consumption. The natural resource endowment has a dynamic potential whose proper recognition and exploitation depend on the fullest scientific knowledge of it and the greatest possible technological creativity. Thus, development strategies and measures must include systems of management of the environment and resources which will minimize the deterioration and depletion of the environmental capital and instead replace, maintain, enlarge and complement it through the accumulation of scientific and technical knowledge and of reproductive capital, in order that the overall environmental wealth --both natural and constructed-- will grow cumulatively and become an ever broader and more diversified foundation for the support of rising levels of living, production and productivity.

c) Integration and articulation

Self-sustaining development must necessarily be integrating. On the social side, it must have this quality as a condition permitting the incorporation of all the segments of society into a single style of life and system of values, while at the same time overcoming the divisive effects of change. On the economic side, this is necessary in order to constitute a single articulated economic system in which the different units interact functionally and efficiently, transforming the structural heterogeneity into a diversity of specialized functions, updating the potential of the system by imparting greater value to local resources, and promoting growth through increased productivity and expanded markets. On the political side, this is important in order to institutionalize demands and processes of change into a self-regulating political organization governed by values shared by the population.

The concept of articulation (and of its opposite, disarticulation) serves to characterize both the structure of national productive systems and the ramifications this structure has in the social, spatial and even cultural spheres. This concept is perhaps the most significant feature of differentiation between the productive and social structures of the advanced countries and those of the countries of the region.

From the standpoint of their gestation, the articulated structures are characterized by the major transformations initially undergone by their systems of agricultural production, based, in the first phase, on biological and organizational innovations which create surpluses on the strength of which the industrialization process is initiated. A feature of this process is its functionality both as regards the demands generated by the ensuing agricultural expansion --at the stage in which inputs and equipment of industrial origin come to play an increasingly important role in the growth of productivity-- and as regards the simple consumer goods that can be produced on a large scale in response to the increases in income received by the population as a result of this dynamism. The technological path selected --which was different and specific in each of the cases of articulated development--, in consonance with the relative scarcities of national resources, permitted the reciprocal strengthening of agricultural and industrial demand. It began, in the pre-industrial phase, with simple innovations of relatively low cost, susceptible of being incorporated by the great majority of producers, which gradually became more complex as industry developed, both because of the supply of inputs and equipment and through the growth of a diversified demand for consumer goods.

This dynamic of the creation of reciprocal demands was not confined to the relations between agriculture and industry, but extended also to the relations between different industrial branches (consumer goods-capital goods), different types and sizes of productive units (large enterprises-small and medium-sized enterprises) and different regions, thus generating increasing homogeneity of productivity levels in all the areas mentioned, without prejudice to the differences inevitably created by the technical leadership exercised by some enterprises or branches.

In the great majority of cases, the development of these articulation processes demanded greater flexibility in the social structures and radical changes in the relationship between the State and civil society, such as those generated by the Puritan revolution in England, the French Revolution, the enlightened despotism in the Netherlands, the American Civil War, the Meiji imperial restoration, etc.

In contrast to this gradual articulation characteristic of the advanced countries, the countries of the region display a dynamic which bears the imprint of the basic structural matrix gestated in the colonial period, and affects above all the critical phase of delineation of the relations between agriculture and industry and of the formation and development of the domestic markets. The mining enclaves and the structures (hacienda and plantation) superimposed in many cases on peasant communities of different origin gave rise to patterns of demand both for consumer goods and equipment which were unable to stimulate the mass production of simple and standardizable goods and thereby prevented the creation of a "virtuous" circle between agro-rural and urban-industrial demand comparable with that observed in the advanced countries. The technological pattern adopted in the modernization processes intensified the dichotomy of the productive structure and led to the passive assimilation of options gestated in other contexts and divorced from the needs created by the relative scarcity of national resources. Consequently, the multiplying effects of demand were diverted to the exterior, or a type of industrialization was created which sought to satisfy the needs induced by the premature adoption of consumption patterns proper to advanced countries without being able to extend them, as in the case of the latter, to cover the population as a whole.

The organic and interdependent growth of the different parts of the industrial complex which took place in the advanced countries, stimulated in some by the market ("modernization from below") or in others by State direction ("modernization from above"), was replaced in the countries of the region by the transplantation of fragments of this structure, leaving in the hands of other (central) countries the handling of complementary aspects which are crucial for the functioning of the whole.

If economic, social and political integration constitutes a condition for national self-sustaining growth, then the possibilities of growth would be proportionately multiplied --both in quantity and in quality and solidity-- by the consolidation of regional integration, based on effective complementarities, on common features of insertion in the world system, and on cultural similarities.

d) Participation

A modern society is a participative society. Moreover, in the case of our societies, the creative adaptation of life styles and forms of technology depends on an institutionalized expression of demand, which is largely self-regulating. Moreover, creativity develops only when there is participation in the social and political sphere.

Participation must be articulated by way of institutional mechanisms which allow for the balanced expression of demands and interests and provide the means for reaching collective decisions. Probably there is no one way to institutionalize democratic participation, which needs to be based on a variety of institutional supports, such as the current mechanisms of political representation based on parties, free elections, parliamentary institutions and the free exercise of civil and political rights. In societies with a mixed economy, however, it is also necessary to have a social consensus which permits the articulation of the activity of agents or nuclei that concentrate substantial shares of economic power. The very concentration of power of some of these agents calls for the direction and control of their activities by the governmental, entrepreneurial and trade-union systems themselves through mechanisms of democratic participation. Finally, the spatial, social and administrative decentralization of the institutional mechanisms through which social choices are made helps to increase the degree of participation and to promote its democratic orientation.

The effective functioning of these multiple institutional mechanisms of participation and the accompanying social climate of pluralism and shared objectives also constitute a sine qua non for the development of the creativity which will make possible the internalized modernization that our societies require.

e) Stability

Without a minimum degree of stability in the functioning of the economic, political and social mechanisms, self-sustaining development is bound to be frustrated. Basic needs have always existed, but the empathy implied by modernization and the multiplying effect of the mass media have transformed them into social demands. Means must be found to institutionalize them, adapt their content and satisfy them, so that the imbalances are kept within certain limits. Every process of change, however, implies the disturbance of some existing equilibrium. Stability should be

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interpreted as a permanent framework of values, rules, incentives and remunerations, which nevertheless allows for the flexible handling of temporary imbalances, well-defined as regards their magnitude but varying in their characteristics. In the economic field, the expansion of the real supply of goods seems to be the only way to achieve this situation. In the political and social fields, the key seems to be to institutionalize the demands, promoting their adaptation to local potentialities and their self-regulation.

3. Societal rationality, efficiency and creativity

Modernization implies, in a broad sense, the internationalization of rational norms. If this rationality is really to represent an integrating and stabilizing force, criteria must be incorporated which facilitate trade-offs between growth and equity, present well-being and accumulation, social demands and the limits of the expansion of supply, and present and future comparative advantages. This rationality implies a broadly-based concept of efficiency in the management of resources and opportunities, incorporating all the social costs and benefits --measurable or not, actual or potential-- and reflecting the aims of growth, equity, autonomy and democratization which represent the goals of societal development.

Although this idea of social efficiency in its broad sense includes the concepts of productive and allocative efficiency currently used and derived from conventional economic theory, its scope goes wider than this, for the conditions needed to achieve economic efficiency are based on assumptions which evade the main conflicts between the aims postulated for the attainment of self-sustaining development.

For resource allocation to be efficient in mixed economies the system of relative prices of factors, inputs and products must reflect at the same time the scarcity values and the opportunity costs of using the resources or obtaining the products. This assumes, however, that the price system functions flexibly, without distortions deriving from concentrated monopolistic or oligopolistic power, and that its signals are propagated through an articulated and non-segmented economic system. It also postulates that the international prices that affect the society are the result of a specialization based on comparative advantages. It assumes, moreover, that the productive resources are fully employed, and, finally, that they are divisible, replaceable and mobile.

Even under these assumptions, which represent an enormous simplification of economic reality, the resource allocation and composition of supply resulting from the relative price system which could satisfy them would be optimal only with the existing income distribution and pattern of preferences. If, however, one of the social objectives is to achieve a more equitable income distribution or a consumption pattern involving less external vulnerability, or a less exclusive development style, the composition of the supply of goods produced through a resource allocation ruled by a system of efficiency prices would cease to be socially optimal. Hence it is theoretically advisable to correct the price system through taxes and subsidies so that the producers will face a price system based on efficiency and the consumers will adjust their demands to a system of market prices which responds to the changes that it is planned to introduce into consumption patterns and income distribution.

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Because of the prevailing conditions, however, the Latin American economies exhibit a number of structural features which impede an efficient resource allocation and widen the gap between productive efficiency and a socially optimal pattern of growth. One of these features is the structural heterogeneity and the consequent disarticulation of the apparatus of production.

The relative scarcity of capital and of technological know-how consolidates monopolistic and oligopolistic positions which distort the system of prices. Additionally, owing to the difficulty of access to these scarce resources, productive systems have arisen which are structurally heterogeneous and insufficiently articulated, so that although they may include units and activities of great productive efficiency, this is not diffused to the rest of the economy through the price system or inter-industry linkages. All this in its turn gives rise to the underemployment or unemployment of a large part of the labour force and to the inefficient use of natural resources.

At the same time, in these newly developing and weakly articulated economies, a certain type of investment in infrastructure or in human resources, or the investments which in general lead to greater economic and social articulation, may be more likely to generate external economies than in the advanced countries, and these economies are not, of course, reflected in the price system. Moreover, owing to the complexity and slowness of the necessary development processes and their very interdependence, the time required for strategic decisions to come to fruition exceeds the current time horizons for the maximization of benefits in the quest for microeconomic efficiency.

Furthermore, in our economies factor prices, and especially those of capital and foreign exchange, tend to display distortions which have crystallized over time and have become ingrained in the functioning of the productive system, giving rise at the same time to an increase in speculation in capital gains and to the flight of capital abroad. Finally the upsurge of inflation weakens the capacity to detect in the price system the signals which might give rise to a more efficient allocation of resources.

Apart from the obstacles in Latin America which impede the full and efficient use of its resources, the situation is aggravated by the fact that international trade is abandoning the concept of comparative advantages, since the central countries are relying on their absolute advantages which are based more and more on technical development and less and less on the other kinds of resources. The concentration of technological progress and economic power in the central economies and in the transnational corporations has created a basic asymmetry in international relations, as a result of which the international price system tends to reflect the structural needs of the developed economies.

In these circumstances the Latin American societies are faced with a dilemma. On the one hand, they have to try to be competitive in the market, as an indispensable requisite for efficient economic growth. On the other hand, however, they cannot ignore the fact that if this attempt is conceived as an isolated process, based on

/the straightforward

the straightforward transfer of production techniques and forms of organization, the probable result will be a structural failure to make full use of resources and an inequitable distribution of income, in which case the allocation of available resources, though it might seem efficient, would not be socially optimal.

Hence, the key to the quest for efficiency linked with an ample social awareness and a dynamic outlook lies in accumulation coupled with technological development and in the utilization of local resources and capacities, so that the quest for competitiveness can be reconciled with the full utilization of these resources and capacities and their adequate participation in the fruits of growth. To achieve this there must be a greater articulation between the productive system and the social structures. This multiple challenge can only be met if growth takes place in a creative context.

To the extent that the price system adequately reflects social costs and benefits, the principles of productive efficiency maintain their operative validity. In this case the elimination of distortions which are not counterbalanced by net social benefits may even increase its field of validity. Even so, as a consequence of market imperfections, the concentration of economic power, the manipulation of international prices and the rigidities of disarticulated productive systems, selective intervention may be called for in order to increase the efficiency of resource allocation so that it will approximate to that required by the pattern of demand.

The existing patterns of demand, however, correspond to a development style which is exclusive and hence basically inequitable. If it were only a question of maximizing growth, it would be enough to transplant products, techniques, forms of organization, nutrition patterns, and systems of education, health, housing, communications and recreation. This, however, would sacrifice a high proportion of the population whose aspirations would be deferred and whose needs would be perpetuated, while the disarticulation of the productive machinery would be maintained. On the other hand, to achieve greater equity there must be an expansion of the content of public goods included in the pattern of demand, which are not ruled by criteria of price formation and whose opportunity cost should be subject, therefore, to a careful social evaluation.

Furthermore, the world is experiencing a dramatic transition between two technological patterns. Microprocessors, genetic engineering, laser rays, fibre optics and new sources of energy constitute the base of the comparative advantages of the future but, besides this, they offer the opportunity of dealing in unimagined ways with problems as fundamental as mass education, nutrition, cultural integration and development, decentralization of decisions and the industrialization of agriculture. The high proportion of young people in the population, malleable and eager to learn, may in this case come to be a favourable force for the development of our countries.

For these reasons the concept of social efficiency applicable in our disarticulated and dependent societies should include creativity as an intangible but essential element. Any project intended to surmount majority needs, technical backwardness and the disarticulation of production, should inevitably include creativity as an essential component of efficiency. It represents the need to innovate not only in the methods of satisfying basic needs but also in the forms of production and the mechanisms of collective decision-making.

/The absence

The absence of creativity, in the case of Latin America and the Caribbean, is not limited to the imitative reproduction of consumption patterns, which is a world phenomenon also found, in differing degrees of intensity and importance, in Western Europe, Japan, the socialist countries, the newly-industrialized countries of South-east Asia and the populous and remote societies of India and China. It has also favoured the transplantation of productive structures, albeit truncated and distorted, and the reproduction --often only in appearance-- of institutional mechanisms of little real efficacy. Growth without creativity is feasible, but only at the cost of efficiency, of the perpetuation of accumulated social deprivations and of the underemployment of resources and potentialities.

At the same time, growth is a necessary condition for the development of creativity. For the creative attitude to spread through a wide sector of the population, growth is essential. A stagnant economy may perhaps give education to the population but, when there is no growth and hence no technical progress, the development of creativity is an aspiration which can only be satisfied in part. Creativity requires not only education but also the transformation and growth of the productive system; education which is not nourished by innovation becomes sterile.

This concept of efficiency leads necessarily to a process of modernization which seeks to gain access to world advances in science and technology in order to incorporate them into the national stock and achieve the real assimilation and a high rate of growth which will reinforce the quest for equity. In this process the mass training of manpower is at once the aim and the requisite for its achievement. Moreover, creative modernization can only take place in a social atmosphere of participation. This is because, on the one hand, creativity as a social process can only flourish when a social project is widely shared and approved, while on the other hand the crystallization of creative modernization in conditions of social efficiency requires radical innovations in the mechanisms for the collective selection of alternative options.

For the simultaneous attainment of sustained growth together with productive efficiency, the development and full use of resources, a fairer distribution of the benefits of growth and the maintenance of an acceptable level of autonomy in the international system, criteria of social efficiency must be applied which will in some way incorporate the whole of the social opportunity costs --monetary and non-monetary-- of the alternative uses of resources, the sum total of the social benefits and external economies which those alternative uses would produce, and the objectives of equity, consumption pattern changes and autonomy, in a dynamic context which takes adequate account of the time horizon needed for creativity and resource development to mature, as well as of their interdependence. This cannot be regarded as the formulation of a technical problem --in which case it could hardly be resolved-- but rather as the stylization of a political quest for social efficiency in the adverse conditions of the crisis confronting Latin America and in a context of profound change.

In this process, the quest for productive efficiency in the conventional sense and for international competitiveness is a necessary but not sufficient condition for achieving social efficiency. To attain this end, growth must be accompanied by

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creativity and the State must be an instrument of a participative society so as to counter the undesirable effects of growth and to direct its development.

If the social power of the State is sufficiently solid it will be able to impose fiscal corrections on the price system to obtain more equitable results in respect of distribution and to bring the pattern of demand and resource allocation in line with what is considered optimal from a social standpoint. It will also be able to make investments or impose legislation to ensure the effective enjoyment of the external economies implicit in development, which are reciprocally reinforced. Finally, it will be able to undertake or promote programmes of technological development or of development of the resources required for the future consolidation of comparative advantages which represent full use of societal resources, in conjunction with the maximum feasible exercise of human capacities.

II. THE INTERNATIONAL SITUATION

The development of the Latin American and Caribbean countries is governed both by their structural characteristics and by the international situation. Although each country must settle upon specific ways to improve its form of insertion in the world system with a view to maximizing its long-term development, the Latin American and Caribbean countries share a common situation: their dependence and semi-development vis-à-vis the more dynamic centres in that system, their position within the same sphere of strategic influence, and their critical external debt situation.

Although it is difficult to predict the future course of the world system, it is essential for the region to reflect deeply on those of the system's main features that will dictate the international insertion of our countries and the outcome of efforts to reorient their development.

At a time of rapid change on the international scene, when sharp cyclical fluctuations are intermingled with sweeping historical change, it becomes particularly difficult to differentiate the former from the latter so as to distinguish between the external situation which determines how our countries get through the crisis and the longer-term international situation which determines their future development prospects.

Attention is therefore focused on those characteristics of the international situation which provide an indication of its probable course over the medium term and perhaps of some of the world system's structural tendencies as well. Even though, for analytical reasons, different variables are stressed when dealing with short- and medium-term problems as opposed to long-term problems, we must not forget the obvious fact that the long-term outlook includes the present and the immediate future.

There are five main aspects of international economic trends which are of particular importance for Latin American development: the growth and economic policies of developed countries; changes in technology and in the structure of production; changes in the institutional structure of international trade; the transnationalization of the international economy, and financial flows.^{3/} Finally, these aspects must be viewed in relation to trends in the system of world power.

1. The growth and economic policies of the developed countries

The world economy has changed over from the bipolar world which emerged after the Second World War to a multipolar one. This increase in the number of actors involved provides the developing countries with new opportunities for negotiation, although the harshness of North-South relations has thus far prevented many of them from crystallizing.

Nevertheless, there have been apparent signs in recent years that economic power and the capacity for decision-making are becoming concentrated to some degree,

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with the United States and Japan standing out among the Western economies in this respect. It is difficult to say, however, whether this phenomenon will become a systematic trend in the future.

There seem to be major differences in each developed economy's flexibility in adapting to changes in the international economy, and this flexibility has an influence on their competitiveness and on the growth of production and exports. Some exhibit a greater capacity than others to shift resources from declining sectors to ones which are gaining in dynamism and relative importance. They also vary in their ability to introduce new technologies needed for modernization which call for manpower reductions, shifts or new skills. An important factor in such flexibility is the attitude of companies and wage-earners towards innovations and towards accepting shifts from one sector to another, as well as towards cuts in their profit margins or wages which are intended to absorb shocks from without or changes associated with periods of transition. Other factors in such flexibility are each country's savings and investment capacity (in so far as this determines what possibilities there are of introducing technological innovations), the characteristics of its social welfare systems, and the regulations governing labour markets. The extent of interaction between the public and private sectors is also an important factor to be taken into account in trying to foresee and take advantage of changes in the structure of international demand so as to benefit from the heightened dynamism gained by some sectors.

Growing interdependence among countries, especially when it is not accompanied by a proportionate degree of policy co-ordination, may make it more difficult for a given country to apply the policies that are needed in order to adapt its economy to changes in the international economy.

The United States and Japan appear to have more flexible economies as well as a greater possibility of modernizing and adapting their systems of production to changes in the demand structure. On the other hand, some European countries exhibit a greater resistance to such changes, and this affects their competitiveness.

Estimates prepared by a number of different institutions all indicate that the industrial countries' growth rate during the rest of the decade will continue to be somewhat lower than its traditional level, that the inflation rates in these countries will be slower than during the ten preceding years, and that interest rates on international financial markets may decrease slightly. They also indicate that trade restrictions in the industrial countries will grow no worse, but will not ease up either during the next five years. Oil prices are not expected to change very much in real terms, and it is thought that the developing countries' terms of trade will improve slightly in 1984-1985 and then hold steady until the end of the decade.

It is believed that the financing needs of the United States and other industrial countries will absorb a substantial part of the increase in the resources available on world financial markets. This increase, which is expected to be only slight due to changes in the distribution of current account deficits and surpluses among the various countries of the world, would only allow the net financing supplied

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to developing countries by the private sector to be increased by quite a limited amount in comparison to previous periods. Official development aid is expected either to show no growth in real terms or to rise only very slightly.

Estimates vary as regards the dollar's relative strength against other currencies. While some believe that it will remain strong (although perhaps not as high as at present) in view of the United States Government's financing needs, others feel that the present levels of such financing cannot be sustained and that the United States Government will have to reduce its demands on the market. This would cause the demand for dollars to slacken, and the exchange rate for the dollar would do the same.

The relative strength of the dollar is an important factor in determining how severe the burden of debt service will be for the debtor countries, since the prices of many raw materials that are expressed in dollars tend to sag when the dollar goes up.

According to the econometric model used by the International Monetary Fund, a scenario such as the one described above would involve an increase of 10% per year in developing country exports. Thus, if these countries' debt grows by only 7% annually through the end of the decade, then the debt/exports ratio would decrease from its level of 150% at the end of 1983 to 124% by the end of 1990. For the 25 largest debtors, this ratio would drop from 194% in 1983 to 150% in 1990. According to Fund projections, however, this ratio will be the same in 1990 as in 1984, with a peak around 1987 due to the structure of future debt payments.

If traditional approaches continue to be used, a situation such as this will clearly make it necessary to continue with restrictive policies in the developing countries which could prove to be politically untenable. What is more, if growth in the industrial countries is as predicted, the level of unemployment in the developing countries will not improve a great deal either, bringing along with it political and social friction.

The manoeuvring room available to the industrial and the developing countries with respect to these forecasts will be very limited. The characteristics taken on by the world economy in recent years, as well as economic trends in the United States, which have such a great external impact, seem unlikely to change very quickly. Any measure that is adopted will take time to be implemented and will take even more time to yield results.

In short, it seems reasonable to assume that the developed market-economy countries will gradually make a recovery, but their progress will be slow and will be marked by ups and downs, with average growth rates during the next few years below those seen following the Second World War. At least for several years, the protectionism which is linked to these prospects will also probably persist, in keeping with the strength of this trend seen in recent years.

2. Changes in technology and in the structure of production

Although these subjects will be discussed in detail in the chapter on industrialization and technical progress it is worth making brief mention here of the main trends in technology and in the structure of production that are taking shape in the world system.

One event taking place in the developed countries which has important implications for Latin America is the rapid introduction of new technologies for the production of goods and services, with strong government support. They include micro-electronics, robots, computer control of production processes, data processing, long-distance information transmission, biotechnology and genetic engineering, new production procedures which save energy or replace fossil fuels, and new resistant and light-weight materials.

These new technologies result in highly positive changes for the developed countries in production processes, cost levels and structures, corporate management, administration and accounting, and product quality. They also facilitate the centralized management and control of subsidiaries, thereby allowing companies to expand further into markets in other countries.

These new technologies make it possible, inter alia, to reduce the use of manpower and natural resources in production processes and to increase the yield of natural resources or allow lower-quality resources to be used in production, as well as increasing the precision and quality of manufactured goods.

These new technologies also, however, have other consequences and create additional needs. They increase the amount of financial, human and material resources needed to develop and design products; they tend to shorten production cycles, in some cases to a considerable extent; they heighten the interdependence between industry and some technological, financial and marketing services; and they modify the corporate structure, sometimes promoting greater vertical integration and other times fostering the development of small advanced high-technology companies.

Another significant aspect of the change taking place in the economies of developed countries is the growth of services. These include some very high-technology services which help goods-producing activities to attain a high level of productivity (computer and business administration services), engineering services, banking, and financial and insurance firms. Some services related to tourism and recreation, where demand has a high income elasticity, also grow rapidly. Some traditional services (including retail trade) lose ground, however.

The developed countries are extremely interested in bringing these activities into the markets of developing countries. The most outstanding case in this respect is that of the United States, which has taken a very firm and active position in favour of loosening restrictions on international flows of services and hence incorporating them into GATT regulations, as a way of preventing or impeding other countries from applying policies to protect or promote similar local activities.

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Although the impact of these factors on the competitiveness of Latin America and other developing areas cannot yet be determined exactly, it is obvious that the introduction of these improvements by developed countries could help to erode Latin America's comparative advantage in labour and natural resource-intensive production processes. This highlights the importance of the effort in the area of technological development that must be made at both the national and regional level in the next decade.

3. Institutional changes in international trade

In response to the problems of the recession, unemployment and inflation, the developed countries are in favour of changing the rules applying to international trade and the ways in which they are applied.

The most-favoured-nation clause, which is the basis of GATT, is becoming less effective and, in the case of many products exported by Latin America, tends to be the exception rather than the rule.

Multilateralism and free trade are gradually being replaced by bilateral understandings and managed trade. GATT has sanctioned these trends to some extent by approving the Multi-Fibre Agreement. A growing number of important negotiations and decisions relating to trade in specific sectors take place outside the scope of GATT, with the exclusive participation of small groups of countries.

Another cause of concern is the fact that protectionism is now a phenomenon with shifting limits, in that it involves a growing rather than a static number of sectors. As developing countries meet with success in exporting certain products and the growing competition they represent therefore creates problems for counterpart sectors in developed countries, they come to be the object of protectionist measures. This introduces a great deal of uncertainty with respect to the production and specialization policies and the foreign trade of the Latin American countries, since their success in expanding certain exports will probably call forth a reaction on the part of buyer countries which will limit their subsequent growth.

In addition to protectionism, another concern for Latin American countries is the developed countries' application of large-scale promotion measures for exports in competition with those of Latin America which allow them to penetrate or increase their presence in other markets that have traditionally been supplied by Latin America. These measures promote the production and export of items such as agricultural goods and semi-manufactures or manufactures based on them. It may therefore be asked whether a new sort of neo-mercantilism is taking shape.

Another element which affects a number of countries in Latin America is the concept of graduation. The developed countries maintain that a distinction should be drawn among developing countries, so that those which gradually reach a given level of development would be totally or partially excluded from the special treatment accorded to developing countries or would have to provide some sort of compensation in exchange for such treatment.

4. Transnationalization of the world economy

Many major decisions which have an impact on the world economy are now beyond the control of governments and countries. The growth of world financial markets such as the Eurodollar market and the vast economic power acquired by transnational corporations, together with the increasing interdependence of the developed economies, exert a strong and uncontrolled influence on national economic policies --even those of the developed nations-- and dictate their possible responses to that influence.

There are some aspects of this transnational nature of the world economy which merit discussion.

a) Production and especially investment by private transnational corporations are oriented towards the domestic markets of their countries of origin only to a certain extent. A significant and increasing part of such companies' economic expansion is determined by their operations in other markets. This applies both to the companies which are primarily involved in the production of goods and services and to banking and financial institution.

b) These companies' international operations are not subject to the control of any public power. The flows of private investment and international capital are more or less independent of their countries of origin. The loosening of restrictions on financial flows has also made such flows highly independent as regards the recipient countries.

c) Insufficient regulation of international financial flows creates problems and places limitations on the countries' economic policy, inasmuch as the incoming and outgoing flows have a significant impact on exchange and balance-of-payments policy, monetary policy and domestic interest rates, and domestic levels of economic activity.

d) As the greater interdependence among the developed economies diminishes each country's freedom of action with respect to economic policy, there is less of a possibility of making a recovery and lowering unemployment in a way which will allow macroeconomic equilibrium to be maintained unless an effective degree of co-ordination among the economic policies of different countries can be achieved.

e) World industrial production tends to become more interdependent as large companies, because of their need to be competitive, seek out those countries where labour costs are comparatively lower as the site for their activities. This international distribution of production activities is limited by the strong protectionist trends in the developed countries, which have grown stronger since the 1970s; future trends in this respect, however, may be heavily influenced by the application of new technologies which diminish the advantage represented by the greater abundance of manpower in developing countries.

f) Subcontracting appears to be a widespread practice within the industrial world and between developed and developing countries, and a wide range of methods are used in it. In some cases, the production of the various parts of a given

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product is divided among different countries in such a way that each one of those countries is the site of an actual manufacturing activity, which contributes to the development of other sectors and of technology. In other cases, however, and especially in relations between developed and developing countries, the latter serve as the location for production processes that are almost exclusively composed of simple operations carried out by unskilled labour which have little or no positive effect on the rest of manufacturing production or on domestic technological development. Although these subcontracting methods provide immediate advantages in so far as the creation of jobs is concerned, their long-term effect is in some cases relatively limited.

g) Because they have access to international capital markets, the subsidiaries of transnational corporations and other related companies, and to a lesser extent the large domestic companies in each country, are in a better position than medium-sized and small domestic companies in developing countries, since they can obtain financing on better terms. This has a considerable impact on the development of domestic companies (especially medium-sized and small ones) in developing countries and on their ability to compete.

h) The most important contributions made by direct investment, other than the actual financial input, appear to be technology transfer, the organization of production and the access to international markets which it gives to the exports of developing countries.

i) The practice of floating the main currencies has become a very important feature of the international economic system. Floating has made the international system more flexible but it has also given rise to uncertainty, since changes in exchange rates are influenced not only by trade but also by capital movements that are difficult to regulate.

5. Trends in the system of world power

Since the late 1960s, the transnationalization of the world economy has been spurred on by forces also acting in the same direction in the other spheres of the international system. This trend towards transnationalization has not only been seen in the economic sphere, where it has indeed been particularly visible, but has also affected the scientific, technological, political, and socio-cultural aspects of international life. Since that time, the rigidly bipolar world which emerged from the Second World War has begun to show signs of greater flexibility as new centres of world power and global problems of great technical complexity have emerged: both phenomena which have led to growing interdependence within the world community. For a time, these factors gave rise to a clear tendency towards multipolar international relations.

The economic crisis which began some time later also had the same effect as it changed the power relations and structure of comparative advantages of the postwar world. This conclusion seems more and more clearly justified as the belief gains ground that the present situation is not merely a recessionary cycle, but a crisis of a more structural nature involving a transition towards new forms of economic, industrial, technological and socio-cultural organization.

/The emergence

The emergence of new actors and issues in the world arena, combined with the fact that a turning point has been reached in the expansionary cycle of the centres, has helped to make the international system more flexible than it had been during the period following the war.

During this period, the world power structure was marked by an ironclad hierarchy imposed by a basically bipolar order that was strongly influenced by the Cold War. The emergence of new centres of power in addition to the United States and the Soviet Union, the effort to establish détente between the two powers, the appearance of some tensions within the trilateral system and particularly within the Atlantic Alliance, the difficulties encountered in the socialist camp, the emergence of a large number of Third World States, and the increasing level of development and external influence attained by some of them have all helped to make world power relations more flexible.

During the period following the war, international relations were heavily dominated by the imperatives of power and security. In the present era, other factors --of an economic, financial, technological, social, ecological and cultural nature-- are carrying greater and greater weight in identifying the interests at stake in world politics, as well as in establishing the legitimacy of the actors taking part in such politics.

These trends are giving rise to a transnational system of a different stripe. New centres of world power are emerging. National societies are developing and diversifying as they pursue an increasingly wide range of objectives, many of which are contingent upon what takes place externally. The interpenetration of different national societies is growing. The international agenda is becoming less well defined and more complex. The State is ceasing to monopolize the conduct of foreign relations as new agents begin to bring non-traditional sources of power into play.

In recent years, this vision of the international system as one which is progressively moving in the direction of multipolarity has been questioned from various standpoints. According to such views, the great powers have undertaken projects designed to strengthen their external power and their impact at the international level, particularly in their traditional spheres of influence. This is said to have been responsible for the heightening of East-West tensions. Although there is abundant evidence to support this interpretation at present, if the situation is examined from a longer-term vantage point which also takes the interests of the rest of the world into account it is necessary to adopt a more cautious view. From this standpoint, the revisionist interpretation of world political trends underestimates the force and scope of the factors which have transformed the postwar international system (as mentioned above), as well as the economic and political costs that projects designed to restore the great powers' hegemony entail for them and, to an even greater extent, for the rest of the world. In any event, just as the process of transnationalization and the trend towards multipolarity have been the most outstanding international developments since the late 1960s, today the future of multilaterality is being called into question although it cannot be said with any certainty that those trends have ceased to be operative over the long term.

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The most cogent aspect from the standpoint of the Latin American countries is that the change in the international system which began in the late 1960s promoted the transnationalization of the world economy and made international political relations more free-flowing. These changes have confronted the developing countries with a complex balance of risks and opportunities which poses a formidable challenge for their international economic diplomacy. For better or for worse, the developing countries are part of a more interdependent, as well as more turbulent, world than in the past. Given this situation, both the policies which encouraged the indiscriminate integration of these countries into the world economy and the proposed policies for gradually detaching themselves from it have proven to be unrealistic and have either produced negative results or simply could not be implemented. The current structure of world power and the present characteristics of the international economy point to the need for these countries to try out strategies for participating in the international system on a selective basis in such a way as to reduce the risks and take advantage of the opportunities which it presents. In order for such strategies to be put into practice, however, there must be a high level of national solidarity and the State must maintain an active presence.

6. International negotiation mechanisms

Mention has already been made of the major changes that have taken place in the international system and of the fact that one of the main current features of the latter is the transnationalization process. This process has resulted in a trend towards greater flexibility of the international hierarchy which prevailed during the period following the war and the formation of a system marked by a greater dispersion of world economic and political power, by the emergence of a broader and more complex range of international issues, and by the involvement of a larger number of governmental and non-governmental actors in dealing with such questions. The initial perception of this phenomenon, which was closely focused on the role of transnational corporations, has gradually evolved into a fuller understanding of an international system whose operation entails a large number of "circuits", among which the transnational corporations continue to play a central role.

These elements make it possible to reconstruct the structure and operation of many such circuits, which are organized around the different individual aspects of the overall set of issues (and directed by the various agents) that were mentioned above and link national societies through specific interests in a variety of ways. Viewing the situation from this perspective makes it possible to postulate the emergence of transnationalized circuits in the fields of energy, food, industry, technology, finance, strategic considerations, ideology and cultural matters. Each one of these circuits exhibits a considerable degree of specificity. The various countries' chances of gaining access to each one and their relative position within the circuit do not hinge solely on their position within the international hierarchy (whether within the East-West conflict or North-South relations) but also on their position with respect to the interests at stake in each case.

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This makes the international structure more flexible and interdependent but it also makes it more fragmented and uncertain. Within this structure, the developing countries --and particularly the Latin American countries, in so far as they have attained a greater degree of international integration-- will become more vulnerable to external elements while their manoeuvring room continues to increase as they face a complex balance of risks and opportunities which they must assess with greater precision than in the past in order to formulate their external strategy. This situation may provide them with the chance to design a new type of international economic diplomacy which would allow them to deal with some of the severe restrictions that will be placed on them by the external situation over the medium and long terms by promptly and efficiently taking advantage of the opportunities that present themselves within a more flexible setting. From this point of view, the negotiating strategy used for the last 20 years by the developing countries --and among them, the Latin American nations-- would have to be adapted to the new situation. As will be discussed later (see chapter VI), this strategy is based on a list of demands that was essentially drawn up 20 years ago when conditions were very different both in the international arena and in the developing countries themselves. When the main elements of the strategy were designed, the conditions for gaining access to the running of international affairs were more rigid, the ability of developing countries to participate in this was much more limited and they had less manoeuvring room. As foreseen almost a decade ago by one of the most renowned thinkers of ECLA, José Medina Echavarría, this situation presents "the possibility that some time the present theme of dependence will become out of date because of the slow or rapid modification of its nature as a form of unilateral hegemonic dependence", after which he went on to suggest the possible emergence of "a novel form of this dependence as a plurilateral relationship".

This points to the need to update Latin America's international economic diplomacy by basing it on a dynamic analysis of global trends that will make it possible at each step along the way to identify a more disaggregated and selective range of objectives which better reflect the interests and possibilities of the various groups of countries; these objectives should not be limited to the repetition of a generic list of demands, but should instead be backed up by a true development of the countries' institutional, production and technological capacities.

III. STRATEGY OPTIONS FOR REORIENTING DEVELOPMENT

As noted at the beginning, the purpose of this analysis is to identify and propose a series of important issues to be considered with respect to the new orientations of Latin American development. In view of the marked diversity of the national situations involved and the fact that emphasis is naturally placed on how the preceding development style should be "corrected", attention is drawn to a limited number of topics which are thought to be of general interest and which primarily illustrate the shortcomings of the prevailing model.

There is ample knowledge and recognition of the significant progress which the region has made in recent decades, and this progress constitutes a wealth of potential that lends viability to the undertaking of promoting new orientations that will allow needs which have been neglected in the past to be met. The search for such new development orientations is productive and promising precisely because of the existence of these tangible and intangible assets, which take the form of know-how and organized learning experiences, skilled personnel, production facilities, communications networks and media, as well as widespread aspirations to modern conditions of daily life --not only in terms of having contact with new goods and services, but also in terms of having contact with civilized and institutionalized forms of social coexistence. Due to an insufficient appreciation of this accumulated potential and to the intention of imposing a model "from the top down", in the past decade the preceding development style has led some countries in the region to carry out experiments which have eroded their accumulated potential in terms of institutions and values while failing to lessen their accumulated needs. In these countries, a forward-looking consideration of the situation must necessarily incorporate the implications for society of these experiments (whose value has been brought into question in the light of the actual situation) and should stress the challenges involved in carrying forward the model that prevailed during the 30 years following the Second World War. The following discussion focuses on the shortcomings and limitations of that model.

1. The structural background of the crisis

The immediate background of the financial crisis being suffered by Latin America and the Caribbean is the exogenous shock which it experienced as a result of the devastating combined effects of a sharp decline in the terms of trade during the late 1970s and the subsequent record increase in interest rates which occurred in the context of the recession in the international economy. This shock impaired the ability of the relatively more developed countries in the region to continue servicing their large and growing external debt, thereby abruptly reversing the direction of the external financing spiral.

These circumstances, however, also represent the cyclical outbreak of a structural crisis which has its roots in the model of growth that has prevailed in most of the countries of the region, whose structural imbalances could only be side-stepped --without being resolved-- because of the extraordinary expansion in world trade and record financial flows.

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At the same time, the dilemma to which this model of growth has given rise --within a structural situation that is aggravated by the coercion inherent in a position of chronic indebtedness-- brings out the contradictions in the predominant development style in Latin America: contradictions so severe that a crisis in this style was probably inevitable.

a) The external vulnerability of the growth model

The relationship between the financial crisis and the Latin American model of growth is quite clear. It may be recalled that the external debt, which has skyrocketed in the last few years, began to rise in the late 1960s and increased further during the following decade. This was due to three main phenomena which must be taken into account in a long-term view of the situation: i) the industrialization model's tendency towards depletion, which began to manifest itself in the late 1960s; ii) the 1973 oil crisis and the substantial rise in oil prices which followed; iii) the sudden large-scale expansion of the new private international financial market --which had been reestablished since the mid-1960s-- as a means of channelling petrodollars.

This last phenomenon gave rise to great permissiveness on the part of the private international financial system during the 1970s, in contrast to previous decades, when the flow of external savings into the region was extremely meagre and selective. Throughout the 1970s, the vast expansion in private international financing allowed the Latin American and Caribbean countries to disregard the limitations arising from the structural and energy imbalances to which the postwar model of growth had led.

One of the characteristic traits of the Latin American model of growth has been the increased external vulnerability which has accompanied advancing industrialization. This paradoxical result stems from a systematic orientation towards imitative consumption in import-substitution industrialization policies (thereby skewing the energy profile towards petroleum), the relative backwardness of the industrial inputs and capital goods industries, and the region's barely incipient technological dynamism as well as the consequent precarious situation with respect to exports of manufactures.

Although industrialization has made it possible to lower the proportion of expenditures on imports with respect to domestic economic activity, it has also brought about very important changes in the import structure. Whereas in previous decades a large proportion of foreign exchange expenditures had been for non-essential consumer goods, by around 1970 --at least in the more industrialized economies in the region-- imports were almost wholly confined to essential goods: machinery, equipment and tools for maintaining and expanding production capacity; raw materials and intermediate products needed to ensure a normal level of economic activity; and, frequently, staple foods for mass consumption. The countries that were net oil importers also found it necessary to ensure a minimum flow of hydrocarbons for production as well as to meet the demand for gasoline for automobile use. The import substitution process had resulted in the elimination of any leeway for further reductions in imports of consumer goods, so that any change in external prices or exports or any problem with external financing caused serious difficulties,

/whether because

whether because of the resulting shortage and price increases of essential consumer products, or because of the necessary restrictions on the importation of raw materials and the effect this had on the normal course of manufacturing activity, or because of the postponement of imports of machinery and equipment and its effect on production capacity. In response to any sort of shock, the only alternatives were therefore a reduction in the consumption of essential goods and of economic activity, or else additional external borrowing.

This structural situation was what led the Latin American countries to realize that the increase and diversification of exports should be one of their main objectives, not only for the so oft-repeated reasons of avoiding dependence on a single product and the instability this entails, but also because such a policy represented a necessary structural adjustment of the model of growth.

Furthermore, inasmuch as capital goods represented a large and growing proportion of imports, export activities became, in practice, the source of supply for capital goods. Consequently, an increase in exports --whether they might be agricultural, fishery-related, mining products or manufactures-- became the equivalent of an expansion in real national savings and investment capacity, which is an unavoidable requirement of development. The rapid growth in exports thus opened up the possibility of progressively supporting the growth of national savings. Stagnation of exports or a deterioration in the terms of trade, on the other hand, made external savings and investment necessary in order to maintain the rate of growth, with the resulting indebtedness, and this was the main option chosen in the 1970s, when a substantial expansion took place in the private international financial market.

The external shock suffered by the net oil-importing countries of the region as a result of the sudden jump in oil prices was thus dealt with by resorting to financing supplied by the "recycling" of petrodollars through the private banking market. As for the net oil exporters of the region, easy access to private international financing allowed them to expand their imports even more than the new high prices for their exports alone would have allowed them to do; this caused these countries to go into debt also, especially when relative oil prices later began to drop, as they continued with their ambitious investment programmes and the headlong expansion of consumption. This was compounded to a significant degree in some countries by additional borrowing made necessary by a lowered domestic savings capacity due to the flight of capital or to large-scale arms purchases.

In sum, the structural causes for the initiation and expansion of external borrowing --although not of course, its explosive growth during recent years-- are rooted in the industrialization model's tendency towards exhaustion, which began to show itself in the late 1970s and, very specially, in the marked and growing external constraints to which it was subject. Private external financing and the resulting indebtedness, as well as the continued if irregular expansion of the international economy during the 1970s, allowed the external crisis of the growth model based on imitative consumption to be staved off for a time. In some countries more than others, the effort made to ease external constraints and the limitations of the domestic market by diversifying manufacturing and other non-traditional exports also played an important role.

/Nonetheless, this

Nonetheless, this structural adjustment was neither comprehensive enough nor was it sustained over a sufficient amount of time to reorient the model of growth. With an insufficiently developed capital goods industry, a relative lack of co-ordination within the system of production and an import structure which left no room for any reductions, this model continued to depend primarily on the expansion of exports of primary products, or of manufactures which had no assured place in external markets, or else on external financing. Of course, there is nothing within the internal logic of this model of growth which makes its exhaustion inevitable. However, the facts have shown that the international economy is not capable of continuing indefinitely to provide the conditions which would guarantee sustained growth over the long term on this basis.

Weakened by its internal fragility and the sudden reduction in external financing, this model of growth has left the legacy of a new structural trait that saps its dynamism even further: a large debt burden which entails a permanent drain of resources out of the country.

b) The crisis of the development style

The evident ineffectiveness of the Latin American model of growth and the further reduction of growth possibilities have brought out the contradictions in the predominant development style in Latin America and the Caribbean to a critical degree.

Latin American development, which is sharply skewed towards imitative consumption by the middle classes, constitutes a style with distinctive characteristics that are, essentially, shared by all the countries of the region, although they occur in different combinations and in different orders of importance and intensity:

i) Internal dynamism is based on the pursuit of higher levels of private and collective consumption in imitation of both the types of products consumed and the amount consumed per person in the industrial countries;

ii) External dynamism depends, in essence, on exports of abundant or over-exploited natural resources (agricultural land ownership retains its traditional structure in many cases). Although there have certainly been some spectacular achievements with respect to industrial exports, some of them may be based on as yet unproven or unstable comparative advantages, particularly in the sphere of technology;

iii) The industrial profile --which is skewed towards the consumption of increasingly sophisticated products by the middle and upper strata and which therefore involves the establishment of highly imitative technological and energy patterns-- goes hand in hand with an insufficiently developed capital goods industry, a limited capacity for the development of technology, a low level of internal integration in the industrial sector and the high costs of industries producing extensively used inputs;

iv) The structural vulnerability stemming from heavy dependence on imports and consumption-skewed industrialization have narrowed the margin for reducing essential imports; the resulting disarticulation of the industrial apparatus has made even import-substitution processes highly dependent on import capacity;

/v) The

v) The structural imbalance between, on the one hand, the pattern of resources needed for the production of the goods actually demanded, using the technology introduced in the belated industrialization process and, on the other hand, the supply of resources and the prevailing local environmental conditions. This entails higher costs in connection with scarce resources (capital, technology and foreign exchange) that are needed in order to extend the process of modernization and increase the unit productivity of plentiful resources (labour natural resources, environmental resources);

vi) The structural heterogeneity which stems from the high cost of propagating technological progress, the concentration of economic power and wealth, and from the general lack of transparency of the incipient capital markets, to which access is obstructed; all of this has resulted in the perpetuation of marked differences from one activity to another in productivity as well as in technological and organizational levels, despite growth spurts and considerable increases in the productivity of the more modern activities;

vii) The style of development functions on a selective basis, inasmuch as the consumption which orients growth involves a high social cost in relation to average productivity levels and can therefore not be extended to include the entire population. The power structure results in a concomitant skewing of public spending, which in fact excludes considerable sectors of the population from access to the services provided, while the heterogeneous structure of production keeps a large part of the rural and urban labour force underemployed or employed in the informal sector. The resulting social marginalization and poverty are aggravated by the migration to urban centres of a large number of people who are attracted by the modern pattern of consumption from which they are, however, largely excluded;

viii) Actual accumulation is probably less than it might potentially be, both because of the orientation towards consumerism and because of the weakness of investment processes; above all, however, it is far less than what is needed to raise levels of consumption and modernization, due to the high social costs involved in the levels of demand which are sought after. The above situation is compounded by the detrimental effects which the skewing of investment towards consumption, the relative lack of co-ordination in the production apparatus and the frequency of socially unproductive investment have on the effectiveness of capital.

All of these factors converge and reinforce one another within the development style which predominates in Latin America and the Caribbean. This configuration of traits has made it impossible to optimize economic growth in such a way as to increase the amount of goods and services available while also fulfilling the other guiding principles and objectives of development.

Growth has taken place without any correction of the structural imbalances characteristic of the style: the tendency towards an external imbalance, the disarticulation and heterogeneity of the production apparatus, the gap between the pattern of demand and the supply of resources, and the tendency for domestic savings to be too low to sustain the investment needed to extend modernization.

Vulnerability to negative external events, the serious debt situation which results, and the virtual rationing of external capital give rise to a highly dangerous situation as regards autonomous national decision making, which may thus be reduced to a minimum.

/The development

The development style's contradictory nature has either made it impossible to achieve more equitable distribution of the benefits of growth or has resulted in attempts to do so being short-lived, as well as having demonstrated the extent to which it is unrealistic to hope that the benefits of growth --regardless of its pattern and content-- will automatically "trickle down" enough to bring about a steady decrease in the cases of extreme inequity. Moreover, the unequal distribution of the costs of the adjustments that must be made to exogenous shocks within the context of the prevailing development style have, in large part, wiped out the slight and hard-won advances which were achieved in some cases during periods of expansion.

The style's contradictions and the characteristics of the accumulation process also obstruct participation and tend to weaken democratization processes.

In summary, it may be said that the crisis that is bound to occur in the Latin American development style upon the exhaustion of the models of growth on which it is based will be a result of the fact that this style does not provide the minimum conditions for self-sustained development over the long term:

i) Modernization has been imitative and superficial, with little creativity, and is structurally limited to certain activities and social strata. Moreover, the incorporation of technology (which is considerable in some activities but nevertheless limited) has not been in keeping with the formation of local capacities for developing technology appropriate to existing economic, social and environmental conditions;

ii) The natural resource base has been over-exploited and there has been a deterioration in the productive capacity of the ecosystems. At the same time, the expansion of the constructed environment has been distorted by the exclusive tendencies of the style with serious deterioration in the quality of life;

iii) The style's exclusive nature has worked against social integration. The persistence of the structural heterogeneity of the production apparatus has prevented the formation of functionally articulated economic systems that would have an advantageous position in the world economy, while the tensions inherent in the way the development style functions have hampered the consolidation of self-regulating and stable political systems in most of the countries;

iv) The operational exigencies of the style have tended to limit political and social participation or to distort it in ways which run counter to political integration;

v) The operation of the development style has been marked by a high degree of instability whose most notable manifestations are imbalances in external accounts and in the economy as a whole when subjected to exogenous shocks, endogenous inflation and political instability.

2. The structural adjustment of the growth model and
the reorientation of development

The prevailing growth model, although unbalanced and contradictory, has made it possible for most countries in the region to attain higher levels of development of their productive forces and has caused their economic and social systems to become more complex and diversified. The crisis in which this model has resulted once again presents Latin America with the eternal dilemma of how to achieve self-sustaining development at a higher level of complexity despite the burdensome legacy of the era that is now coming to a close: external indebtedness, endemic inflation, weak machinery for generating and allocating domestic savings, heightened technological dependence and the unequal distribution of factors of well-being caused by a style that has overstimulated the aspirations of a large part of the population without being able to guarantee access to the benefits of growth.

The manifest ineffectiveness of this growth model and the new phase on which the international economy has entered not only call for changes in the importance assumed by the factors that promote growth but also demand a qualitative change in the operational dynamics of the growth process.

a) External determinants of Latin American growth

The external context for the Latin American economies will very probably be characterized by:

- i) Slow aggregate growth of the industrial economies;
- ii) Strong protectionist pressures in the markets of industrial countries, combined with subsequent improvements in the competitiveness of those industries which are successfully restructured, as well as technological breakthroughs in spearhead activities;
- iii) A virtual rationing of external capital, along with increasing indebtedness in the case of the capitalization of interest or continuous pressure on the balance of payments for the remittance of the greatest possible percentage of the interest due, in which case there will be a dramatic turnaround in capital flows which would force these countries to become exporters of their scarce capital resources.

Under these circumstances, the expansion of exports of primary goods and their derivatives --some of which would also be affected by the progressive substitution of technology-- will be held down to modest rates slower than the pace of growth seen in the recent past, even in the event of a significant recovery on the part of the world economy. The improvement in the terms of trade will be slow in any case, in line with the sluggish demand for basic products, the developing countries' eagerness to export and the effect of protectionist barriers on the prices of manufactures. Exports of manufactures will continue to be limited by protectionist pressures in the industrial countries and by the slow expansion of the developing countries, even though industrial restructuring may open up interesting prospects in some markets for a greater degree of specialization in some items.

/The extent

The extent of the world economic system's potential for absorbing exports from the developing world, particularly industrial exports, is in question. Although there has been marked dynamism in this respect during past decades, everything seems to indicate that such dynamism will diminish considerably in the foreseeable future. It might be asked how many "Koreas" the system would be capable of incorporating if each eligible developing country could resolve its structural difficulties in order to achieve that end.

As far as the Latin American countries' ability to penetrate into world manufacturing markets is concerned, the extrapolation of some of the market positions that have been won is not so obvious as is sometimes supposed, since they are based on markets which are in a special situation due to the effects of their own adjustment or the existence of temporarily idle capacity as a result of a decline in domestic demand. Certainly, however, in the long run there is a considerable export potential —as well as a potential for import substitution on a competitive basis— which will manifest itself as the necessary structural adjustments and reorientation of development are carried out.

The growth potential will therefore tend to be doubly limited by the shortage of foreign exchange and the relative insufficiency of the domestic multiplier effect of exports. The rationing of external capital and the possible transfer of net resources abroad will also work to the detriment of accumulation capacity, but in many cases the restriction of foreign exchange could be the dominant element, in so far as the rate of growth does not speed up.

b) Criteria relating to structural adjustment for development

In order to maximize growth and orient it towards self-sustained development based on the principles of equity, autonomy and democratization in the presence of severe external constraints, structural adjustment strategies will be needed which combine certain criteria that are essential in order to bring about an adjustment in conditions of expansion and to lay the foundation for reorienting future development.

What is involved is the gradual solution of structural imbalances, with concomitant economic expansion. As was stated in the discussion of short- and medium-term adjustment problems, it is imperative that this solution be accomplished concurrently with economic expansion, no matter how modest, so that the systems which are currently in crisis can resume their long-delayed growth. An adjustment followed by economic slowdowns militates against the elimination of structural imbalances because it exacerbates the lack of co-ordination in production and because it blocks resources and energy whose mobilization is crucial for development. However, for the reasons already discussed, the economy must also be reorganized at the same time so that growth is redirected along lines which permit modifications to be made in the structural characteristics of the development style brought into question by the crisis.

/The external

The external crisis naturally tends to cause stress to be placed on the acquisition and availability of foreign exchange. An adjustment achieved through the indiscriminate restriction of imports would continue to curb growth, but the selective restriction of non-essential imports, in contrast, would not only help to ease external constraints (albeit only modestly in some cases), but would also allow development to be reoriented towards a less imitative pattern of demand, involving less vulnerability to external influences. The driving force, however, should be based on export promotion and on selective import substitution.

The other strategic factor with respect to external constraints is that of rescheduling the external debt for periods of time in keeping with the maturation of development efforts, including refinancing arrangements that involve the capitalization of interest so as to minimize the debt's draining off of scarce domestic resources which are needed for development.

That part of the strategy aimed at conserving foreign exchange should be designed using a dynamic approach, in which an efficient and creative industrialization process and the modernization of agriculture would be essential elements.

In order for industrial exports to be promoted at the same time that "strategic" import substitution is carried out, decisions must be taken in each country, in the light of the actual circumstances, on the combined application of a number of fundamental criteria. On the one hand, there is the attempt to achieve international competitiveness as the end goal of the protection and promotion of primary as well as industrial activities in respect of both production for export and for the domestic market; on the other hand, there is the necessary protection --prolonged and graduated over the period during which technological and industrial know-how is being gained-- of activities in which an attempt is being made to create dynamic comparative advantages by developing resources and the capacity for technological development. This means that efforts to eliminate distortions in order to bring relative prices to levels commensurate with efficiency in resource allocation and to do away with quasi-rents should be focussed on activities which already have static comparative advantages. A key factor in this respect is a comparison of the immediate loss of well-being involved in the imposition or continuation of tariff and trade restrictions with the future gains to be made from the acquisition of technological know-how (and the resulting ability to reduce prices) and from the development of local resources. At the same time, differentiated promotion according to the strategic potential of the activities should be co-ordinated on the basis of final incentives which are similar for exports and for the supply of the domestic market, taking into consideration all the instruments involved.

The above operates in conjunction with the maintenance of high real exchange rates, although these may be subject to slight variations due to the application of surcharges and deductions for the purpose of the public appropriation of quasi-rents. An accurate assessment of external constraints involves assigning a high "shadow price" to foreign exchange, and recognition of this would avoid distortions in the allocation of resources. A counterpart to this, however, is the maintenance of low real wages. Legitimate ways out of this "welfare trap" are to be found in technical progress; this leads to increased productivity which can be carried over into wages, redistributive public spending or accumulation, using systems which increase workers' rights or control over wealth.

/Something similar

Something similar may be said with respect to interest rates. The real level of interest rates should be an accurate reflection of the relative scarcity of capital in the economies of the region. This is an essential principle for guiding efficient allocation of investment resources. Recent experience in Latin America clearly indicates, however, that following this principle when the financial system is allowed to function freely leads to speculation, to the detriment of productive investment, and this is even more so because of the need to maintain preferential or subsidized interest rates to promote the development of priority activities. Furthermore, the high international price of capital and the high risk which local operators may assign, within the context of the international financial market, to local investment options may make the cost of capital in the local market prohibitive for the latter if that market is open to the exterior.

The countries thus face the dilemma of on the one hand keeping the cost of capital at its scarcity price and, on the other, providing capital at a reasonable cost for the promotion of investments whose social profitability is not very attractive to investors or whose lead time --in terms of the development processes which they will help to set off or strengthen-- is very long. Such a dilemma can hardly be solved without some degree of regulation of the domestic financial system and of the mechanisms linking it with the international financial market. State intervention in such operations is more feasible and justified in the present circumstances of many countries, in which the State has had to assume responsibility for renegotiating the public and private debt as a way of regulating the flow of external financing and in which the risks of over-exposure and the renegotiation policy have weakened the capacity of a free and open market to effect such regulation.

The need to promote the development of strategic activities by subsidizing the price of scarce factors points up the advisability of carefully managing promotion by using "packages" of incentives that combine various instruments (tariff exchange, financial and fiscal measures, State purchasing and technological support) and can be used to negotiate for express commitments from companies for the periods of time needed to develop resources or carry out technological training in each activity.

At least two factors must be taken into account in eliminating distortions in the pricing system. Firstly, given the immobility of the existing production capacity, even though excessive protection is a source of inefficiency, its removal does not automatically result in greater efficiency. Secondly, attempts to increase efficiency may lead to the destruction of human and entrepreneurial resources at great social cost. An industrial policy aimed at strengthening the weaker companies and increasing their productivity through special promotion "packages" may be an essential component of a large-scale reorganization strategy.

A related aspect which is of particular importance in increasing the co-ordination of the productive apparatus and in lessening the effects of structural heterogeneity is the need to provide access to credit, technological know-how and training for underemployed producers operating at low levels of productivity, through programmes specifically aimed at the modernization, consolidation and development of small and medium-sized enterprises.

/The reorientation

The reorientation of development and the creation of comparative advantages demand the development of local resources. On the one hand, this involves promoting investment in know-how and the consolidation of local technological development capacity within companies and within the public system of technological research and development (the main aspects of this subject are discussed in detail later on).

Secondly, the existing and potential production capacity represented by natural resources, ecosystems and the constructed environment must be accurately assessed. This assessment should be conducted by using scientific and technological capacities appropriately in close and integrated co-ordination with the requirements and demands both of the imperative need to meet the population's basic needs and the exigencies of import substitution as well as of the growth and diversification of exports.

Another obvious basic step in this crisis situation is the curtailment of all public and private spending which can be dispensed with or which is of a low priority from the standpoint of reorienting development towards a style which promotes creativity and guarantees equity. This effort works in conjunction with the above approach, which favours the elimination of non-essential expenditures that entail large foreign exchange costs.

In order to recommence growth while at the same time reorienting the development style, a greater investment effort must be made and marginal capital efficiency must be raised by increasing the social productivity of investment in terms of the objectives of development. A more detailed analysis will be made later of the needs and mechanisms for accumulation in a situation which is exacerbated by the necessity of diverting resources from consumption and real investment in order to maintain a net inflow of financial resources out of the country.

In view of the foregoing, there is an evident need to increase tax receipts and to reorient public spending in order to deal with the external debt contracted or underwritten by the State, the strategic public investments that must be made, the financing that must be provided for programmes designed to promote strategic activities, resources and technological capacities, and the expenditures that are needed in order to carry out the necessary redistribution of well-being; this cannot be accomplished through market mechanisms and can only be slowly and partially attained by raising real wages.

Both in the interests of equity and in order to open up potential segments of the domestic market to a pattern of demand that is more in keeping with local resources, a significant and sustained effort to redistribute well-being via consumption and public services must be made. This effort should be directed towards meeting the collective needs of the population in areas where many needs have accumulated, as a way of compensating for low levels of real wages as well as meeting the basic needs of the poorest groups.

All this involves shifting the structure of demand towards public goods; in turn, this requires, inter alia, the strict application of criteria of social efficiency and effectiveness in the provision of public services.

/Rather than

Rather than prescriptions, these are basic criteria, which address the need to remove structural restrictions on growth and to change the content of growth in order to reorient development so as to make modernization a more through-going phenomenon based on greater equity, autonomy and democratization. In order for these approaches to be incorporated into any specific strategy, they must be made compatible with one another within each stage and over time. It is possible, however, to set forth the basic elements common to any strategy for accomplishing a structural adjustment and reorienting development.

c) The axes of growth

In view of the fact that the momentum of growth has slackened considerably in past decades, and given the shortcomings inherited from that stage in their history, the countries of the region now face the task of reorienting their development in a way which will allow them to take advantage of the positive elements which they have inherited in order to promote the deployment of their productive potential, increase their domestic markets and create a more effective system of relations with the world economy.

The significant achievements made with respect to Latin American development in the postwar period provide a solid foundation on which to begin a new phase of growth. The most valuable achievements in a strategic sense have perhaps been the expansion of agriculture and the modernization of large parts of that sector, the levels of industrial development which have been attained, the experience that has been gained with respect to exporting industrial products, the technological know-how that has been accumulated and the use of their capacity for innovation, as well as the experience gained by the economic agents in operating within more complex economic and financial spheres and in maintaining closer relations with the international economy.

While acknowledging the diversity of national situations referred to, it nevertheless seems possible to identify the main driving forces of growth, taking account of the potential existing at the levels of development already reached, the restrictions imposed by the present critical phase, and the need to reorient the style of development. This overall view includes areas where it is necessary to consolidate and further develop the achievements already made, other areas where it is necessary to make a change of course, and still others where new and long-postponed dimensions of development need to be embarked upon.

Agricultural development, reoriented towards the concept of food security on conditions of international competitiveness, offers a broad field for economic growth with greater equity and less external vulnerability. Efforts to ensure the production of an adequate amount of food, to achieve a stable supply of food to the market, and to guarantee that the whole population has access to the food it needs would mean laying down the conditions for a considerable expansion in the domestic markets of many countries of the region. Firstly, because this would mean advancing towards the diversification and modernization of agriculture, and consequently forging closer links between that sector and industry. Secondly, because of the possibilities of replacing imported foods. Thirdly, because of the opening-up of the potential market represented by the satisfaction of the basic food and nutritional

/needs of

needs of the poorest groups of the population. Moreover, inasmuch as a process of modernization focussed on the peasantry represents an effective reduction of rural poverty, this would increase demand for goods produced by the rest of the economy. In many parts of the region, however, the launching of the processes of agricultural change called for by this strategy would make it necessary to review the institutional arrangements governing access to the land and the distribution of the latter.

Furthermore, potentially exportable agricultural output and the utilization of comparative advantages based on abundant natural resources and the low cost of unskilled manpower should be maximized (in an international situation characterized by the protection of these resources in the industrial countries and their technological substitution) by raising the degree of domestic processing of goods and increasing their competitiveness in the markets of the central countries. This would intensify existing comparative advantages with a view not only to increasing the income gained from a given level of world demand but also preparing the countries of the region for a future time when the developed countries may resort to less protectionism than at present.

In order to overcome the constraints stemming from the present pattern of industrialization, Latin American industry should aim towards being internationally competitive --whether its products are destined for the domestic market or for export-- inasmuch as, in either case, competitiveness makes it possible to optimize the attainable balance of foreign trade, growth and well-being. To this end, industries which have already been consolidated under the previous development model should be restructured and should gradually work towards achieving suitable levels of competitiveness. New activities should be provided with protection and differential incentives during the period of training and consolidation and until they reach a level of competitiveness in keeping with the comparative advantages and disadvantages of the local resources that are developed.

Thus, it is clear that import substitution versus export promotion is a false-dilemma. Historically, import substitution has been a pre-requisite for attaining the capacity to export industrial products. In the present-day world, the economies which are in a state of incipient development can only achieve and consolidate that industrial capacity to the extent that they set up --within a framework of specialization-- articulated chains of activities (primary, industrial, technological and educational) which go to make up what is described in the following chapter as the "endogenous nucleus" for the technological and entrepreneurial dynamization of the apparatus of production within a cultural and societal context which strengthens creativity. Unless this is done, import substitution will end up by weakening the industrialization process and it will not be feasible to produce competitive exports in the long run, because of the impossibility of meeting the requirements and following the trends of the international market. Building up this dynamic industrial capacity involves the local development of productive and technological capacity in certain activities considered to be of strategic importance for the establishment of these interactive industrial chains, the consolidation of which calls for protection and promotion during a suitable "learning period". If this is done, then it will be possible to embark on the selective substitution of imports, to supply domestic markets on internationally competitive terms, and to maintain a significant flow of industrial exports.

/The real

The real dilemma lies, then, in the selection of the development horizon and the maximization of well-being. If it is decided to operate only on the basis of the actual signals of the market, this will mean limiting growth to the possibilities offered by the existing comparative advantages, restricted in their turn by the structural imbalances characteristic of the Latin American economies. If it is decided to try to overcome these imbalances and to create comparative advantages for the future, it will be necessary to shoulder at the present time the social costs of protection and promotion, with the aim of achieving the progressive articulation of the system of production and the development of the productive forces up to levels of modernization and competitiveness which also guarantee the satisfaction of the population's needs. This dilemma assumes a specific form in each country according to the stage which has been reached in its industrial development process and the feasible limits of this process in the light of the country's potential competitiveness. These determinants would, however, change radically within a framework of regional co-operation or integration.

The counterpart to this dilemma in regard to the system of accumulation is whether domestic savings should be deliberately oriented towards investment in protection and incentives for incipient activities undergoing a process of technological development on a long-term basis or whether current market signals should be allowed to be the sole factor guiding the allocation of resources to consumption or saving and the channelling of resources abroad or to the domestic financial system, for allocation on the basis of their present private rate of return or on the basis of expectations of substantial capital gains.

Departing from the previous model of growth involves curtailing broad segments of consumption and thereby expanding the possibilities of mobilizing resources for investment and hence making a more intensive effort to increase domestic savings.

Some of these resources, however, should be channelled through fiscal action towards the satisfaction of basic and collective needs that have been neglected; in the balance of well-being, their satisfaction has the effect of taking the place of consumption which has become unviable.

Therefore, a renewed emphasis on accumulation should go hand in hand with an appropriate allocation of investment resources in order to maximize their long-term social profitability, reconciling a high level of productiveness in the medium term with the development of infrastructure and productive resources over the long term. These two factors are interrelated and are key elements in increasing the efficiency of the investment effort and in ensuring rates of growth which will allow the countries of the region to deal successfully with the enormous challenges they face at this critical juncture in Latin American development.

From a dynamic perspective, all the countries of the region have the possibility (although to different degrees and in different combinations) of developing their productive resources and increasing their combined productivity --both investment in the development of their natural, energy and agricultural resources and the improved management of those resources in terms of the ecosystems can lead to significant increases in marginal capital efficiency. The same may be said of education, training and, in general activities and investments which develop human resources. The key factor which incorporates the others and integrates them with investment as part of a dynamic process, however, is the development of local capability for incorporating and developing technology.

3. Accumulation for development

The crisis in the postwar Latin American growth model which has broken out during the present financial crisis has its roots in both the growth strategy and the form of accumulation this model entails.

The growth model, which has persisted despite many recent attempts to reorient it or to change the "rules of the game", has been based on the export of natural resources and import-substitutive industrialization oriented towards the domestic consumer market.

Thus, the system of accumulation depends to a decisive degree on the fate of the external sector and requires the involvement of the State both in order to transfer existing or potential surpluses from export sectors to the suppliers of the domestic market and to stimulate consumption.

Import-substitutive industrialization oriented towards domestic consumption depends on the external supply of capital goods; in this model, accumulation therefore hinges on the expansion of exports (mostly traditional exports based on natural resources) and, if this is insufficient, on external financing.

In order for this model to function, State involvement is also needed to transfer surpluses from the relatively more productive and profitable export sectors to the industries which supply the domestic market, whose lack of competitiveness with international prices would result in a low level of private profitability if it were not for intervention by the State. State action for this purpose has sometimes taken the form of direct State appropriation of exporters' surpluses and their transfer to industries selected for stimulation, through capital inputs and preferential loans; for the most part, however, this has been accomplished by using the relative pricing system for goods and factors to divorce the appropriation of profits from differences in productivity.

The model has also called for a steady expansion of domestic demand, primarily of consumption. This has exerted continuous pressure on the State and on the State-managed financial system to stimulate domestic demand.

Because it functions in this way, the growth model entails continual inflationary imbalances and perpetuates the increasing demonstration effect to which Latin American societies have been subject. Both of these traits reinforce the continuous pressure which exists in favour of consumption, against domestic savings, and also in favour of the use of the latter in relatively unproductive investments; only in some countries and periods has this structural pressure been counteracted by a deliberate State effort to promote accumulation for purposes of development. This pressure has affected households' propensity to save and the State's own savings capacity; it has also had some impact on corporate accumulation, with companies demanding high rates of expected profit.

/In summary,

In summary, the predominant growth model has exhibited two main characteristics: i) a tendency for domestic savings to be insufficient, so that external financing must be sought each time the purchasing power of exports increases less than what is demanded by domestic growth; and ii) a systematic neutralization of part of domestic saving capacity as a result of speculation and socially unproductive investments.

The reorientation of Latin American development will have to take place in a situation marked by a scarcity of available net external resources for financing the domestic investment process and imports of equipment and technology. This not only calls for a change in the strategic driving forces of growth, but also requires a radical change in the system of accumulation. The need for domestic savings will tend to be greater than in the past but, above all, resources will have to be allocated in a very different way; in turn, this calls for a substantial change in the mechanisms for generating and utilizing domestic savings.

a) The shortage of external finance capital in Latin America

Latin America's prospects for obtaining external capital from different sources may be outlined as follows.

The resource requirements of the Third World in general and Latin America in particular cannot compete with the demand for external capital of the United States (which uses such resources both for buying arms and for financing its industrial reorganization and its technological reactivation) or of the European countries, which use these resources to meet the financial needs of their own industrial reorganization. Furthermore, the resources which Western banks are willing to invest in the Third World will primarily be channelled (in competition with Japanese banks) to the newly-industrialized countries of South-East Asia, which represent a lower risk than the Latin American nations.

International private bank financing has been exhausted as a source of net resources for Latin America. The money obtained through successive renegotiations will have to be used to pay interest or to amortize part of the external debt commitments.

Indeed, for most of the countries their relations with the private international banking market will in all probability do a turnabout and will begin to represent a net drain of resources, despite the series of renegotiations which can be expected and the possible availability of bank financing for occasional highly profitable operations where they can recover their investment rapidly.

IMF financing, for its part, will be severely restricted as long as it continues to be based on the concept that it should be compensatory; it is also limited by the Fund's mechanisms for generating resources. Moreover, it will be contingent upon the countries' "good behaviour" with respect to private creditors --which is not very compatible with the need to maximize the final results of the negotiations in terms of net resources-- and upon restrictions on the management of economic policy which may be inconsistent with the reorientation of development. It should therefore be regarded more as a political tool in negotiations than as a significant source of financing.

Multilateral development financing for the region might expand moderately but steadily (in competition with other Third World regions until such time as a political decision is taken by the United States to reassess these mechanisms) in so far as viable public investment projects in infrastructure and support services are developed which have been assigned a high development priority. Although this financing is generally tied to such projects, an attempt should be made to increase the proportion of international public loans for "investment funds" which can be used flexibly.

Bilateral financing arranged with the United States in the form of official loans and development assistance is subject to strategic conditions; obtaining such financing would in most cases therefore conflict with autonomous decision-making. European development assistance will very probably continue to be concentrated among the members of the Lomé Agreement, which means that some Caribbean countries may be able to take greater advantage of it than in the past. Latin America cannot gain access to anything more than very small sums so long as there is no change in the European countries' perception of their strategic interests or until resources come to be allocated on the basis of specific problems rather than by countries.

b) Direct foreign investment

Direct foreign investment is clearly a source of external resources for development, but it is a "specialized" sort of financing which only in certain cases represents an alternative source of financing for investments considered to be of a high priority for development. Even in those cases, all the implications of using this source should be evaluated.

In most instances, the real effects of direct foreign investment are of greater strategic importance than its financial consequences, as shown in imputed form in a country's balance of payments. In such cases, its importance lies in the fact that it affords access to certain kinds of technology (and, at times, to the capital equipment into which such technology is incorporated), to some degree of entrepreneurial know-how with respect to specific international marketing systems, and perhaps to the capacity for updating technology which is derived from a certain degree of "technological mastery".

Thus, attempts to create a favourable climate (including guarantees and wide-ranging privileges) for any and all direct foreign investment may attract a large number of investments which do not serve the priorities of the development strategy. From the standpoint of this type of strategy, such investment represents undesired increases in the debit side of the balance of payments which are equivalent to the corresponding increases in credits and which therefore do not represent additional financing for the development strategy. This is the case with respect to investments which, although they create jobs and income, distort the structure of consumer demand by increasing product differentiation, encouraging superfluous consumption or heightening the dependence on external factors of production systems or domestic savings mechanisms.

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The willingness of transnational corporations (primarily United States companies) to invest in Latin America will naturally depend on the relative advantages the region can offer with respect to investment opportunities which fit in with their overall strategies. These strategies, as indicated in chapter II, will be marked by a general tendency towards redeployment to the United States and other central countries and will call for higher rates of return and shorter recovery periods than in the past. Under such conditions:

i) Investment in natural resource exploitation will be more contingent on the following factors than in the past:

- Evident comparative advantages (in a context where, with respect to most commodities, technological progress relating to extraction and refining will be more rapid and the recovery of world prices will be slow) and a rate of return which is greater than in other alternative locations, particularly in the home country (where the most modern technology has been developed in response to the previous rise in prices);
- Clear prospects for an expansion of the world market over the long term;
- The possibility of moving from the home country activities which heavily pollute the environment;
- The transnational corporations' assessment of the risk of nationalization posed by the instability of the political régime in the host country.

ii) Investment in activities oriented towards the domestic market will tend to be discouraged by the fact that the rate of development of Latin America will be slower than during the previous period of growth and by the presence of greater State involvement and greater social rationality with respect to incentives, as well as by the rearrangement of distribution and consumption patterns; in some cases, however, these factors may be offset by the relative saturation of markets in the industrial countries. It might then be asked which way regional integration might tip the scales, and what the implications would be.

iii) In the recent past, investment in manufacturing activities oriented towards the world market has shifted to some extent towards the newly-industrialized countries, primarily those of South-East Asia; there will probably be a reversal in this trend to the extent that technological changes cause advantages based on location to revert to the home countries. Nonetheless, some Latin American countries can offer locational advantages for new facilities or processes in some transnationalized industries, whether on the basis of inexpensive and controllable unskilled labour, lower-cost technical manpower, cheap energy or their proximity to the main consumer market.

These factors, which indicate that transnational corporations are being even more selective than in the past with respect to their investments in Latin America, should be matched by the selectivity of host countries in choosing foreign investments which are consistent with their strategies for self-sustaining development. From the point of view of development opportunities, it would therefore be senseless for the countries of the region to compete in offering general incentives for direct foreign investment, which would not generate significant flows of external financing in any case. Indeed, from the standpoint of the financial gap in the balance of payments, direct foreign investment in the region will probably not represent even

one-twentieth of the expected flow of net external loans, and even this financing will be more than offset by remittances of profits on foreign capital.

Finally, the possibility of repatriating Latin American capital (which the most conservative estimates place at around US\$ 80 billion) is subject to motivations which go beyond a conventional analysis of the attraction of external resources. The transfer of this capital abroad has undoubtedly been a function of combination of high yields on the international financial market, the unclear prospects for domestic investment, economic instability caused by continual changes in the "rules of the game" in the countries of origin, and uncertainty as to the course which the various societies would take in the future. It now, however, constitutes one of the aspects of a new structural feature: the transnationalization not only of the bourgeoisie, but also of some middle strata in Latin American society which have learned how to use the mechanisms of a transnationalized financial system. Most of this capital, however, reflects the diversification of assets, both by companies and by their owners, according to the levels of risk and degrees of mobility involved; this can be influenced but not eliminated by opportunities for improving the ratio between profitability and risk in the countries of origin. In any event, the effect would be marginal in terms of the volume of funds attracted, and it would therefore not be appropriate to make repatriation a priority objective of economic policy.

c) Domestic savings capacity

The fact that there are very limited possibilities of obtaining external financing is compounded in a considerable number of countries in the region by the prospect of having to use a substantial part of domestic savings to service the external debt. This alone sets up a new structural situation which, current savings coefficients and accumulation patterns being what they are, results in very slow growth.

Above and beyond its implications for the population's well-being, a slow rate of growth makes it difficult to reduce external constraints over the medium term, diminishes capital efficiency --because of slower stock turnover and technological obsolescence-- and lessens the feasibility of making the changes in the pattern of investment which are necessary in order to reorient development.

In order to overcome the low ceiling on growth which the projected situation would create and in order to reorient development by changing the composition of investment, it would be essential to attain coefficients of domestic saving with respect to the gross product which are not only significantly greater than current rates, but also higher than those achieved in the past.

Even though the effectiveness of investment tends to improve over the long term, a number of situations may be foreseen:

i) The pattern of accumulation will continue to be heavily influenced over the medium term by the existing structure of production and by the traditional composition of demand, resulting in a relatively high marginal capital/product ratio;

/ii) The

ii) The previous regular flow of external capital, which led to progressively greater indebtedness, will have to be replaced by domestic savings;

iii) The use of capital resources to service the debt will have to be compensated for by additional domestic savings;

iv) The reorientation of development will require investments in areas which have thus far been somewhat neglected: technological development, development and appreciation of the value of natural resources, the economic infrastructure needed to increase the co-ordination of the systems of production, and a basic social infrastructure for attending to essential needs and improving the distribution of well-being by providing basic and collective services.

d) The effectiveness of investment

Part of the considerable added savings effort which would have to be made in order to expand the horizons for growth and reorient development so as to progress beyond the current critical situation could be dispensed with if the effectiveness of investment were increased. Furthermore, if external constraints place insuperable limits on capital formation, significant increases in the effectiveness of investment can represent a form of structural expansion of the capacity for growth.

The "effectiveness of capital", and, when dealing with increases in production capacity, the effectiveness of investment, refers to the real average productivity of fixed renewable capital, in terms of the domestic product, for a given mix of the other productive resources. Consequently, a general criterion for increasing capital effectiveness is to orient investment towards activities in which the pattern of resource utilization is more in keeping with the local resource endowment, so that greater mobilization and utilization of the relatively more abundant resources may be promoted.

This means that emphasis should be placed on: i) Investment in labour-intensive activities, especially those which make use of the most plentiful skills; in some cases this includes not only unskilled and semi-skilled manpower but also some higher-level specializations; ii) Productive investments of small and medium-sized companies, which make it possible to mobilize their human and organizational resources in order to achieve greater productivity; iii) Better utilization of natural resources and ecosystems as well as of the existing infrastructure, with supplementary or marginal investments which permit their overall effectiveness to be increased; and iv) Investments which involve less concentration of capital and shorter lead times.

In contrast, in order to make investment more effective it may also be advisable not to make certain investments, so that consideration should also be given to the following points:

i) To avoid large projects in which long periods of time are required for recovery of the investment or for all their benefits to take effect; in particular, it should be borne in mind that during a time of uncertainty such as this, it is

/less probable

less probable that traditional cost/benefit calculations used to guide the allocation of public investment will be accurate; the likelihood of accuracy in this respect is in inverse proportion to the length of time needed for the investment to mature and to give benefits.

ii) To discourage investments whose social productivity is low, either because they are highly capital-intensive per unit of expected product, or because they are confined to the higher-income strata, in which case correcting the aggregate product flow by weighting it to reflect the principle of equity diminishes the social product/capital ratio. This may be the case, for example, with luxury housing, urban developments in exclusive neighbourhoods or infrastructure designed to facilitate the use of private automobiles.

It hardly need be said that the instrumental goal of maximizing investment effectiveness involves redefining or qualifying that effectiveness in terms of development objectives and of the need to reorient the development style which is now in crisis. In this sense, the product which is computed in the ratio should be reweighted using some weighting vector --of the income of different social strata-- which reflects the objectives of equity better than the simple addition of undifferentiated income flows. Along the same lines, the effects of investments --in terms of direct and indirect savings of foreign exchange, the expansion of local capacity for technological development or the generation of external economies which represent closer co-ordination of systems of production-- should be incorporated into this approach and should be given special weight.

e) Mechanisms for generating and channelling savings

The challenges faced by the countries of Latin America with respect to their future development mean that they must make substantial changes in their systems of accumulation.

There is of course a clear need to increase public sector savings in order to deal with the external debt burden, to promote the reorientation of development and to make the pattern of accumulation a more equitable one and this should not be sought exclusively through the manipulation of current expenditure. The private sector's savings capacity and, especially, the productivity of its investments must be increased at the same time. Both instrumental goals call for a decrease in the propensity to consume, but this must be done in a way which makes the distribution of both public and private consumption more equitable, rather than merely reducing it. In view of the low level of real wages and the likelihood that their recovery will be very slow, the burden of such a structural adjustment must be borne by the consumers of the middle and upper-strata, especially in respect of those types of consumption which, regardless of the strata that may have access to them, distort the pattern of growth the most.

Furthermore, the way in which both public and private domestic savings are used should be such that it guarantees a degree of social productivity that will represent, in the short and long term, an equitable use of the surpluses which have been generated at such great sacrifice by the entire society and which, in many cases, have involved postponement of action to satisfy the basic needs of the most deprived sectors.

In addition, the context for the optimization of savings and investment should be one in which both real interest rates and the real exchange rate reflect the relative scarcity of capital and of foreign exchange.

Given the constraints which exist and the untoward way in which existing mechanisms for channelling savings have functioned in many cases during the recent past, it would seem necessary to take such measures as the following: i) strictly controlling foreign exchange transactions and transfers abroad; ii) reforming financial systems so as to reverse their tendency to channel funds towards consumption and speculation, converting them instead into financing mechanisms for productive investments; iii) limiting officially subsidized credit to systems or plans for promoting the development of priority activities, and integrating it into the respective protection and incentive packages; iv) regulating those markets in which private savings are used unproductively or for speculation, such as in luxury housing or urban real estate deals.

Within this scheme, the private sector plays a greater role in investment decision-making than in the indiscriminate generation of savings. Such decisions determine the pattern of investment and its implications for the orientation of development. On the other hand, these decisions can also conflict with external constraints before the total savings capacity has been used. All of this causes attention to be focussed on what motivations for investment a private sector that is committed to national development might have. With high real interest rates, slowly-growing economies and the limitation of traditional consumer markets, official promotion schemes will come to play a key role in carrying out and orienting private investment. The need to limit the consumption --and consequently the lifestyle-- of the high-income strata to which entrepreneurs and managers belong reduces investment motivations to those relating to the expansion of the company involved, participation in a progressive social development process, and possible social recognition of the role of the entrepreneur.

If competitiveness becomes an instrumental goal of self-sustaining development, substantial benefits will be generated, at least in the initial stages. If this is combined with the pattern of private accumulation outlined above, it will lead to the cumulative reinvestment of profits, inasmuch as they cannot be used for consumption. This would soon produce an even greater concentration of power and wealth than at present, with the result of greater inequality over the long term. Schemes must therefore be devised which will permit the population to participate in the accumulation of wealth and which will afford a sense of equity over the long term with respect to the inescapable need for accumulation and international competitiveness. One such approach is the establishment of employee investment funds based on profit-sharing by employees in their companies but capable of making investments in the shares or stock of any company, or acting as development banks. Such a system reinforces development financing and the reinvestment of profits, while it also eases conflicts with respect to distribution and allows workers to participate in the allocation of risk capital or in the orientation of investments.

At all events, the system of accumulation cannot be separated from the pattern of the distribution of wealth. Although it is necessary to promote private investment, with all the social costs this involves, part of the benefits generated by such promotion should be turned over to society and to those who have had to pay the costs of promotion.

4. Increasing the taxation capacity of the State

An increase in the domestic savings capacity should be accompanied by an increase in the State's taxation capacity; this would simultaneously make possible the following: i) increasing the State's ability to pay the interest on the external debt; ii) expanding public savings, which are so necessary for investments in economic and basic social infrastructure, as well as for the establishment of funds to promote technological development and private investment in priority activities; and iii) redistributing well-being to lower-income sectors by non-monetary means, primarily through the provision of basic services, essential consumer goods and elementary means of production.

The simultaneous increase in the capacity for private savings and the tax burden (part of which is needed to increase public savings and part of which is needed to redistribute income) entails a considerable reduction in the coefficient of private consumption; this would not necessarily cause a decline in real mean levels of consumption if the rate of growth can be increased. Although this does represent a limitation on current well-being, it may take on a strategic value above and beyond the expansion in savings capacity. In effect, reducing the consumption of imported products or goods with a high import content is crucial if external constraints are to be eased. Furthermore, the reorientation of industrial development calls for changes in the composition of consumption in order to decrease external vulnerability, the high per capita social cost --and, therefore, inequity-- involved, and the distortions in resource use caused by present consumption patterns.

In order for the necessary curtailment of private consumption to serve these strategic objectives as well, and in order to bring about the necessary increase in taxation, it is necessary on the one hand to prohibit, control or heavily tax imports of consumer goods, and on the other to use the tax and tariff system to levy selective taxes on luxury or mass-consumption items which result in greater external vulnerability or greater distortions in resource use. Provided that taxes are truly selective and that there is a correspondence between such consumption and the expenditure of the middle and upper strata, such selective taxation would also initially tend to create greater equity, notwithstanding the fact that fiscal doctrine counsels against indirect taxation because of its regressive structure. This type of tax is also more easily applied than direct taxes: a particularly important factor at a stage when the State must maximize its effectiveness and ensure that the necessary resources are available in order for it to play a decisive role. In addition, it is necessary to undertake needed reforms in systems of direct taxation so that, over the longer term, the actual structure of the tax system can be changed to make it more progressive.

The needs to increase savings capacity and the tax burden overlap to some extent, inasmuch as part of the increase in private savings capacity --or, strictly speaking, in the prevention of consumption expenditure-- should translate into

/higher taxation.

higher taxation. When growth is slow, external constraints may well predominate over limitations on savings, thus giving rise to a greater ex ante capacity for saving than for investment, in which case the State's procurement of funds on the basis of this difference may represent a condition for the achievement of ex-post equilibrium.

5. The distribution of well-being and employment

a) Employment and income distribution in a situation of structural heterogeneity and segmentation

During the postwar period, a rapid shift of the labour force towards non-agricultural activities occurred in Latin America. Between 1950 and 1980, the share of the total labour force represented by agricultural labour declined from 55% to 32%. The extent of this process is similar to what occurred in the United States between roughly 1870 and 1910.

The change in the employment structure occurred at a time of rapid growth in the non-agricultural labour force which was associated with migration from rural to urban areas, changes in rates of participation, and natural urban growth.

Modern non-agricultural activities absorbed manpower at a rapid rate, but the expansion in modern urban employment was slower in absolute terms than the increase in the urban labour force. This relative inadequacy is the reason for the growth of the informal sector, in which the largest pockets of urban underemployment are found.

The situation with respect to underemployment is a reflection of the net effect of two opposing trends: the reduction in underemployment in the agricultural sector and the increase in urban underemployment, with the former predominating over the latter. As a result of these trends, underemployment appears to have been reduced between 1950 and 1980 in Latin America as a whole (from 46% to 38%); in 1980, however, over half of total underemployment was now concentrated in the urban informal sector.^{4/}

In the process of the shift of manpower towards more productive activities, on the whole Latin America does not seem to have departed from the model followed by what are today developed countries. Indeed, if any one trait can be said to characterize this process in the region, it is its intensity. There are three aspects of these trends, however, which differentiate them from that model: firstly, the presence of greater pressure from the urban labour supply in Latin America; secondly, the relative inability of modern sectors to absorb the labour force in its entirety, which has resulted in the growth of informal employment; and thirdly, the slowness with which employment in traditional agriculture has diminished. This accounts for the fact that, after 30 years of rapid absorption, a considerable amount of underemployment still exists.

The persistence of underemployment as the main problem with respect to the underutilization of resources, despite healthy rates of growth in modern activities, is closely related to the structural heterogeneity and lack of co-ordination of the apparatus of production in the Latin American countries.

In most of the countries, the differences in productivity between modern urban activities, on the one hand, and traditional agriculture, small businesses and informal urban activities, on the other, continue to be greater in Latin America than they were in what are today developed countries during comparable periods in their development; moreover, they do not show any tendency to decrease, as they did in those countries. Differences in productivity within the services sector and industry are also greater than they were in developed countries.

To the extent that these differences in productivity reflect differences in resource utilization in a broad sense (including capital, technology, organization, entrepreneurial capacity, manpower skills, etc.), they are a manifestation of differences in the cost of creating jobs in modern urban sectors as compared to traditional agriculture and the urban small business and informal sectors. The greater cost in terms of resources that is involved in shifting manpower towards more productive activities would appear to indicate that the Latin American countries will require a longer time than was needed by what are today developed countries to extend their modernization process, if that process is to follow along predominantly imitative lines. From another standpoint, these greater costs and the relative lack of co-ordination of the system of production weaken the effect, in terms of productive employment, of investment efforts similar in magnitude to those which were made in the past by today's developed economies.

Because of the historical period in which the industrialization of Latin America is taking place, it has access to technologies which, although providing greater productivity, make the cost of creating modern jobs higher. The problem is not only one of factory technology. It also includes the imitative reproduction of productive and social infrastructure and differentials in consumption between people employed in modern and traditional activities, which considerably increase the amount of resources needed to create jobs in modern activities. The lower relative productivity of the agricultural sector of most Latin American countries in comparison to other historical experiences is accounted for in large measure by the greater concentration of assets in urban areas; this phenomenon tends to be perpetuated by the existence of mechanisms which restrict access to capital. This is compounded by the fact that the very lack of co-ordination within the system of production (a trait which is consubstantial with structural heterogeneity) impedes the spread of technological progress to less productive strata through inter-industrial relations and the signals of the pricing system.

This greater heterogeneity in production is also manifested in a wider range with respect to wages. The differences are considerable and are associated with average productivity levels; moreover, in most countries in the region, there is a tendency for the gap to widen between the wages paid in manufacturing and those paid in agriculture as well as minimum urban wages. The range of wages within sectors also seems to have increased in recent decades as a result of segmented labour markets.

/Finally, within

Finally, within this context of heterogeneity, the pattern followed by the sector tends to perpetuate unemployment in two ways. Employment in traditional agriculture is slowly declining and modern agricultural activities have a low retention capacity due to the type of modernization process that is occurring. Both phenomena tend to curb the reduction of underemployment --directly in the former case and indirectly in the latter-- since the expulsion of manpower exerts additional pressure on the urban labour market.

In order to avoid over-generalizing, this description of the structural characteristics which determine the nature of the basic situation with respect to employment and income in the Latin American countries should include a discussion of the main traits differentiating some countries from others. On the one hand, in some countries (mainly Brazil, Colombia, Mexico and Venezuela) higher rates of growth and greater investment efforts have been accompanied by a more intensive movement of the labour force out of the agricultural sector and by a faster reduction in underemployment in that sector, but this has been concomitant with a considerable increase in the size of the urban informal sector. On the other hand, in the countries of the Southern Cone, where urbanization came earlier, there has been less disparity with respect to productivity within the agricultural sector and between it and modern urban activities; here, the problem of underemployment is predominantly an urban phenomenon and has been exacerbated during the past decade by the effects of the economic policies which have been applied.

b) The persistence of poverty

Arguments based on the analysis of growth and poverty at an aggregated level overlook the complex interrelationships that exist between those processes which represent an increase in the amount of goods available (growth) and those which result in large segments of the population subsisting in situations that are below minimum acceptable living standards (poverty). In particular, the hypothesis that growth will "trickle down" to the less productive or marginated strata of the production apparatus ignores the rigidity associated with the structural heterogeneity of the Latin American economies, as well as overlooking the crystallization of social traits which is brought about by the persistence of poverty and its negative relationships to the productive potential of poor sectors.

The poverty of large segments of the Latin American population is rooted in the problem of underemployment, although it has been exacerbated by the present critical economic situation and policies which have added outright unemployment, declining wages and the deterioration of basic public services to the picture. The structural traits which result in the persistence of underemployment consequently provide the backdrop for the problem of poverty. Assistance or redistributive policies can rectify this to some extent; in order to do so, they must be successful in reaching target groups and must be based on a full understanding of the interrelationships typical of poverty situations. It is hard to solve solely through transfers a problem which is rooted in the very manner of functioning of the development style, however.

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A proper conception of public action motivated by the desire to reduce poverty must take into account the fact that considerations concerning underemployment are related to the efficiency of resource allocation, while those concerning poverty are motivated by the principle of equity. Attacking both problems at the same time calls for an imaginative effort to achieve social efficiency in a broad sense.

c) The quest for equity

One way of defining the trade-offs between equity and growth --in different time horizons-- and appreciating the need for distributive and redistributive policies consists of distinguishing between the distribution of the capacity for obtaining income (in terms of opportunities), the effective distribution of monetary income, and the distribution of well-being in terms of goods and access to services.

The quest for equity must therefore be carried out both at the level of the social order --a topic dealt with in the chapter on the State-- and at the levels of the mechanisms for the accumulation of wealth (a topic dealt with earlier in this chapter) and the determining of factors of monetary income or the distribution of consumption and access to public goods.

With regard to the distribution of monetary income, if the quest for competitiveness and efficiency of allocation is allowed to operate without any corrections based on considerations of broader and longer-term social efficiency and follow the path of imitative modernization, with the straightforward transfer of structures of production created in mature economies, then the disparities in the distribution of the income generated in productive activities will continue to be large and inequitable, since the characteristics of the style of development already referred to --especially its structural heterogeneity and the disarticulation of the apparatus of production-- militate against the forecast spread of modernization which, in the future, would turn the distributive pattern towards one of lesser inequality. Furthermore, in a typical vicious circle, the heterogeneous structure itself militates against the spread of "transplanted modernization" --even in so far as this is feasible in terms of resources-- since it perpetuates itself on the basis of mechanisms which create situations of underemployment such as the maintenance of a rural population of low marginal productivity, informal occupations which to some extent "create their own demand", low-productivity jobs in small firms, or superfluous jobs in the public sector. These situations may be viewed as social defence mechanisms against the changes which a process of rapid growth tends to produce in terms of income concentration and pauperisation, and they prevent the process of increasing inequality from continuing to the point where, in theory, the distributive pattern would be reversed in a process of growth with increasing modernization.

Moreover, the modern structures of production which are installed reproduce a pattern of jobs --of different types and levels of skills-- which corresponds to the requirements of the technology and entrepreneurial organization used in these activities in the mature societies. The pattern of wages corresponding to these employment structures also tends to be reproduced, although it also incorporates the possibility of paying lower wages in the less skilled jobs, where the supply of labour is abundant. To a large extent, however, these employment structures reflect the special features of the entrepreneurial organization of the countries of origin rather than the production technology used.

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If these tendencies are placed within a context characterized by the containment of real wages, not only because of the demands of the adjustment processes but also because of the need to contain consumption in order to permit the extraordinary efforts of saving required, we see that this gives rise to a situation of considerable inequity in the distribution of monetary income.

The dynamic quest for equity in a growth process which implicitly involves marked elements of differentiation may be tackled either through action aimed at changing the conditions determining wage distribution (which determine in their turn the distribution of private consumption) or through redistribution policies which correct the results of the operation of the market mechanisms.

Among the former, special mention should be made of programmes aimed at promoting the modernization both of peasant agriculture and of small and medium-sized urban enterprises through the provision of means of production, access to credit, and the dissemination of appropriate technical know-how and management techniques.

On the other hand, one example of modernization with creativity consists of the adaptation or creation of employment structures designed to make use --beyond the fixed requirements of the production techniques-- of labour of a level of skill which is abundant in the local market. This is feasible both in the case of goods-producing activities and of those producing the whole range of public services, which would be expanded to the extent that they are used as instruments for securing greater equity, in which case effectiveness would be a prerequisite for the achievement of this objective, so that the transformation of underemployment into productive employment would involve the imaginative determination of the skills required for the provision of each service.

As regards the labour supply, it is necessary to train this and reorient it in the direction of the skills required by the apparatus of production (including the supply of public services). In systems where training costs cannot be assumed by the population and where the present pattern of wages has little to do with the requirements of future technology, careful planning of education services is called for. Investment in education is the key to technological development and to sustained increases in productivity. It is also one of the means of acting on the determining factors of income distribution in the long term, however. Nevertheless, it should be noted that educational methods and orientations have also tended to be mere transplants of the models used in developed societies. Without failing to acknowledge the component of modernization which is implicit in this, nevertheless the inappropriateness of these models to local resources and potential and to the requirements of a growth process different from that of the developed societies is frequently reflected in frustrated aspirations and does little to help to reduce social inequalities. In contrast, educational efforts aimed at satisfying the requirements of an employment structure well adapted to local potential and to the full development of that potential represent a form of long-term action which can change the very matrix that generates social inequalities.

As regards wages policy, efforts should be made to establish wage-setting schemes which are consistent both with the reorientation of the demand for labour and with the incentives required by the reorientation of supply.

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In general, action to redistribute assets is made more feasible and less costly by changing the pattern of allocation and appropriation of the resources accumulated in the course of the growth process rather than through the redistribution of existing wealth, which is always a traumatic business. This is also true of land, to the extent that the technification and modernization of traditional methods of production effectively make it possible to reduce inherited inequalities in rural land ownership. There are areas, however, where reforms in land tenure systems will be needed in order to mobilize the resources needed to make possible a process of modernization which will lay the basis for a more equitable pattern of development opportunities. Likewise, to the extent that schemes of social participation in accumulation similar to those indicated in section 3 of this chapter are adopted, this will mean the progressive correction of the distribution of wealth and the compensation of a large part of the most immediate inequalities in the growth process.

At the level of the distribution of private consumption, the adoption of measures not only to contain its level in order to permit greater saving and an increase in the tax capacity of the State but also to reorient its composition by penalizing consumption which is non-essential or of excessive social cost will tend to generate a more equitable pattern of consumption by reducing conspicuous disparities in family consumption and lifestyles.

Nevertheless, in view of the marked elements of differentiation of the foreseeable growth patterns and the magnitude of the accumulated social shortcomings, the main path for the achievement of reasonable equity in the medium term must be that involving redistributive policies carried out by the State. This is a field which is entirely open to the imagination, to the social capacity for innovation, and to the development of participation. It is a field which covers such widely varied actions as the subsidized or free supply of essential goods to selected low-income groups (or State intermediation in their supply); the innumerable possible schemes of technical and financial assistance for mobilizing communities to engage in self-help building and the provision of community services or the co-operative production of essential goods; the provision of unemployment insurance, allowances and facilities for retraining and minimum employment programmes for community ends; and the strengthening and expansion of basic and collective public services in order to effectively extend them to the whole of the population and replace with public services those which, such as transport, for example, exclude wide sectors of the population when provided on a private basis, because of their high unit social cost.

d) The struggle against poverty

Although recognizing that the permanent solution to the problem of poverty must come from the reorientation of development and the application of distributive measures, in the meantime it is necessary to alleviate the poverty in which many families live in Latin America. To do so, redistributive action must be taken, i.e., action whose object is to correct the primary distribution of income in order to alleviate the situation of poor people by means of monetary and non-monetary transfers between different social groups.

/In general,

In general, redistributive action is aimed at benefitting a given group by providing it with certain goods and services free of charge or at lower prices than those of the market or by transferring to them monetary resources above and beyond the remuneration they receive from their labour or from the capital they may possess.

Among the main policies of a general nature are those designed to create more jobs, such as policies to change the structure of production so that there is a greater demand for labour; those that alter restrictive and discriminatory conditions in the markets of the various factors; those that modify the relative prices of the factors of production in order to benefit labour; and those that promote the use of appropriate technologies. These policies primarily relate to pricing; their purpose is to remove obstacles which have existed in the past and to create more suitable conditions so that the "normal" operation of the economy allows more job opportunities to be generated. These general measures, which may be adequate for agents having access to capitalist forms of development, should be supplemented with specific measures so that they may succeed in reaching those groups which, in practice, are excluded from the benefits of capitalism, such as the urban informal sector and what has generically been called the peasant economy.

The above leads to the consideration of other policies that are designed to improve the situation of poor groups which, although their income comes primarily from labour, are not regular wage-earners and do not have even a small amount of capital in the form of land or working tools. In such situations, public policies should be aimed at increasing the assets possessed by these social groups and raising their productivity.

The way in which existing assets are redistributed or increased is a question of political will and ability. Nonetheless, it must be recognized that, in some cases, improving the situation of the poorest groups demands a change in the prevailing structure of ownership. This is the case when the concentration of financial, industrial and agricultural property is such that it permits the size and destination of surpluses to be determined unilaterally. Although these policies might not appear to be directly related to the fate of the poorest groups, in fact they are, because the criterion used to decide the destination of those resources is not unrelated to certain factors which are vital for these groups, such as the creation of new jobs or the production of goods and services to meet their basic needs.

The relationship is a more direct one in the case of land tenure, since the concentration of this factor of production in the hands of a few (an acknowledged situation in most countries of the region) leads to the existence of a large number of landless peasants and of others with such small plots that even their own families cannot subsist on what is produced. Furthermore, the concentration of land ownership makes it impossible to apply policies which, by improving the terms of trade for agriculture, would also benefit the peasant population rather than just large landowners.

On the other hand, the low productivity of small units of production is not solely due to their size: another factor is that most such entrepreneurs do not have access to the use of credit, technical assistance, training or marketing channels. As will be discussed later on, only the State can eliminate this situation of marginality affecting the small entrepreneurs.

/It is

It is important to realize that the effects of structural changes are not felt over the short term, yet the dramatic conditions in which a large part of the Latin American population lives must indeed be alleviated without delay. To this end, a set of measures can be adopted to provide poor families with a minimum income. These measures basically consist of the creation of special State job programmes and direct provision by the State of certain basic goods and services, especially in connection with care for pregnant women, child nutrition, pre-school and elementary education, health care, social housing and cleaning up the environment.

One essential aspect which has not been included in the discussion thus far, although not economic in nature, has a decisive influence on the integration of poor families into the social, economic and political life of their community. This essential aspect is social organization.

Some of the many factors influenced by social organization are wage-earners' bargaining power; access to technology, financing and inputs, as well as the marketing of the output of those who obtain their income from small units of production, whether in rural or urban areas; the possibility of exerting legitimate pressure for the satisfaction of basic needs; opportunities for gaining access to public goods and services and to the relevant authorities; the ability to retain benefits which have been obtained; and the ability to form pressure groups so that the members of these can obtain a share of political power that they could never achieve as isolated and margined individuals.

6. The reorientation of development as a social challenge

In most cases, the continuance of the current growth model can only lead to slow and unstable growth, along with deepening structural imbalances and greater social inequality.

In Latin America in recent decades, disarticulation has been accompanied by sporadic growth based on the income derived from valuable natural resources or on unusually permissive international financing; this permits the physical transplantation of spurious or "showcase" modernization, but does not help to promote domestic economic and social organization and does even less to foster a solid position within the international economy. When the wave of sporadic growth ebbs, the countries of the region see the expectations which were generated during the period of "miracle" growth frustrated and experience greater external constraints than those which existed initially. If, as is true of some countries in the region, the external resources available during the boom period have not been channelled towards the expansion of production capacity but have instead been devoted to consumption, the weaknesses of their physical infrastructure became even more evident when the boom ends and are compounded by the social needs which have been deferred and ignored during the boom, as well as the deterioration of technical and professional skills which goes along with unemployment and a low level of investment.

The extent of external constraints, combined with the weakness shown by the investment process during the past decade and the international economic outlook, makes it very probable that the region will have to expect a slower growth rate than it has had in previous decades. The rate of economic growth, which is

/determined to

determined to a significant degree by external constraints, can only be increased in so far as such constraints are removed, and this involves changes in the structure of production and in the behaviour of the various economic and social actors. Given the degree of foreseeable external constraints, innovations will have to be made in society, i.e., in the "content" of growth itself, even if the debt problem is resolved satisfactorily. The assumption that external constraints will continue for quite a long time is a basic factor in economic and political analysis. In order for a country to emerge as an integrated and strengthened nation after a long and sustained period of austerity such as that which is expected, consensus and leadership are needed in the political sphere, solidarity and at least a minimum of equity are required in the social sphere, and a well-defined form of co-ordination between the State and civilian society must exist in the economic sphere. External constraints shape the priorities of the State and limit the action which it may take, demand rational functioning of the market and, above all, require a commitment to participation and imagination on the part of civilian society.

Many of the social needs that, in some countries, were previously attended to by the State (which focused its attention on the organized sectors of the middle and lower classes) and that were then transferred to the market, should now be taken up as the responsibility of an organized and decentralized civilian society. Because of the magnitude of the basic social needs which have accumulated, it would be naive to imagine that the State could formulate a global response to them, yet by their very nature, it makes no sense to leave their satisfaction at the mercy of the market. The specific models whereby some basic social needs might be partially dealt with by civilian society will surely be varied and different from those seen in the past. This is why it is held that in the foreseeable future innovations in the social sphere will transcend the limited amount of freedom existing in the economic sphere. Such social innovation, however, requires some degree of strategic political consensus which could be manifested through various forms of concerted social effort.

If a significant degree of decentralization and deconcentration of the public apparatus has been achieved in the terms described above, the organization of social agents can then become a productive resource of great potential, both for the actual production of goods and services and for improving the quality of life in general. This relates to the promotion and strengthening of organizations of rural and urban producers with similar characteristics as well as of new ways of organizing the population within each territorial area. In more specific terms, this involves fostering the formation of co-operatives and self-managed enterprises in a wide range of rural and urban activities. Some examples would be: enterprises formed by landless rural workers for the construction of supplementary infrastructure (labour-intensive road works, small water projects, local storage infrastructure, rural schools, first-aid posts or polyclinics, etc.); neighbourhood economic organizations or community enterprises in rural locations (grouping together weavers, artisanal furniture-makers, etc.); neighbourhood organizations (or organizations based on some

/other territorial

other territorial unit) devoted to making local improvements or the provision of local facilities; local purchasing units to buy basic consumer goods on a collective basis, etc.

The formation of organized social bodies that could grow into a network capable of undertaking a variety of different initiatives, combined with a willingness on the part of the public apparatus to delegate local authority to the various core groups in such a network, would provide an appropriate basis for socialization and for dealing creatively with the constraints within which the economies of the region will have to function for a considerable period of time.

IV. INDUSTRIALIZATION AND TECHNOLOGICAL DEVELOPMENT

1. Challenges and structural change

Over the next few years, the Latin American countries will have to face, among others, the challenges presented by: a) the imperative need to resolve the disequilibria of the domestic structure of production and to meet the social needs which built up and were neglected during the previous period of rapid growth but are now coming to the surface; b) the reversal of external financing, which in the past provided incentives and support for growth, but which has now become, at least over the short and medium terms, an obstacle to domestic economic growth, and c) the restructuring of industry and technology currently taking place in the advanced countries, which could drastically reduce, in some sectors, the international competitiveness of Latin American products. Industrialization has a direct impact on all these areas.

The Latin American pattern of development and industrialization is, to a large extent, a legacy of the great crisis of the 1930s. As has been mentioned before, there seems to be no reason to assume that this pattern will continue through the current crisis without undergoing structural changes. Instead, it is important to seek without delay a new industrialization strategy that will enable the countries to deal with domestic disequilibria and see more clearly what the international situation is likely to be during the next few years.

The magnitude of the challenges which the region must face can be better appreciated if it is borne in mind that, according to available projections and assuming a modest but sustained rate of growth during the second half of the 1980s, the per capita product around 1990 will be comparable to that of 1980. Because of the nature of the recent adjustment, however, the concentration of income will be such that it will be difficult even to reproduce the already inequitable situation which prevailed in 1980. It is also interesting to include in the analysis the developed countries' own vision of the challenge which their industrial adjustment presents to them:

"Fundamentally, the situation in which most OECD member countries currently find themselves seems to limit the capacity to adjust. The low level of investment, persistent inflationary pressures and the prevailing climate of uncertainty about the future clearly limit effective and desirable adjustment. In most cases, present levels of underemployment also create severe limits to what is acceptable. The problem of whether economic policies can be used to create the requisite capacity to adopt to new circumstances is constantly having to be faced."5/

Considering that levels of unemployment, inflation and domestic capacity for technological innovation, as well as longstanding social needs, are much more negative in Latin America than in the OECD countries, it is evident that the region is faced with obstacles and tensions of unprecedented proportions. Suffice it to note that Europe views its own prospects much more pessimistically than is reflected in the above paragraph concerning the OECD member countries.6/

/2. Specific

2. Specific characteristics of Latin America's industrialization

During the period 1950-1980, the industrial sector not only underwent an internal transformation but it also had a far-reaching impact on all other productive activity. It drew labour from the agricultural sector and returned to its inputs and equipment for modernization; it gave rise to service activities that were essential to the production, marketing and financing of industrial goods, which in turn fed industrial expansion; it fostered urbanization and changed the infrastructure of transport and communications; it influenced, both directly and indirectly, the orientation and growth of the public sector --directly, through the requirements it created for a physical and educational infrastructure, and indirectly, through the growth-induced social transformations which were reflected in trade unions, regional parties, consumer organizations and other social groupings which helped generate and orient the growth of the public sector.

This general pattern took on different forms and was evident to different degrees in the different countries of the region. On the one hand, Brazil and Mexico had the highest industrialization rates of the region (the industrial product grew at an average annual rate of 8.5% in Brazil and 7.3% in Mexico, as compared with 6.8% in the region as a whole). At the other end of the growth scale, one finds Argentina, Chile and Uruguay (4.1%, 3.7% and 2.7%). When one considers the latter three countries, initially well-advanced but subsequently frustrated, one finds that in 1950, they generated 41% of the industrial production of Latin America, whereas in 1978 their share had fallen to 20.5% of the region's production. During the same period, the large, rapidly industrializing countries increased their share of Latin America's industrial supply from 42.1% to 61.8%. In other words, whereas in 1950 the industrial production of Brazil and Mexico was similar to that of Argentina, Chile and Uruguay, in 1978 the industrial production of the latter three countries amounted to only one-third of that of Brazil and Mexico. These allusions to the initially advanced and subsequently frustrated countries are important when one considers that the neoliberal model has been applied mainly in Argentina, Chile and Uruguay.

It is interesting to note the marked dynamism of the small countries which made up the Central American Common Market, whose growth between 1950 and 1978 was higher than that of the region as a whole and comparable to that of Brazil, Mexico and Venezuela. Even with all the exceptions and qualifications that one must bear in mind when considering such indicators, it is important to stress this phenomenon because, to some extent, it helps tone down the stereotyped impressions which are generally held with respect to Central America and which, among many other factors, account for the puzzlement with which the recent social and political movements in that region have been viewed at the international level and even in Latin America itself.

In addition to the relatively rapid industrialization of Latin America, there have also been sectoral modifications within manufacturing which have produced shifts similar to those seen in the past in the currently developed countries as regards the increase in durable consumer goods, the increasing importance of chemicals and the growing role of the metal products and engineering industry. In other words, the trends which were strictly functional under the conditions prevailing in the advanced countries have been formally reproduced in the region. In the advanced

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countries, the full satisfaction of basic needs for non-durable consumer goods fostered the growth of consumption of durable goods and an increasing diversification of the latter; the shortage of natural resources, together with the availability of cheap oil, encouraged the substitution of synthetic products for natural ones, leading to the rapid growth of the chemical industry, while the intensification of international competition, along with the pressures exerted by wages and trade unions, encouraged the rapid growth of automation, leading to a sharp increase in the production of machinery and equipment. In Latin America, on the other hand, a very high percentage of the population does not even have the goods and services required to meet its basic needs, there is a generous supply of natural resources, and an abundance of idle labour, so that this pattern of industrialization is not functional under local conditions.

To a large extent, this development strategy has not been functional because of the shortcomings and potentialities of the countries of the region. As regards the concentration of income, the cases of Brazil and Mexico are very revealing because of their dynamism, the magnitude of their domestic market and the diversification of their productive capacity, which were the highest in the region. In both countries, after three decades of growth which it would be difficult to reproduce in the future, the richest 10% of the population enjoys resources which are five times greater than those available to the poorest 40% of the population. This alone, however, is not enough to account for the uniqueness of the Latin American industrialization process. There are also other factors which explain the tremendous differences between the results of industrialization in the advanced nations and the South-East Asian countries, on the one hand, and the Latin American countries, on the other.

To begin with, the articulation between industry and agriculture is weak and unbalanced. Contrary to the case in the advanced countries, the production of basic foods for the domestic market and the peasant population which is responsible for this production have been systematically neglected, both politically and economically, under the development strategies followed. This is reflected, in the various countries of the region --except for Argentina and Uruguay, where basic export commodities coincide with those destined for domestic consumption--, in a systematic erosion of the external surplus of the agricultural sector which is generated by those products and in a growing external deficit as regards the inputs and industrial machinery required by the agricultural sector.

To the faulty articulation between industry and agro-industry is added an energy base that is not functional in terms of the resources available in the region. It should be borne in mind that, over the last few decades, only one country of the region, Venezuela, has exported significant amounts of oil; nevertheless, the region's energy consumption has been based on oil to a much greater extent than that of the other regions of the world. In 1925, liquid fuels represented 13% of world energy sources, while in Latin America they represented 57%; towards the end of the 1960s, the proportions had risen to 40% for the world and over 70% for Latin America.

/The weakness

The weakness of the articulation between sectors of production in the Latin American countries and the lack of creativity of their development strategies may be clearly seen in the poor performance of the capital goods sector. Even though the volume of production of the larger countries is significant, the "indigenous creativity" content of those goods is minimal.

If one accepts the idea that technological development is reflected, to a large extent, in the capital goods industry, one will necessarily reach the conclusion that the technological weakness of the countries of the region is associated with the backwardness of this sector. This problem cannot be solved, however, merely by formulating and imposing standards that are specifically aimed at encouraging research and development by enterprises and at regulating the transfer of technology from abroad, without there being any change in the factors which account for this pattern of industrialization, characterized as it is by the backwardness of the capital goods sector and its lack of creativity in adopting technology.

To the growing external deficit generated by this "halfway" industrialization and the systematic erosion of the agricultural sector's surplus --which, in countries such as Mexico, even turned into a deficit-- were added, in 1973, the consequences of the overgrown Latin American oil consumption. These deficits, which were linked with the structure of production and hence with the development strategies followed, were aggravated by the burden of servicing the debt which had been incurred in order to neutralize structural deficits and the direct foreign investments which gave impetus to the more rapidly growing industrial sectors that set the pace of domestic production in view of the relative weakness of industrial entrepreneurship.

The presence of foreign corporations is not a uniquely Latin American phenomenon; what is unique to the region is the magnitude of their presence, the inefficiency of the production structures they have established, and their participation in activities that are not at all sophisticated from the technological standpoint. In brief, their performance at the local level is much more an indication of the lack of regulation by domestic agents and of the whole range of social forces reflected in public action than of any particular desire for domination on the part of the corporations, which do not see beyond the boundaries of their own micro-economic objectives.

These corporations, which as in their countries of origin, play a leading role in the more dynamic sectors, behave very differently in the developing countries than in their home countries. Whereas in their countries of origin, they account for most of the trade surplus, in the countries of the region where they are involved, they have given rise to a trade deficit that in some cases represents a high share of the national trade deficit.

This is not to say that the countries of the region are completely devoid of any national entrepreneurial groups --both private and public-- that have shown evidence of having all the characteristics described by Schumpeter, including the

/potential for

potential for technological innovation. These groups do exist and some of them have become well known internationally. What we are trying to stress here is the fact that, in this case, industry has not played the leading role in the economic process that it did in the case of advanced capitalism and of the late capitalism of South-East Asia.

One characteristic of industrialization in Latin America is the high degree of protection that has been given to industrial growth. It is an interesting paradox that the region has this feature in common with Japan: the country which has achieved the most outstanding industrialization of the post-war period.

In the case of Japan, however, protection fostered a learning process that was led by national groups working jointly with the State around two strategic axes, i.e., chemicals and metal products and machinery, the future demand for which was seen to be dynamic. This was the basis for import substitution, which caused the market to expand rapidly, and for innovation and the selective integration of the whole network of inter-industrial links, with a view to penetrating the international markets, including those of countries which, like the United States, were the main source of technological inspiration. The protection afforded industry was at the service of a strategy conceived by domestic agents and oriented towards the future conquest of the international market. In other words, it was protectionism for "learning".

In Latin America, on the other hand, protection was afforded to the indiscriminate reproduction, on a small scale, of the industry of the advanced countries. The local industries were very short on capital goods production and were led by companies whose long-term vision had nothing to do with local conditions and whose innovations were mainly carried out in their countries of origin, and, moreover, were functional strictly for their own requirements.

In Latin America, the level of protection has to a certain extent been determined by the potential profitability of activities not involved in international trade, such as civil construction, commerce and financial intermediation, on which the more powerful national groups have concentrated most of their attention. From the standpoint of those groups, it is perfectly rational in diversifying towards the industrial sector, to seek profits comparable to those prevailing in their original sectors. This may explain the paradox whereby such extensive and indiscriminate protection on the grounds that they are infant industries, has been given for decades to industrial systems led by transnational corporations, which can hardly be justified. The high degree of protection seems to have encouraged the atomization of the structure of production, but this protection then had to be maintained in order to guarantee the survival of industry. It is understandable, then, that under this "frivolous protection" there has been no significant flow --in proportion to production-- of industrial exports. Industrial exports did grow rapidly in certain countries and at certain times, but they account for a much smaller share of total production than has been the case in South-East Asia.

/It is

It is evident from the above that in analysing the present financial crisis of the Latin American countries it is essential to take into consideration, in addition to the aforementioned external factors, the structural aspects of the strategy followed up to now. It has become clear that the weakness of the external situation is closely related to this industrial pattern. The shaky leadership of the automobile industry, the shortage of capital goods and the lag in their production, the asymmetrical relationship between industry and agriculture and the dysfunctionality of the energy base explain, fundamentally, the region's vulnerability to external circumstances and, hence, its external indebtedness. This vulnerability can only be overcome through a transformation of this industrial pattern and its articulation with the agricultural sector, as well as its links with the environmental resources available, with the energy base and with the financial intermediation mechanisms on which it has been built.

In general terms, far from there being a faithful but chronologically dephased image of the industrialization of the advanced countries, what we have is a halfway and distorted reproduction of that source of inspiration which, to a certain degree, is not functional in terms of the needs of a high proportion of the population and which, at the same time, is incapable of developing its creative potential and taking full advantage of the abundant natural resources available. It seems clear that the neo-liberal proposition, which approaches the weaknesses of industrialization by questioning their existence and going back to outdated schemes of international division of labour in which the Latin American countries would have to resign themselves to a shadowy and insignificant role as exporters of natural resources, does not solve the social needs that have built up. The industrial transformations that have taken place in the advanced countries and the crisis of the early 1980s, which has set the industrialization process back by 17 years, may mean that the region moves from the 1950s position of a "late latecomer" to the position of a "late late latecomer" in the rest of the century.

3. The technological and industrial restructuring of the advanced countries: implications for Latin America

The speedy and effective adjustment of the industrialized countries to the new energy situation is an important but partial manifestation of the more complex and far-reaching process of industrial and technological restructuring which is currently in process. It is estimated that in 1982 the OECD countries used 16% less energy and 26% less oil per unit of the gross national product than in 1973.^{7/}

The political will to respond to the challenge of this magnitude, together with the flexibility in changing social behaviour and introducing technological innovations, reveals the possibilities inherent in those situations in which "endogenous creative capacity" prevails over "uncritical imitation".

The special political and social value which the industrialized countries attach to industrial, scientific and technological activity in the current crisis situation is clearly reflected in the following statement:^{8/}

"It has repeatedly been emphasized that the projections belong to scenarios implying a renewed dynamism of industry. In them, the role of industry should be enhanced and industry should resume (thanks to the exports of manufactured /goods) a

goods) a key role in the growth process, modest as it may be. In any event, technological innovation is likely to play an important, even decisive, role during the 1980s. It is increasingly apparent that, quite apart from the structural changes now taking place, a particularly crucial phase of technological change has begun. As a result both governments and firms attach a mounting importance to technology factors in their options and strategies. The present prospect of slower economic growth, in a way, only magnifies that importance".

Independently of the institutional mechanisms and of the differences in the rhetorical emphasis placed on public intervention, the fact is that in practice, as is noted in the preceding statement, the public sector of the industrialized countries is making a systematic and large-scale effort to encourage development and foster the adoption of the most advanced technologies in national production activities. There is consensus to the effect that over the next few decades comparative advantages in international trade will be constructed precisely through this "voluntaristic" and "interventionist" position at the national level.

Since the Second World War, public support for research and technological development has been on the increase in the industrialized countries. The motivations, institutional patterns, policy instruments and magnitude of such support vary from country to country, but in every case, increasing priority is being given to this matter.^{9/} The State helps define sectoral priorities as a source of financial resources and a direct executing agency, granting support for the appropriation and marketing of the output of industrialization and development efforts, attenuating the risk inherent in such activities, subsidizing the learning process in the leading areas (public sector purchases, particularly in the military field) and, through credit, tax incentives and diplomacy, enhancing the presence on the international market of the enterprises concerned. One important aspect is the close relationship between technological support instruments and industrial policy in the broad sense. In this regard, the differences with respect to Latin America are noteworthy; because of the approach that still prevails in the region, it has not yet been possible to integrate technological development entirely into the realm of the institutions and instruments of industrial policy.

A comparison of the programmes of the leading economic areas of the Japanese Ministry of International Trade and Industry and the United States Department of Defence provides a good illustration of the substantive convergence prevailing in the advanced countries, which overrides formal and institutional differences.^{10/}

The industrial and technological transition is particularly important when it comes to making adjustments in the fields of energy and the more advanced technologies, but its influence extends to the whole range of the production of goods and services. We shall try to describe this in summary form on the basis of OECD studies.^{11/}

/a) Durable

a) Durable consumer goods

This group of products mainly includes automobiles and home appliances, which have been the basis for the growth of consumption in the advanced countries as well as in the Latin American ones, and which have been undergoing significant technological modifications, mainly as a result of the various factors which existed in the advanced countries during the 1970s. Some of these factors were the trend towards a saturation of demand for traditional products, a growing concern with environmental problems, the rising cost of energy, competition from the developing countries, the pressure exerted by labour to raise the level of "job satisfaction" and, finally, the potential for the massive introduction of applications from the electronics and computer industries.

In the case of automobiles, some of the more significant trends were the restructuring of production on an international scale, the robotization of plants, the introduction of lighter materials, new designs and electronic control devices, increased energy efficiency, the search for new fuels and the reduction of pollution.

As a result of automation, the manufacture of electric home appliances and of toys and games, which in general had been a labour-intensive industry, has now become a capital-intensive one. This is a typical reaction to political competition from the non-industrialized countries.

b) Intermediate goods

These include the different materials which are extensively used in a wide range of final products, i.e., cement, steel products, basic petrochemicals, paper and glass.

During the 1950s and 1960s, intermediate products grew at a rapid pace; this was particularly true of the chemical products industry, which benefitted from increasing economies of scale. This, along with the low cost of energy and of some other raw materials, made it possible to introduce innovations in products and processes, particularly in chemicals. During the 1970s, this idyllic situation changed radically, inasmuch as the growth of the economy in general slowed down, the prices of energy and other raw materials rose, pressure was exerted by environmentalists and there was growing competition from some developing countries with natural resources, where large-scale basic processing projects had begun to mature.

In general terms, the innovations in these sectors consist mainly of marginal improvements in products, a search for new applications and marginal improvements in efficiency (energy savings and pollution abatement). Special attention has been given to the search for alternative sources of energy such as coal, gas, agricultural and urban wastes and various agricultural products; efforts in the area of nuclear energy are aimed at the same objectives.

/Another direction

Another direction in which technological innovation in these continuous-process sectors is headed is the design of sophisticated, technology-intensive products with a greater value added. In the steel sector, emphasis seems to be shifting towards special steels, and in the chemicals sector, towards pharmaceuticals, pesticides and other sophisticated chemical products.

c) Capital goods

In the near future, the pressure of high wages in the advanced countries may be replaced by an intensification of competition between the developed countries and from some semi-industrialized countries; this means that there will be continued pressure to replace labour. In addition, changes in the energy base, as well as environmental pressures, have raised a challenge to introduce significant technology changes in the design of capital goods and complex plants. Factors pertaining to energy efficiency, environmental impact, greater safety, noise abatement and simplification of operation have become decisive in determining the competitiveness of capital goods.

In the area of machine-tools, there has been a steady invasion of numerical control, which was originally used in connection with specifications for the aerospace industry and which subsequently spread to machine-tools in general. The prospects for the utilization of computer techniques in industrial design (including the design of capital goods) and in controlling the operation of integrated sets of machine-tools and complete plants seem now to be much closer to reality than to science fiction.

Because of the role which capital goods play in production, this invasion of science and technology in their manufacture has a disseminating and multiplying effect which covers the production of all goods and services as a whole.

d) Dissemination to other sectors

The process of technological innovation is located mainly in manufacturing industry and, within it, in the aforementioned sectors, i.e., capital goods and intermediate products, mainly chemicals and durable consumer goods. Nevertheless, the penetration and dissemination of innovations from these sectors to the production of goods and services as a whole is proceeding at a brisk pace. The rapid increase in the productivity of the agricultural sector may be attributed, to a large extent, to innovations in the chemical and agricultural machinery industries. Innovations in the sphere of communications, computers and electronics are being projected with great intensity in the financial and commercial sectors, in public administration and, increasingly in the future, in sectors such as education and health. The declining cost of communications will undoubtedly bring about changes in mass transport systems and in the possibilities for geographical decentralization of production activities. In brief, the transition towards a new pattern of industrial technology is the most visible manifestation of what is probably an even more profound process of transformation that could affect the overall functioning of society.

/e) The

e) The biosciences and biotechnology

There are those who hold that the technological innovation potential of biotechnology is comparable to that of microelectronics. It could have projections in several different sectors: in agriculture, for example, the biosciences have made it possible to move from research on fertilizers as a product to research on fertilization as a process. This means moving from the traditional methods of chemistry applied to agriculture to the utilization of plant physiology, molecular biology and genetic engineering. In the area of pharmaceuticals, significant progress has been made towards understanding the causes of disease, thus making it possible to place greater emphasis on preventive rather than corrective medicine.

In the area of health in general, there is a convergence of the possible applications of microelectronics to instruments and analysis and of biotechnology to the study of the functioning of the body and the prevention of disease.

f) Implications for Latin America

Among the many implications of the above for the Latin American countries, it seems useful to emphasize the following:

i) Having anticipated a relatively prolonged period of slow growth, the advanced countries are preparing for and supporting a transition towards a new pattern of industrial technology that can bring them into a new cycle of growth. This means that the countries of the region will probably be faced with an international situation in which there is very little potential for growth over the short and medium terms but which, nevertheless, would permit them to create a new structure of production on an international scale, although national production structures that do not change may become partially obsolete with respect to this new structure.

ii) In the advanced countries, there is an intensification of government action with a view to strengthening each country's relative position in this process of transition. This may lead to the emergence of a new hierarchy of relative positions on the international scene.

iii) Some of the sectors in which the most important projects of some countries of the region are being carried out are also the sectors in which technological transformations are likely to take place over the next few years at the international level. This is the case of the automobile industry, petrochemicals and capital goods.

iv) This demonstrates the decisive importance of the role that can be played by regional co-operation in enabling countries to bring to their international negotiations an up-to-date knowledge of foreseeable technological changes in each of the aforementioned sectors. Otherwise, as has already happened in the past, the developed countries might transfer to the developing countries those manufacturing techniques and equipment that become obsolete as a result of technological change.

/Where the

Where the sectors which constitute the most advanced industrial nucleus of the Latin American countries are concerned, such a possibility, should it materialize, would seriously affect the national economies in coming decades.

v) Some sectors in which the countries of the region had heretofore concentrated their industrial exports and which are highly labour-intensive could, as a result of automation, undergo significant changes over the next few years which would drastically impair the competitiveness of national products. This would be the case with the textile and garment industries and with the wide range of subcontracting industries in the textile and electronic sectors. The systematic efforts of the developed countries to improve their efficiency in the use of energy and, in general, of imported raw materials could affect the region's export prospects in some areas that make intensive use of natural resources.

vi) In spearhead areas of technology it is quite evident that the Latin American countries will have to make a great effort and, regional co-operation can be most valuable in this regard. However, in view of the unique needs and potentialities of the region, the sectors to be given priority may be quite different from those which receive special attention in the advanced countries.

4. Efficiency, growth and creativity: the concept of the "endogenous technological dynamization nucleus"

As mentioned above, growth alone is not sufficient to produce creativity and there are many examples of this in Latin America. One of the salient features of Latin America's industrialization has been the rapid growth of industrialization after the Second World War in very different countries. At the same time, this growth has been characterized by a lack of creativity, although this does not mean that there have not been certain areas of relative excellence in most countries.^{12/}

The question naturally arises as to what other conditions must be met in order to develop creativity, considering that growth is not enough. One must start by considering that creativity is a complex process which involves a wide range of agents and motivations, i.e., large industrial plants linked with small and medium-sized institutes providing training in technology and the basic sciences, agencies training qualified personnel at various levels, the mass communications media and the ministries and central agencies which establish policies and standards. It is the interaction of these agents and motivations that determine how creativity develops. One may therefore conclude that creativity will be developed or frustrated depending on the role played by the type of relationships that are established among the various agents of economic activity and between the individuals participating in these activities and the place of work concerned. Consequently, creativity will also be influenced by the pattern of working relationships within each agency or institution and the nature of the relationships which are established among these various activities. An industrial model in which leadership is exercised by subsidiaries of corporations whose centres of gravity are located in other countries will hardly unleash an internal creative process, because this would not be functional, in general terms, to the long-term growth strategy of those corporations. Nor does a development model based fundamentally on the simple

/exportation of

exportation of natural resources need to develop creativity either at the individual level or at the level of productive enterprise. Therefore, in addition to the nature of the agents and the relationships that are established among and within them, it is also important to consider, as a factor of creativity, the structure of production through which economic activity is carried out.

One of the many factors that influences the process of creativity is the degree to which economic life is decentralized. Indeed, one of the main requirements would appear to be that units which interact among themselves should have a wide enough margin of autonomy to encourage creativity both for "taking the offensive" and for "putting themselves on the defensive" and to encourage individuals who may have creative ideas.

When communication, interaction and smooth articulation between agents, agencies and levels of decision-making are consolidated as a matter of daily routine at the national level, this means that what is defined as the "endogenous technological dynamization nucleus" will have been set up.

In order for this concept to become operational, it must be broken down into its basic dimensions, which would be the following:

a) Those exercising leadership must attach a positive value to the "national" significance of meeting domestic needs and favouring a sound insertion into a world economy characterized by increasing "transparency" and intercommunication;

b) The method of operation should be characterized by smooth communications and articulation among the different agents and economic and social sectors participating in the process of producing goods and services; and

c) There should be widespread social recognition of the value of creative activity and of the entrepreneurial function, independently of the combination of forms of ownership (which will depend on the specific historical processes of the social formation concerned). This recognition of the value of creativity must be based on a very open attitude towards the rest of the world, both as regards the process of learning and assimilating knowledge generated abroad and as regards the identification of those activities in which the country can achieve relative excellence and generate the foreign exchange that is essential for the acquisition of the goods and services which, along with those generated locally, are required to meet domestic needs. In order for this systematic learning process to take place, there must be an "obsessive" concern for constantly training the population --through formal programmes, through specialized institutions and through the mass communications media-- and an exhaustive knowledge of local potential, both in terms of available natural resources and of the possibility of modernizing traditional organizational forms and techniques. Genuine modernization is that which enriches and strengthens the local heritage at different levels, i.e., the historical patrimony, values and abilities, forms of organization and knowledge associated with unique local conditions. This type of modernization enables a country to participate in the international markets because it adds intellectual value and effectiveness to designs, processes, techniques and forms of organization of production that are

/already available

already available. A modernization that does not take into account the local heritage and that favours the mere physical transplanting of objects, i.e., "showcase modernization", allows for a short-term reproduction of imported modernization at a cost, in terms of foreign exchange, that will be difficult to finance over the next decade, but it does little to encourage the local innovative processes without which a country's presence on the international markets is essentially weak.

It is important to note that in this description of the "endogenous technological dynamization nucleus" no mention has been made of the size of the markets or of the availability of natural resources. This is because historical experience has shown that there is no clear correlation between leadership and economic and social articulation, on the one hand, and size, or, much less, the availability of natural resources, on the other. This is not to say that it is not important to seek economies of scale and to concentrate on certain activities; rather, it means that it is extremely important that the pattern of productive activity, as a reflection of domestic creative effort, should be functional with respect to specific national needs and potentialities. It is in this specific sense that reference is made to an "endogenous" nature.

The need to be competitive, along with the limitations of size of the domestic market and the learning process that is inevitable, must necessarily be reflected in more specialized patterns of production than those which prevail in the advanced economies. The concept of an "endogenous technological dynamization nucleus" makes it possible, precisely, to identify lines of specialization and to build, on them, increasingly articulated systems aimed at achieving levels of international excellence in the various links which make up the chains of specialization. The particular way in which the industrial sector of the region has developed obviously does not meet this criterion of selectiveness and specialization. Perhaps the best illustration of this negative fact, from the standpoint of the foreign exchange balance and its implications for technology, has been that of the automobile sector. It is possible that some research and development activities, and even training activities in certain special fields require minimum sizes that exceed the possibilities of some countries of the region. In such cases, which may be numerous, the "endogenous nucleus" can only be made a reality through regional co-operation. The same is true of certain activities in the areas of natural resources, communications infrastructure and international marketing. Consequently, the regional co-operation dimension is an important ingredient which, however, goes beyond the scope of intra-regional trade.

From what has been said so far it is evident that in order for an endogenous technological dynamization nucleus to be established and to continue in being, certain elements are required which will enable it to emerge and will ensure its continuity; in addition, the national structures of production must allow for its physical manifestation in them, as follows:

/a) The

a) The context

Among the elements which must be present in order for such a nucleus to materialize and continue are, in the first place, a series of subjective conditions leading to the formation of a national determination to embark upon the task of meeting domestic needs and ensuring a solid insertion in the world economy on the basis of the full utilization of the national potential (needs-potential equation). Some of these conditions are:

i) The presence of a legitimate leadership capable of achieving the task in question, the gradual achievement of national consensus to make it possible to mobilize the different agents in order to achieve that goal, and social recognition of the value of the various expressions of creativity that are necessary to achieve the objectives in question.

ii) Certain conditions of a social and institutional nature must be met in order to make it possible to build up a social network that is organized and functional with respect to the task in question. These include a decentralized and deconcentrated public apparatus; flexibility in structures which reflect, in various areas, a smooth relationship between the State and the civil society; transparent and smooth communications among the different social agents; and the presence of a vast network of organizations of agents in the various spheres of activity and residency.

iii) There is a set of instrumental conditions, the most important one of which is an adequate linkage or articulation between activities pertaining to scientific and technological development, mass training activities and the specific demands of the production apparatus in its process of internal articulation and international insertion.

b) The physical manifestation

The physical manifestation of the endogenous nucleus is the range of production activities (goods and services) designed to meet domestic needs efficiently and to ensure a sound external insertion through the utilization of national potential. Specific national characteristics are decisive in this regard. Independently of these specific national features, however, the following are also required: a systematic and shared evaluation of the national potential, not only as regards natural resources and intellectual capabilities but also as regards forms of social organization, which, being deeply rooted in national history, can strengthen and provide orientation in achieving the objective in question; a hierarchical ranking, legitimized by social agreement, of the most urgent social needs; and a vision of those spaces of the world economy in which it is possible to consider a dynamic insertion through concentrated efforts to create national excellency in these areas.

This issue will be discussed in detail later on, in connection with the dilemma of whether to promote exports or import substitution; the articulation of the structure of production, distinguishing between large countries and medium-sized and small countries; the linkage between the industrial and the services sectors; guidelines for technological policies; orientations for the development of agriculture and natural resources, and the role of the State.

5. The false dilemma: import substitution or export promotion strategies

To say that in Latin America, import substitution strategies have failed and that the phase of export-oriented strategies is beginning is to over-simplify this issue and the real economic situation, the normative implications of which require some qualification.^{13/}

The merits of the argument that the export of industrial goods should be promoted are not in question. Such exports allow for economies of scale, promote growth, strengthen a country's capacity to adjust --including the technological learning dimension-- to the changing conditions of the international economy, and help improve the terms of trade. In a period which is characterized by a shortage of foreign exchange which restricts growth, their importance is even more evident. What is less evident is how the requirements which, in theory and in fact, determine international competitiveness are to be met in a situation which is characterized by the needs and assets built up during the preceding phase of industrialization in Latin America.

In order for the proposition that import substitution strategies and export-oriented strategies are mutually exclusive to have a minimum foundation in fact, it would be necessary to demonstrate, in the first place, that the specific feature of Latin American industrialization has been import substitution and that, in that regard, the region has departed from the traditional course of industrialization followed by the economies that are now mature and other economies whose industrialization has come later. In the second place, it would be necessary to prove that this presumably specific feature is the main factor that explains the unsatisfactory results obtained in areas such as employment, income distribution, external vulnerability and the absence of the autonomous technological innovation which is decisive in determining international competitiveness. In the third place, it would be necessary to demonstrate that those experiences of late industrialization which have been successful, particularly in South-East Asia --the tacit or explicit point of reference for this viewpoint, so fashionable nowadays-- may be explained essentially by the presence of an export-oriented strategy, without taking into account the economic, social, political and cultural context in which that industrialization takes place and which is very different from the context of Latin America, as if it only played a marginal role in explaining the results obtained. Finally, one might consider the feasibility of placing on a massive basis the exports of the semi-industrialized countries to an international market whose dynamism is expected to be more modest than it has been in the past. Attention is concentrated, however, on the factors mentioned above, since it appears that domestic requirements play a greater role than international demand in determining the significant differences between countries as regards the capacity to export manufactured goods. There is obviously a fallacy in the assumption that the international market could absorb a large number of "Koreas", but that is no reason for rejecting, at the national level, the generic idea of abandoning import substitution and turning to an export-oriented policy --the subject with which we are concerned at this point. Past history, recent experience and the theoretical work done to date suggest that there are no simple and taxative answers to the problems discussed above. Therefore, this proposition must be qualified, and this inevitably means that one must assume that the question of development strategies is too complex to be approached with the simplistic viewpoints which see a contrast between the "virtues" of exports, frequently associated with market-economy principles, and the

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"sinfulness" of import substitution, presumably a reflection of excessive public intervention. Such a position is inadequate as a framework for considering strategy in the light of the conditions currently prevailing in the regional and international economies.

We shall now look at some aspects of the problem which are sometimes omitted or confused, thus distorting the normative implications of the debate. In the first place, it is important to note that a basic feature of export-oriented strategies is the clearly "industrialist" nature which is reflected both in high rates of growth of manufacturing production and in the speed with which the structure of production is transformed under the leadership of the industrial sector. In countries such as Japan, Korea and Taiwan, average annual industrial growth rates during the 1950s and 1960s were approximately 15%, i.e., double that of Brazil and Mexico, the most highly industrialized countries of our region. This explains why the share of the industrial product in the total product (degree of industrialization) in the Asian countries, which in the early 1950s was lower than or comparable to the most industrialized countries of Latin America, was significantly higher than the latter at the beginning of the 1970s and why, as a result of the industrial lag in Latin America in the early 1980s, that difference was considerably greater by 1983, when the degree of industrialization of Japan, Korea and Taiwan was over 40%, while in the large countries of the Latin American region it was 25% and in Latin America as a whole it was 23%.

The rapid growth of the industrial sector in the export-oriented countries, associated with the domestic learning process, led to a "virtuous circle" of industrial growth, increase in productivity and technical progress, with growing participation in the world market for manufactured goods. It is important to stress that a country's presence in the international market cannot be understood without taking into account its background as regards industrial growth and the technical progress achieved in its structure of production.

The latter aspect is directly related to another issue with regard to which there has been a tendency towards oversimplification bordering on confusion. The expressions "import substitution" and "orientation towards the domestic market" are often used interchangeably, thus giving the impression that the dynamic effect of the expansion of the domestic market is determined by the degree to which import substitution has been achieved. This leads to the conclusion that if the possibilities of advancing with regard to import substitution appear to be limited, the international market becomes the only option for growth. The indiscriminate use of the expressions "import substitution" and "domestic market" can lead to mistakes. The dynamic impact achieved by expanding domestic demand may go hand in hand with an increase in import substitution (a reduction of the import coefficient), a decrease in import substitution (an increase in the import coefficient) or a neutral process of import substitution (a constant coefficient). In the first case, the dynamic effect obtained by increasing final domestic demand over domestic production is reinforced by the contribution of import substitution; in the second, the effect of the more than proportional increase in the import component must be subtracted from the contribution to the growth of domestic demand; in the third, only the growth of the domestic market has an effect, with no correction being made for the import component. Consequently, while import substitution does contribute, particularly

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in the initial phase of industrialization, to making local production more dynamic, this production may also expand in the absence of import substitution or even when there is a reduction of import substitution.

Some empirical illustrations may help clarify this.^{14/} In the case of Japan, which is the best example of dynamism and penetration of the international manufactures market, throughout its entire industrialization process the increase in final domestic demand has accounted for at least 70% of the increase in production and, in some recent periods, more than 80%. Between 1914 and 1955, the import substitution process made a positive contribution to the growth of production, while from the latter year onwards it made a negative but marginal contribution. The contribution of exports, which was positive before 1935 and after 1955, has fluctuated between 10% and 20% of the growth of local production. In the cases of Korea and Taiwan, up to 1970 the dynamic effect of expanding the domestic market was greater than the contribution which increasing exports made to increasing production. In the case of Korea, the effect of import substitution during the period 1955-1963 was equivalent to four times the contribution of the increase in exports to the growth of local production, but subsequently it became negative although marginal. In the case of Taiwan, during the period 1955-1961, the contribution of import substitution was comparable to the increase of exports, but both were lower than the contribution of the increase in domestic demand. During the next period, 1961-1966, the domestic market maintained its leadership but the effect of import substitution declined, although it continued to be positive; during the period 1966-1971, when the most important factor of dynamism was the increase of exports, followed by the growth of the domestic market, the contribution of import substitution, although marginal, continued to be positive.

In the case of Mexico, where the growth of domestic demand accounts for more than 80% of the increase in local production from 1960 onwards, import substitution accounted for approximately 10% of the increase in production during the period 1950-1970; this represents slightly more than twice the contribution of industrial exports. From 1970 onwards, the increase of industrial exports contributed more (8%) than import substitution (3%). A similar pattern emerges in the case of Colombia, the other country of the region for which comparable calculations have been made.

It is evident from the above not only that it is important to be careful when using the expressions "import substitution" and "domestic market", inasmuch as they contribute to the growth of production in different ways, but also that there appears to be a chronological link between "import substitution" and "orientation towards exports" which negates any oversimplification to the effect that they are mutually exclusive. This third aspect, which has been repeatedly emphasized by ECLAC in previous studies, has been summarized as follows: "Behind these successes [export-oriented strategies], however, there was a period of extensive import substitution and technological improvements during which domestic industries developed and strengthened international competitiveness. Without this preparatory stage, the successful industrialization led by export expansion in these economies might not have been possible".^{15/}

/The recent

The recent increase in Brazil's industrial exports would be incomprehensible without the previous effort that had been made to construct an industrial base, despite the shortcomings of the industrial pattern (a matter which will be discussed later on in this paper).

It is important to point out that even during times when the growth of industrial exports is the main factor accounting for the increase of local industrial production, import substitution coexists with the expansion of exports. At the aggregate level, we have already mentioned the cases of Japan and Korea, Taiwan, Mexico and Colombia; at the disaggregated level, it is interesting to note the situation of Korea, where, in 1965-1970, approximately 60% of the increase in exports came from those sectors in which import substitution had made a positive and simultaneous contribution to the growth of industrial production. During the period 1970-1975, that contribution fell to 30%.16/

A fourth aspect worth taking into account, both for methodological reasons and because of the type of conclusions to which it may give rise, is the level of aggregation at which the analysis is carried out. In view of the fact that import substitution is measured, for analytical purposes, through the variation in the corresponding import coefficients, it may happen that, depending upon the level of aggregation of the analysis, an import substitution process appears positive at one level of aggregation and negative at another, the explanation of which lies in the changes undergone by the structure of domestic demand. Thus, for example, measurement by branch of industry may indicate an intensification of the import substitution process (a decrease in the import coefficient), whereas in relation to the economy as a whole import substitution is seen to have had a setback. For this to happen, it would suffice for those branches with a high although declining import coefficient to show a significantly higher growth rate than those with a lower import coefficient, a common occurrence, moreover, in Latin America.

But what matters more than this "optical effect" associated with the level of aggregation is to stress how enormously important, for the purposes of interpretation and designing of policies, is the analysis of the changes undergone by the structure of production, since this necessarily leads to attaching at least as much significance to the sectoral as to the global level of analysis of import substitution and of export promotion. Economic development implies changes in the structure of demand and of production, accompanied by technical progress. Consequently, analysis of import substitution and of export promotion --partial constituents of the development process-- must incorporate as one of its elements this transformation of production, if a deeper understanding of their dynamics is sought. It can be seen at a glance, for example, that in the growth process that has taken place since the war a characteristic feature of the changes in the structure of production has been the increased dynamism of intermediate inputs in widespread use --steel and petrochemical products--, of the capital and durable consumer goods included under non-electrical and electrical machinery, and of the transport equipment sector. When this basic trait of the industrialization process in recent decades is recognized, it becomes clear that analysis and recommendations relating to import substitution and export promotion will prove inadequate unless they incorporate the evolution through time of the changes taking place and the policies adopted in respect of these branches, which are of strategic importance

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both from the standpoint of the transformation of production and from that of dynamism in the international market and trends towards the incorporation of technical progress.

To illustrate the combined effect of the different aspects mentioned, it is interesting to turn back to the case of Korea. If the period 1955-1973 is considered as a whole, the expansion of exports appears as the driving force behind the growth of local production, followed in second place by the increase in domestic demand and next by the marginal but positive contribution of import substitution. A breakdown by three subperiods gives a closer approximation to reality, but with different indications for interpretation purposes: in 1955-1963, the enlargement of the domestic market, strengthened by import substitution, accounted for almost 90% of the growth of industrial production; in 1963-1970, the domestic market was still a factor of impetus to growth, with export expansion now coming next, and a negative import substitution process making its appearance. Only in the final period, 1970-1973, in which the preceding process reached its culmination, did export expansion become the prime mover --followed by the enlargement of the domestic market and a negative import substitution process-- of growth at the level of the economy as a whole. If to this breakdown by periods of time the sectoral dimension is added, an additional approximation to reality is obtained, with new indications of significance for the interpretation of this industrialization process. Although in the period 1966-1970 import substitution was of a negative character for the economy as a whole, in 14 out of the 25 branches of production import substitution was continued in greater depth. Of yet more importance, however, is the fact that the main import substitution effort was concentrated in branches that are strategic from the three points of view mentioned above: the petrochemicals, steel-making and transport equipment industries. In the last two, import substitution made a bigger contribution than exports to the increment in industrial production. In the following period, 1970-1975, the import substitution effort was maintained less intensively in the petrochemicals industry and steel-making and was stepped up in the non-metallic minerals and metal products industries, a vigorous drive being started in import substitution in respect of capital goods. In the case of non-electrical machinery, which comprises capital goods proper, the contribution of import substitution was similar to that of export expansion, and together they represented approximately 80% of the contribution to the growth of industrial production made by the increase in domestic demand.

If the images deriving from the aggregated analysis, where no distinction is made between periods in which industrial policies were modified, are contrasted with the indications obtained from the analysis broken down by time and sectors, it becomes obvious how far simplification of the analysis may introduce distortions in the recommendations. The situation becomes more serious if the case in question constitutes the argumental basis on which to construct a paradigm susceptible of universal application.

Hence it can be inferred that the use of import substitution as an instrument of industrialization is not an exclusive or specific peculiarity of Latin America. Rather was it the basic expedient used by what are nowadays mature economies in constructing their industrialization process (with the obvious exception of England at the end of the eighteenth and beginning of the nineteenth centuries, since it had nowhere to import

/manufactures from),

manufactures from), and the same applies to an economy such as of Japan's, which came later to industrialization and whose presence in the international market is more dynamic. Even in the case of some of the countries of South-East Asia, such as Korea, the combined use of selective import substitution and export promotion is today an empirically validated fact. What is specific to Latin America is the particular modality adopted in import substitution, whose distinguishing mark is a lack of creativity. Among the specific features in which Latin American industrialization differed notably from that of countries of mature industrial development and from that of the countries of late industrialization in South-East Asia, mention may be made of the following: the generally high and indiscriminate level of the protection granted, which, in conjunction with exchange policies, favoured higher rates of return in the domestic than in the international market, with considerable and permanent differentials; the types of sector towards which protection was directed; the actors who were bringers of industrial growth; the atomization of the structure of production; the uncritical reproduction of a pattern of consumption which was not functional to the needs and potentialities of the region; the asymmetry between industrial and agricultural development, which fostered the persistence and, in some countries, the accentuation of structural heterogeneity, particularly with regard to production of basic foods for domestic consumption; the dysfunctional energy base utilized; the relative backwardness of the capital goods sector; the partial distortion of short-term financial intermediation; and the insufficient relative importance of national entrepreneurs in the more dynamic industrial sectors.

This incomplete and schematic list suggests that in evaluating the results of industrialization in Latin America consideration must be given to a wide range of economic, social, political and cultural factors which, taken as a whole, would explain how this very special growth pattern came into being. It would seem that the basic feature of the industrial development of what are today mature economies, and also of the "late" industrialization countries in South-East Asia, lies not so much in the use of given policy instruments --which, in general, are reproduced in Latin America, although with different weightings-- as in the "articulated" nature of those societies, resulting from historical processes whose political characteristics included a clear-cut leadership accepted and recognized by the rest of society. Although this leadership --whose origin and nature, as well as the social sectors and institutional methods by which it is exercised, vary according to political systems and in different periods-- was not exempt from conflicts and even from institutional breakdowns, it favoured the definition and relative stability of long-term strategic options. These options, combined with the existence of minimum norms of solidarity at the social level --which implied, for those sectors exercising leadership, the assumption of certain responsibilities towards the subordinate social sectors, associated with a feeling of belonging to the national entity-- helped to spread the notion that in the future the initial inequitable situation would gradually be rectified. The projection of this evolution into the economic sphere took the form of a linkage between State and society, with modalities that obviously varied according to systems, histories and periods, but were propitious to the acceptance of an order of things in the framework of which was generated a gradual process of cultural integration and acquisition of technological know-how; and this lent viability to the national objective of strengthening the relative weight carried by each of these countries in the economic concert of nations.

A basic feature of these development processes in articulated societies characterized by leadership, gradual construction of a consensus, minimum norms of solidarity and linkage between State and society, and a feature which was of crucial importance in determining international competitive capacity, was precisely the existence of the "endogenous technological dynamization nucleus" defined above; this ensured the continuity of a process of assimilation, learning, adaptation and innovation functional to domestic needs and potentialities. It was this "endogenous technological dynamization nucleus" that oriented import substitution and accounted for its progressing simultaneously with a gradual generation of exports supported by a systematic learning process.

In countries abundantly endowed with certain natural resources, even if the domestic markets were small, the learning of technology implied an aggregation of intellectual worth which made it possible to reach levels of excellence in respect of manufacturing techniques and of the equipment required for exploiting and processing the natural resources in question, as well as to find new uses for them and new designs connected with their exploitation. This is the position, for example, of the Nordic countries which are of considerable relative importance in international trade in manufactures, technologically linked to the endowment of natural resources. The comparative advantage built up with the help of domestic creativeness on the basis of natural resources in small markets is the practical expression of the existence in those countries of the element defined as an "endogenous technological dynamization nucleus", upon which pivots the viability of the national aim of survival and strengthening of their relative significance in the international context.

The same thing may also be noted in countries lacking natural resources: such is the case of countries like Japan and its former colony, Korea, in which it was precisely the relative shortage of natural resources that gave most impetus to the process of innovation needed in order to make up for this insufficiency through the capacity to compete internationally in the phase of processing and manufacture. It was a matter of facing the challenge of survival and self-preservation as national entities; in the countries in question, the modernization of agriculture, at different rates and with different degrees of intensity, preceded and then accompanied the industrialization process, just as in the Nordic countries and those that gave impulse to the first and second industrial revolutions, i.e., the United Kingdom and the United States. In this second group of countries, which followed the course of modernization "from below", the relative weight carried by the market as against the State was greater than in the former group. In Japan, whose industrialization was late, and in Korea, where it was even later, the State played a decisive role in the articulation and modernization "from above" of the various actors' and sectors' activity, which proved functional for this transcendental national purpose of surviving and raising the level of living of the population: a purpose strengthened, in both instances, by manifest geopolitical motivations. The initial export of light manufactures, as in the case of protection, served to provide an apprenticeship period which was to make it possible to move on gradually to more technology- and capital-intensive manufactures. But the decisive element in this evolution was the work of assimilation, learning, adaptation and subsequently innovation: factors of crucial importance for the attainment of international competitive capacity, which is in its turn one of the determinants of national "survival".

/The explanation

The explanation of the part played by the countries in question in the international market is largely to be found in the greater priority they accorded to the learning process and the construction of technological infrastructure, as well as to its linkage with the productive sector, and in the systematic policy of support for small and medium-sized enterprises organically connected with the leader enterprises. One of the basic requisites in all these experiences was subordination of the private interests of the social sectors exercising leadership to the national interest, an attitude which fostered a feeling in the rest of society that although to begin with the position in respect of wages and salaries and income distribution was inequitable (to a degree comparable with the situation in Latin America), there was room for hope that under the aegis of that leadership, not entirely averse to coercion, but daring, austere and seen to be identified with the national interest, the subsequent evolution of the economy and of society would gradually tend to even things out.

Financial intermediation, which unquestionably took different forms in Germany, Japan and Korea, nevertheless had in common in those cases the fact of having been systematically at the service of an energetic policy of industrialization, innovation and promotion of international competitive capacity. This common feature seems to have been of more importance than the differences with respect to the public or private character of such intermediation or the practical form of linkage between the financial and industrial sectors; in one instance industrialization was led by a financial sector committed to industrial development and to the long-term view; in another, the function of the financial sector was to support the leadership exercised by the industrial groups themselves. In the case of Korea, up to the beginning of the 1980s, its function was an almost exclusively public one of support and priority channelling of resources, subordinated to the strategic objective of backing up the growth and technological apprenticeship of the national private groups which were the driving force in that country's industrialization. As an example of the pre-eminence of investment over consumption, it is worth noting that up to 1981 the colour television sets manufactured and exported by Korea were not sold on the domestic market, in order to prevent any decline in family rates of saving.

What has been said of the linkage between financial intermediation, the State and the industrialization process sheds particular light on the reservations that must be borne in mind with respect to hard-and-fast recommendations concerning the paradigmatic function of the market. Its function was indeed important in those historical experiences in which modernization "from below" generated a pattern of social organization characterized by a relative symmetry in access to economic and political power which culminated in democratic institutions compatible with the political alternation that is based on a high degree of consensus regarding the merits of the system in force. In cases of "late" industrialization, the weight carried by the State in the development process was decisive, and much has been written on this subject. It is of interest to point out that in those cases in which, as in some European countries and in Japan, democratic institutions were introduced after the Second World War, political alternation is not yet an established practice.

In societies characterized by asymmetry in access to knowledge, information and economic and political power, when an attempt is made to impose "from above" (or on the

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basis of doctrinaire considerations) a central role on the market and a subsidiary function on the State, concentrative and speculative movements are generated, with destabilizing consequences which, paradoxically, induce intervention by the State and the enhancement of its role, even beyond the limits it had observed in the preceding phase.

From the foregoing considerations it can be seen that the linkages between the State, the market and industrialization strategies are a subject on which it is hardly possible to formulate cut-and-dried recommendations which ignore national specificities in the social and political spheres. The diversity of situations within Latin America is so obvious that, given the level of abstraction and generality at which this document is presented, all that can be offered is a very modest methodological suggestion, prompted by recent empirical evidence that, in everything concerned with stimulating the insertion of national enterprises in the international context and making this insertion technologically and financially viable, the State has to perform a decisive steering and catalytic function. With specific reference to the technological sphere, it might be asserted that in view of the peculiar features of technology, which is at once a good and a service, and the acknowledged distortions that characterize the international market in which it is traded, the function incumbent upon the State is one of guiding and articulating the innumerable private actors who participate in the technological development process on which international competitiveness is based. As regards the financial dimension, the contribution of the governments of the OECD countries to the adjustment process in their industrial-technological systems is an unequivocal pointer which Latin America cannot disregard.^{17/}

It is obvious at a glance that the capacity to generate industrial exports clearly reflects the "quality" of industrial development, and that an industrialization process capable of gaining and retaining a footing in the international market for its manufactures is "better" than one which fails to do so. It should not be inferred, however, from this almost superfluous assertion, that the problem can be resolved by assigning to export promotion a "quasi-magical" function in the rectification of the inherited shortcomings that have been accentuated in the recent time of crisis. Even if the criterion is adopted that industrial exports measure, up to a point, the success of the industrialization process, the real problem --theoretical and practical-- consists of identifying the combination of measures, instruments, policies and institutions, at the macroeconomic, sectoral, regional and even microeconomic levels, which can gradually shape production systems and institutional frameworks endowed with the capacity for learning and innovation: an issue highly relevant in this phase of transition between industrial-technological patterns at the international level. Neither sheer chance nor the greater or lesser wisdom of the economists concerned can explain why so few cases of "late industrialization" are geared to exports.

The non-existence of an "endogenous technological dynamization nucleus" in some countries of the region and its precarious nature even in the larger and more industrially advanced countries accounts for the fact that the designing of products, processes and manufacturing techniques has been dysfunctional in relation to internal needs and potentialities. It also explains the existence of structures of production fragmented in relation to the size of domestic markets, the inadequate exploitation of

/available agricultural,

available agricultural, forest, fishing and mining natural resources and the inappropriate energy base supporting the industrialization process. This and other factors, which are linked, in the last analysis, to the way in which Latin American social formations came into being and to their evolution in recent decades, as analysed in chapter I, suggest that with the exception of a few national cases in particular periods, the industrialization process took place in a setting characterized by the precariousness of internal consensus and leadership, the predominance of private interests over the national interest, and a generally high degree of social fragmentation and economic exclusion which accounts for the "frivolous" character of import substitution and for the scantiness of industrial exports (the industrial exports/industrial production and industrial exports/total exports ratios are strikingly lower, even in the most advanced countries of the region (such as Brazil) than in other countries and regions with a comparable degree of industrial development).

In short, when the "endogenous technological dynamization nucleus" does not exist or is insufficiently consolidated, an industrialization process is generated whose foreign exchange balance is far more unfavourable than it could have been, given the same market size and the same endowment of the various actors, in conditions in which the entrepreneurial function, whether public or private, is accorded a clearly-defined value and relative importance. This more unfavourable foreign exchange balance originates in the relative incapacity of local production to compete internationally with respect to potential imports and external markets, which is at once reflected in and strengthened by an unnecessary use of foreign exchange consequent upon the inadequacy of the domestic creative effort. In practice, this consolidates a structure of production which uses unnecessary imports under the head of design and information, both in respect of the design of energy, transport, health, communication, housing, education and food systems and as regards that of industrial products functional to local conditions. The projections of the deficiencies in this sphere are highly intensive in the following aspects: i) inputs, since due advantage is not taken of local raw materials, foodstuffs and energy resources; ii) manufacturing techniques, with reference both to the inappropriate use of manpower and to failure to make the most of traditional organizational patterns which can be modernized without detracting from their merit; and iii) capital goods, not only as regards those that could be locally produced, but also from the standpoint of the squandering of resources on capital goods that are immobilized in an atomized structure of production with a high degree of idle capacity, as well as from that of over-spending on armaments.

The insufficiency of industrial exports and the use of unnecessary imports are two sides of the same coin --the absence of creativeness-- which mutually reinforce each other and converge in the explanation of the external bottleneck. It is idle to suppose that a "high" exchange rate, accompanied by institutions specializing in export promotion and a drastic contraction of domestic demand, are enough to remedy the aforesaid shortcomings by themselves, although they obviously help to discourage imports --not necessarily those that can well be dispensed with-- and to encourage the export of goods that do not require domestic technological effort and of surpluses released by the contraction in domestic consumption. Rationalization of the existing structure of production, correction of the industry/agriculture asymmetry, selective channelling of financial resources towards those sectors that act as motors of industrialization (which

/obviously vary

obviously vary according to the countries concerned) and the articulation of the educational system, of mass communication media and of the scientific-technological infrastructure with the productive system are some of the basic requisites for launching a domestic innovative process capable of contributing to a firm and sustained enhancement of international competitiveness, in respect both of import-substituting products and of those intended for export.

The advanced countries, and those that came late to industrialization but have successfully penetrated into the international markets, have clearly understood that concerted and sustained national action, with long-term projections at the technological level, is a basic requisite for building up future comparative advantages. Apart from the above-mentioned national technological policies pursued by the advanced countries today, two recent and irrefutable cases in point, entirely different from each other, are afforded by Korea's current policy in the electronics sector and, in the United States, by the policies of the various States that compete for the location of high-technology enterprises in their territories. In both instances there is visible evidence of a long-term outlook, the presence of the public sector in the sphere of definition of priorities, preferential channelling of financial resources, and the existence of tax incentives, of a scientific and technological infrastructure and of activities providing information on human resources --all this in close articulation with the national enterprises, large, medium-sized and small, that are actual and potential leaders.^{18/}

Awareness that in face of the economic crisis and external constraints it is essential to introduce innovations in the pattern of industrialization in a direction compatible with what has just been said is beginning to sprout in some countries of the region: it is exemplified in the rationalization of the motor-vehicle sector --one of the leaders in the preceding phase of industrialization-- with the central objective of improving the foreign exchange balance; in the launching of rationalization programmes in respect of fuel consumption, an area in which the region, with the exception of Brazil, has shown great inertia; in the support given to local production of basic foods for domestic consumption, a matter of considerable significance both in the context of external constraint and as regards its contribution to making democratization viable; in the establishment of schemes for concerting the activities of the public and entrepreneurial sectors, particularly in the sphere of export promotion; in a decrease in protection in countries where a measure of inertia in this respect was predominant, and an increase in it in those where it had been drastically and indiscriminately reduced; and, lastly, in a widespread conviction that articulation between the scientific and technological systems and productive activity is a vital necessity for overcoming external constraints. Fragmentary, piecemeal and still insufficient as they are, these measures and convictions are auspicious signs of incipient internalization of the idea that simultaneous action on a number of fronts is essential in order to move towards a new pattern of industrialization, functional to the task of satisfying needs on the basis of systematic development of domestic potentialities which at the same time, however, is compatible with the requirements of the international market. To this end, it must be recognized that the complexity of the challenge transcends both the proposal to eliminate the inefficiencies of industrialization by casting doubt on their existence, and the attitude which pins its hopes of correcting inefficiencies on the perpetuation

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of the former industrial pattern over as many decades as it takes for the term "late" to become biologically inapplicable. The first of these options has given empirical evidence of its results, and the second is totally unrealistic, even if only because of the all too familiar external constraint.

The educational dimension and the use made of the mass communication media, supported by the most modern techniques available, can exercise a far more potent influence on the attitude of the various social actors taking part in the economic process than any one of the individual instruments of trade policy. This fact, which is analysed in the paragraph on technological development, illustrates the need for reservations with respect to simple and therefore alluring options which concentrate attention on particular trade policy instruments. The perception by society as a whole of the "national" vocation of those exercising leadership, the social valuation of creativeness and of the entrepreneurial function in a broad sense of the term, are decisive factors as regards the possibility that the economically difficult conditions in which the greater part of the Latin American population will live during the next few decades may be accepted as a legitimate path towards a more favourable future. Whatever the initial income distribution situation in the different countries of Latin America, the decisive factor is the achievement of forms of social concertation which will legitimize leaderships so as to avert the risk that in this time of economic hardships fragmentation may be accentuated and even, in some cases, the survival of the national states may be open to question.

From this standpoint it is clear that the strategic options are not, as is very often maintained, merely those of either export promotion or import substitution. The real options could be described in somewhat different terms: i.e., an endogenous nucleus capable of incorporation in the technological dynamization process which is the necessary requisite for gaining a foothold in the international market, versus delegation to external agents of the responsibility for defining the countries' present and future structure of production. By this latter course it would seem possible only to promote exports of natural resources, as long as demand for them existed or until they were exhausted; manufactures that necessitate the existence of social conditions permitting exceptionally low wages (an inevitably ephemeral circumstance); or, lastly, those manufactures that are technologically obsolescent and, by definition, have very poor prospects of growth.

The option of the "endogenous technological dynamization nucleus" does not exclude production and export of some of those goods, but, in addition to clear awareness of the temporary nature of their contribution, effort is concentrated on creating conditions for the construction of production flows in which levels of relative excellence are attained whereby depth and solidity can be imparted to the countries' presence in the international markets. According to this criterion, the promotion of "easy exports" and "easy import substitution" may, in specific sectors, make a circumstantial contribution to the necessary learning process which accompanies the development of domestic creativity. But, in contrast to what has happened in the industrialization model followed hitherto in Latin America, they are to be regarded as a means of creating conditions for domestic production to achieve genuine international competitiveness. In the preceding model they constituted an end in themselves, which resulted in the

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consolidation of inefficiency, both in the conventional acceptance of the term and in the sense in which it is used here.

The desired goal is that the Latin American countries should emerge from this period of transition with a well-knit and technologically strengthened "endogenous nucleus" and with the capacity to penetrate firmly into international markets, which, after the present phase of transition, will once again recover their dynamism. In the next decade, the comparative advantages of the future will have to be generated, and for this objective to be attained it is essential that planning, besides including long-term time horizons, should systematically introduce, at a low level of aggregation, the technological dimension.

Hence it may be inferred that the assignment of strategic priority to the development of industrial exports and to the rationalization of the inherited structure of production which is a requisite for making the foregoing objective viable --issues on which there is a consensus-- is a policy that must be pursued to the full, with awareness that the task embarked upon is of national dimensions, and far transcends the sphere of trade policy and even that of the economy as a whole. As has been maintained throughout the present document, it is a matter of undertaking a new "style of development" which will be favourable both to inward-directed articulation and to the improvement of external competitive capacity. International experience suggests not only that these are by no means polarized and antithetical options, but, on the contrary, are requisites each of which is strengthened by the other.

6. Elements for the design of technological policy

a) General criteria

The experience of the advanced countries and of the more recently industrialized countries of South-East Asia makes it perfectly clear that the dynamism and solidity of the industrialization process is indissolubly linked to the development of the scientific and technological capacities of the societies concerned.

The dubious features of Latin American industrialization analysed in the preceding section reflect, and at the same time are explained by, the technological lag which is observable, in different degrees of intensity, in the various countries of the region.

The diffusion throughout society as a whole of the vocation, concerns and values of technological activities is a task of greater complexity and importance than the physical expansion of industrial output. Latin America's relatively rapid industrialization and the corresponding technological lag fully corroborate this assertion.

Thinking about new industrialization patterns involves applying new criteria in approaching the question of technological development and taking into account in its full magnitude the complexity and vital significance of this issue. It is a question of integrating technological policy into the more general spheres of economic and industrial

/policy, education

policy, education and the mass communication media. Technological preoccupations, vocations, methods and "fantasies" draw sustenance from the educational process, are amplified and channelled through the forms of social organization and through the mass communication media, are stimulated or inhibited by economic policy and find concrete expression through industrial policy. However, liberal and carefully elaborated may be the instruments of technological policy proper, to which reference will be made later, their impact is largely conditioned by the broader areas mentioned. Clearly, in Latin America the content and partial outreach of the educational process is far from constituting an adequate foundation for social diffusion of the vocation of technical progress, while the favourite topics and heroes of the mass communication media are seldom coincident with the great national challenges, and can hardly help to stimulate internal technological relations and raise the value set on them. Economic policy, in consequence of the crisis, has given preference to short-term considerations and relegated to a secondary plane the precarious industrial policy of the preceding phase. The contrast between this situation and that prevailing in the advanced countries and those of South-East Asia has been particularly marked in this recent period. The recurrent references to efficiency and technical progress as the fundamental answer to the crisis, and the rapidity of the social and industrial adaptation of the advanced countries in the last decade, could hardly be explained without due regard to the respective contexts of institutions and values.

A key element in the conceptual framework, on which it is considered necessary to lay repeated stress in approaching the subject of technology, would be the constitution or substantial strengthening of a nucleus formed by domestic agents, both public and private --producer enterprises, engineering firms, institutions of basic and applied research-- articulated around certain sectoral specialization axes identifiable both in relation to industrial prospects at the international level and to existing domestic potentialities. The existence of the "endogenous technological dynamization nucleus" affords the opportunity of making headway in the exploitation of natural resources or labour potential and adapting the "cosmic" consumption pattern to the specificities of local conditions.

It was the potent influence of this concept that enabled Japan, which as far as consumption is concerned has adopted as imitative an attitude as that of Latin America, to generate a structure of production that permits it to attain a trade balance surplus on technology-intensive products vis-à-vis the United States --the very country that was the source of Japan's technological inspiration. The latter fact is reflected in Japan's significant deficit with the United States under the head of payments for technology. This is also why countries like Sweden, Norway, Denmark, Romania, Finland, Yugoslavia, Bulgaria and Hungary, whose domestic markets are appreciably smaller than those of the large Latin American countries, have attained levels of international excellence in the fields of equipment and technology which, in certain cases, are directly linked with the processing of resources that used formerly to constitute the basis of their export trade.

In short, it is the weight carried by the endogenous nucleus that determines the degree of articulation of the industrial matrix and, consequently, its potential dynamism. Thanks to this nucleus, it is possible to bring the stock of technology

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obtained from international sources into harmony with national specificities. By virtue of its existence, strategic programmes and projects can feasibly be formulated which take into account prospective trends in technology, and on this basis a clear-sighted position can be taken up vis-à-vis linkages with the transnational corporations.

These are, implicitly, the considerations which prompt the governments of the developed countries to design generous support and subsidy programmes for technological development in the fields of electronics, telecommunications, genetic engineering, the search for new nuclear energy materials and for non-conventional sources of energy, and all those activities which are expected to perform a strategic function in the future. It is these acts of "voluntarism" and "State interventionism" that will determine the countries' comparative advantages in the future panorama of international economic relations.

As far as technology is concerned, all this is a very long way from the passive insertion model stemming from the concept of the subsidiary State, which involves not only smaller financial resources for institutions and other bodies engaged in research, but also the application of a strict self-financing criterion which, by definition, excludes strategic considerations. In default of a decision to strengthen the endogenous nucleus, options are reduced in effect to i) passive insertion in the international market, with specialization based on static comparative advantages, which in the case of most countries, would signify a return to the export of natural resources; or ii) extrapolation of the preceding model, which would mean that in the end the shortcomings mentioned would become still more acute.

b) Priority issues

As regards priority issues, it is thought useful to distinguish between three different situations characterized by the existence of: i) a set of spearhead technologies around which the future pattern of industrial technology is articulated at the international level, and the projection of which tends to spread throughout the whole of the sector producing goods and services and, consequently, to the following areas also (areas ii) and iii) below); ii) areas in which some Latin American countries have succeeded in setting up groups with an adequate critical mass, which are relatively integrated with productive activity and have achieved a measure of competitiveness at the international level; and, lastly, iii) various areas in which there is a manifest lag in scientific and technological infrastructure, as well as in its incorporation into the productive apparatus.

i) Spearhead technologies. Obviously, spearhead technologies are the basis of future comparative advantages at the international level, and on this account alone Latin America cannot shirk the responsibility of tackling these questions. That alone would be an extremely narrow approach, however, since this new scientific and technological base would have projections not only in international trade but also, and what is much more important, in the forms of organization of society and the satisfaction of its needs.

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The international references cited show that there is a consensus as to the importance of incorporating science and technology into productive activity. But the motivations behind this conviction differ widely in the various countries. In the United States, the Soviet Union, France and China, military and geopolitical motivations have undoubtedly played a significant role; in Japan the total lack of natural resources makes the international competitiveness of the manufacturing sector the key to survival. Japan's central effort has consisted in translating scientific and technological break-throughs into terms of new products, processes and manufacturing techniques that can strengthen their international position with respect to the durable consumer goods and capital goods which are at the core of world trade in manufactures. In India's case, the dramatic history of the succession of conquests to which it has been subjected has conferred a special value on military self-sufficiency (nuclear energy and arms manufacture); in the socialist countries, over and above the motivation linked to international competitive capacity which is valid for all countries irrespective of their social system, the shortage of manpower and the need to raise its productivity are specific motivations, apart from that of a military character already mentioned in connection with the Soviet Union and China.

For Latin America, it is a matter of giving thought to the strategic options for articulating science, spearhead technologies and society. In contradistinction to what happens in the industrialized countries, such motivations as lack of natural resources and shortage of manpower are of minimal significance or none at all; for the time being, fortunately, it is only in very few instances that geopolitical considerations carry any weight; as regards the motivation of enabling the manufacturing sector to compete at the international level, although this is obviously valid, it implies overcoming an institutional obstacle --the relative weakness of the domestic entrepreneurial sector in manufacturing industry-- which is a task that will necessarily take a long time and call for sustained effort. This general statement acquires different meanings and degrees of validity in the different countries of the region. Clearly, in those countries whose domestic market is large, whose manufacturing sector holds a significant position in the international context and which possess a consolidated market of modern national enterprises, the assertion calls for reservations which are not necessary in relation to the smaller countries where these conditions do not exist. In such circumstances it is of debatable value for the region to aim at univocal reproduction of the Japanese model, which concentrates attention on incorporating science and technology, through the establishment of national enterprises, and through new processes, techniques and products directed primarily towards individual consumption. It is undoubtedly vital to make a vigorous and sustained effort to strengthen entrepreneurs from the technological point of view and thus enhance their international competitive capacity. The foregoing observation does not mean, however, that the approach referred to should be the exclusive objective around which spearhead technologies and society as a whole are articulated. In this area there is a very long way to go, and what is maintained is that in constructing the linkage between spearhead technologies and society, in Latin America's case, a complementary criterion must be incorporated, based on the following considerations:

- a. The accumulated social shortages of basic services such as education, health, transport, communications, housing, food;

/b. The

- b. The existence of relatively sound institutional experience and a system which aspires to achieving nationwide coverage in each of these areas;
- c. The immense potential of spearhead technologies in the aggregate for significantly raising productivity in several of the basic services;
- d. The fact that in the advanced countries basic services needs are, in essence, satisfied, and that therefore an increase in productivity in such services necessarily leads to unemployment, with the consequent political and social effects. This situation is radically different from that of Latin America, where the necessity of expanding the coverage of the services provided while respecting the limitations of budgetary resources makes it likewise necessary to give an enormous boost to their productivity. For the reasons given above, the priority assigned in the advanced countries in respect of the incorporation of spearhead technologies into the productive apparatus will possibly be concentrated, following Japan's example, on the consumer goods which are the object of international trade, rather than on the provision of basic social services;
- e. The results attained by Latin America in integrating spearhead technologies into basic services would place it in the vanguard at the international level and would open up immense possibilities for co-operation with the whole group of developing countries, with the consequent repercussions in the sphere of politics and the international economy.

In the light of the foregoing considerations, a complementary strategic option that may be proposed is the articulation of spearhead technologies and basic social services as a springboard for the development of the scientific, technological, engineering and manufacturing base, around a dynamic nucleus of private, mixed and public domestic enterprises. The fundamental aim would be to link up vigorous development of genetic engineering with national health and food requirements, and to intensify the use of mass communication media in the educational process, both from the methodological angle and from the standpoint of content. Hence the very special importance of the education-communication media-science-technology interface.

The development of software and the mass teaching of computer programming at the urban and rural secondary level, combined with the use of hardware locally designed and produced in the light of the specific cost and simplicity requirements of the educational programmes, with a national programme of mass labour training, may fulfil a number of purposes: those of powerfully motivating a pre-eminently young population, expanding the coverage of education and training, raising productivity, and developing an industrial and technological capacity which in these specific uses will enable some Latin American countries to win a place in the international sphere.

In the health sector, the introduction of electronic medical equipment and of electronic data filing and processing systems is in its initial phase at the international level. In the special circumstances of the countries of the region, where mass public health systems with varying degrees of coverage exist, and where sufficient

/medical personnel

medical personnel are not yet available, it is necessary to define a specific functional strategy which will make it possible first to introduce advances in electronic medical equipment, communications and computerization, with a view to increasing the coverage and efficiency of the health system, and, secondly, to foster the development of domestic manufacture of the corresponding hardware.

In Latin America, owing to the size of the territories and the degree of national integration induced by public action, there is a considerable number of complex industrial systems in the spheres of communications, transport, the petroleum and petrochemicals industries, generation, transmission and distribution of electricity, aviation, railways, subways and telecommunications. These systems, despite the obvious specificities, share a common area of great interest from the technological standpoint, i.e., that of the hardware and software connected with regulation and control of the operational design of the systems in question, including the training of their operators. In view of the large volume of demand, the institutional experience gathered and the enormous technological interest of the subject, as well as the incipient supporting technological infrastructure, this is a matter deserving top priority. It might give rise to an integrated development programme for domestic production of hardware and software susceptible of articulation under a long-term scheme with the pertinent public entities.

Concurrently, whatever industrial effort were made in the field of hardware, it would be necessary to conceive and implement a vast software programme relating both to the design and to the manufacture of industrial equipment. International experience suggests that the dividing-line between hardware and software tends to become blurred, and it is idle to suppose that a country can make significant progress in one of these fields irrespective of the other.

ii) Technologies consolidated in Latin America. The first point that must be stressed is that consolidation is conditioned by the capacity to absorb the impact of the new technologies.

In this group can be included some agronomic specialities, certain disciplines linked to the energy sector, and civil engineering. In all these disciplines there is a critical mass, an acceptable degree of integration with production and localized manifestations of international competitive capacity. In these areas it would be appropriate, in the first place, to strengthen the existing nuclei, promoting a higher level of utilization of the technological base by the productive apparatus, although on different institutional lines in each case. With respect to agriculture, the building of linkages between research and the production sector seems to require a resolute articulation effort --in which an especially important role can be played by the regional and national development banks-- as part of the necessary process of linkage between industry and agriculture.

Much of the modernization of agriculture in Latin America has consisted in passive assimilation of the advances made in the agricultural sector of more highly-developed countries. Owing to the very characteristics of the packages of technology, their adoption has been possible for only a small number of enterprises and in only a few of the areas forming the agricultural space of the countries of the region. For this reason,

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over-mechanization and even over-utilization of chemical products in the case of some areas, units or crops are found side by side with the absence or sporadic presence of industrial inputs and means of mechanical traction in vast areas and in a considerable number of production units, with the resulting accentuation of heterogeneity among units and areas.

The main challenge to be faced in this connection --particularly for the countries in which there is still a sizeable mass of peasant farmers and medium-scale producers-- consists in developing technological options for the modernization of units of this type. It must be emphasized, however, that this does not mean what has come to be called, by way of reaction to prevailing trends, the quest for "peasant technologies" which, because of the somewhat bucolic approach to the problem adopted, run the risk of perpetuating low levels of productivity by constituting a veritable archeology of rural technologies. On the contrary, the aim pursued is to ensure adequate integration between scientific and technological progress --particularly in the biological and chemical sphere-- and the peculiar features of the logic of management of peasant-type units, by taking advantage, for instance, in the technical training of producers of this type, of the progress made in informatics to enlarge the outreach of the scarcer high-level technical and scientific resources, etc.

Generally speaking, the objective is to increase the productivity per hectare and per unit of input (especially with respect to imported inputs) in the production of essential consumer goods and exportable goods and to strengthen small and medium-scale units. Units of this type, by their very nature, could accord priority to labour-intensive methods rather than to mechanical processes which supersede manpower, in contrast to the preponderant tendencies of large agricultural enterprises. To attain this end, impulse should be given to an agricultural technology development policy whereby the specific problems raised by the increasing of production and productivity at the microlocal level could be linked, at successive levels of aggregation and generalization, with the tasks undertaken by national centres of scientific and technological excellence. This linkage could be effected through a network which, starting with local producers' associations, and passing through a whole gamut of intermediate bodies formed at the corresponding level of educational and experimental centres of regional scope, culminated in the aforesaid centres of excellence.

In the case of the energy sector, whose captive market is constituted mainly by public enterprises, the question would rather be one of considering the possibility of creating specialized centres and/or subsidiaries, or participating in multinational engineering enterprises by way of which the valuable technological wealth accumulated could be spread throughout the productive sector of the region as a whole.

In these three fields --agronomics, civil engineering and energy sources-- it would also be necessary to embark upon a systematic international promotion effort, designed with due regard to considerations relating both to the Latin American countries' international policy and to their economic and trade linkages.

iii) Backward areas. As regards the technological lag in the industrial sector, it would seem desirable to concentrate attention on at least three of its areas, in which

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the dephasing between physical production capacity and supporting technological infrastructure seems extremely pronounced: food, chemicals and capital goods. This state of affairs is all the more serious inasmuch as these are priority sectors from the standpoint of long-term development. In relation to each of these sectors it would be necessary to formulate regional, subregional and national development programmes for the scientific and technological infrastructure which take into consideration the incipient structure of this type existing in each of the sectors, the small group of national entrepreneurs involved in each of them, and the potential support that may be received from the public enterprises which participate in them, as main suppliers or users. It is of fundamental importance that these sectoral technological development programmes, which would include the definition of issues, resources, institutions and instruments, should be formulated with the active and co-ordinated participation of entrepreneurs, users, suppliers, academics, engineering firms, and officials of the various departments whose action affects the sector concerned. It is important to stress that in addition to the cumulative lag, account must be taken of the potential impact of the new technologies of each of the areas mentioned.

c) Activities and instruments

With reference to the activities and instruments of technological policy it is necessary to take as a basis the experience gathered in Latin America during the last decade, with its combination of successes and frustrations, as well as the experience of the advanced countries and of those of South-East Asia. Some priority fields are listed and outlined below:

i) Strengthening of the infrastructure, both scientific (research and postgraduates) and technological (establishment of norms, metrology, quality controls, information systems, training and technological research). In contrast to past practice, it is essential that subregional and regional co-operation be fostered and, very particularly, that the services existing in the larger countries of the region be shared with the other countries. The present external constraint tends to promote the articulation of the demands of the productive system with the potentialities of the existing technological infrastructure and may help to re-orient the expansion of this latter in the direction of production needs. At the same time, it may incite the various actors who are encountering technological obstacles, aggravated by the shortage of foreign exchange, to resort to solutions available in the region at a much lower cost. It is a matter of high priority to establish as soon as possible agreements and institutional mechanisms conducive to the viability of this alternative, in currencies of the countries of the region;

ii) Substantive and institutional integration of the instruments of technological policy into the sphere of industrial policy, and promotion of the direct participation of the public and private entrepreneurial sector in the design and evaluation of the policy in question. The application of this general criterion is of particular importance;

iii) Promotion of the necessary changes in the educational process and in the mass communication media conducive to the setting of a higher value on the efforts and results

/of domestic

of domestic technological innovation, while at the same time expanding and disseminating information on world scientific and technological advances. The search for functional ways of dealing with local needs and potentialities should be carried to great lengths and should be one of the guiding criteria of social communication. In this sphere there is abundant room for subregional and regional co-operation which may yield valuable by-products both from the teaching standpoint, and as regards affirming the feasibility and credibility of Latin American integration.

iv) Helping to reduce the costs of technological activities by means of credit facilities and tax incentives which cover both the research and marketing phases. It seems necessary to tighten up the linkages and co-ordination between the industrial development banks, the institutions providing technical assistance, the information services and the entities granting tax incentives. The disarticulation that was frequent in the past, encouraged as it was by the relative abundance of financial resources, is inadmissible in the circumstances that can be predicted for the coming decade. In the same direction, a stimulus must be given to co-operative technological research efforts on the part of enterprises in the same branch of industry. The industrial development banks and the large public user enterprises, in specific sectors, can act as effective catalysts. International experience suggests that this is particularly important in the case of small and medium-sized enterprises, which in this period of technological transition have shown great vitality in the advanced countries. In the case of Latin America it seems indispensable that supporting information and technical assistance for small and medium-sized industries should be articulated around such key variables as the purchasing power of the big public and private enterprises and the availability of financial backing;

v) Lessening the risk inherent in technological activities by the following means:

- a) the creation of a stock of risk capital, at present virtually absent in the region, for these activities;
- b) selective protection in the domestic market for products incorporating technological innovations, particularly within the sphere of the purchasing power of large public enterprises, a priority instrument in the advanced countries;
- c) energetic support for the sale in international markets of locally developed products, processes and manufacturing techniques. While this last element might seem to be of little importance in most of the countries of the region, in successful cases it may exert a decisive ideological influence in a crucial respect: generating confidence in local creative potential at the national and regional level.

V. ARTICULATION OF THE STRUCTURE OF PRODUCTION

1. The structure of production and the new industrialization

a) Large and medium-sized countries

Having already defined the concept of efficiency underlying this reflection on "new industrialization", we shall attempt here to analyse the nature of the relations that should be established between industry and some of the other sectors, along with the internal content of the decisive branches in the industrial sector, so as to give more precision to this concept. Our aim is to devise a structure of production that will help to overcome external constraints (and in this way achieve high and lasting growth) while at the same time developing creative potential, both individual and in certain activities.

In dealing with the industrial sector we shall concentrate on two aspects of its internal content and four areas of its external relations. The former relate to the motor-vehicle and capital-goods industries; the latter, to its links with agriculture, the energy sector, mining and services. The relation between industry and services will be analysed separately later on.

Through the consideration of these aspects a summary can be made not only of the main characteristics of the industrial pattern outlined here but also of the insufficiencies, omissions and distortions of the previous industrial scheme. This certainly does not imply a disregard for the importance of other branches of industry than those mentioned; it is thought, however, that the branches selected for special attention may act as focal points for the reflection and interpretation of the concept of efficiency mentioned earlier, thus making it possible to characterize it in a synthetic and schematic form.

The food products branch, incorporated in the analysis of the relation between industry and agriculture, is regarded for the purpose of this reflection as the main branch of non-durable consumption. The main branches of durable consumption considered are those of motor vehicles and the production of capital goods. The food products branch represents the linkage between industry and agriculture; the motor-vehicle branch represents the industrial pattern which has inspired Latin American industrialization, while the capital-goods branch reflects the truncated technological character of the local version of the industrial pattern of the advanced countries. The leading role played by the motor-vehicle sector has been manifested in various forms, including what might be described as motor-vehicle-guided urban development. The capital-goods sector, which, as was noted earlier, plays an important part in the dynamics of the industrial system and in the incorporation of technical progress, constitutes to some extent the basic gap in the industrial pattern prevalent in Latin America.

The relation between industry and agriculture in Latin America reveals a peculiarity of this industrial pattern which gives it a very distinctive character: it is a "perverse" variant of the relation existing in the advanced countries, where the agricultural sector has been given very special protection, complemented by the accelerated growth of productivity, which has enabled the industrial sector,

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the main source of generation of foreign exchange, to maintain its leading position at international level. The peculiar relationship between industry and agriculture in Latin America, which has been largely responsible for the insufficiencies and great shortcomings that have built up in the food sector and which at the same time is linked with urban marginality (a feature characteristic of the countries of the region whatever their degree of industrialization), undoubtedly calls for preferential attention in the conception of a new pattern of development.

The relations between industry and energy are particularly interesting, first, because a transition may be taking place towards a new energy pattern linked with the industrial pattern, and, second, because of their strategic importance in relation to external constraints, since most of the countries lack the main source of energy hitherto used in the region, i.e., petroleum, and there is a shortage of this in the external sector.

In some countries of the region the linkage between industry and mining is of vital importance. Mining, in addition to helping to generate foreign exchange, has an enormous impact on the industrial sector: it requires machinery and industrial (chemical) inputs, and it opens up possibilities for advanced technical activities (automation and biotechnology). From this standpoint, subregional co-operation between Chile, Peru, Bolivia and other countries has enormous potential. In the processing of sub-products progress is still inadequate and there remains a wide range of possibilities to explore in the national and subregional sphere.

Action on these aspects identified as strategic has, in the first place, an important influence on the capacity to overcome the external bottleneck: a requisite for rapid expansion which constitutes one of the basic ingredients of the concept of efficiency already defined. As regards the other component of this concept of efficiency, i.e. creativity, it should be noted that the experience of the advanced countries indicates that the expansion of the domestic production of capital goods was the stimulus, among other benefits, of this very capacity for adapting products and processes to local conditions and was also a major source of training of skilled manpower for the industrial sector as a whole.

In the relations between industry, agriculture and mining, no less than between industry and energy, and between advanced technologies and society (this last a subject which is dealt with in discussing technological policy), the creativity dimension acquires particular importance. In the first case, it is a question of industrially processing natural resources available in the region, for which purpose local innovation is frequently irreplaceable. The industrial processing of the natural resources available in the region is still very meagre; this will perhaps be one of the main areas of this new industrialization. In the case of the industry-energy relationship, the indiscriminate use of petroleum in the development of the region, with the consequent neglect of water resources, coal and biomass, clearly demonstrates the absence of creativity through the failure to develop a form of industry compatible with the energy resources available. Moreover, in the whole area of new and renewable energy sources, associated also with the objective of industrializing agriculture, there is a wide range of possibilities of a decentralized type.

In postulating the need to intensify and reorient the articulation between agriculture and industry, we are referring to the gestation, strengthening or modification of various types of links existing between these sectors. The first and most obvious relates to agroindustry as a transformer of agricultural inputs: the measure proposed is to incentivate the production of essential consumer goods (food and certain types of clothing) and the export of agroindustrial products already available, along with others in respect of which comparative advantages could be obtained. In this way agroindustry may serve to initiate better forms of agricultural organization (thereby promoting its intensification), especially through associative enterprises managed by peasants and medium-sized agricultural producers themselves or, in the case of larger-scale initiatives, through joint ventures with public participation.

The second link consists in the role of industry as supplier of inputs and means of production to agriculture, which converts it into one of the most influential agents in the orientation of technological change. A retrospective view of the effects of this link in the past indicates that it has led to the passive incorporation of packages of technological elements which have accentuated the dichotomy of agriculture, intensifying the heterogeneity and external vulnerability of the productive systems. In this field, one of the main tasks is to correct this trend by seeking technological elements which will permit the modernization of the enormous mass of small and medium-sized enterprises (particularly in peasant agriculture), thus increasing their productivity. At the same time there should be a reduction in the imported component of the inputs and means of production used.

A third aspect of the potential links covers a different field from that of productive processes, since it relates to the creation of industrial activity in rural areas. This would take advantage of seasonal unemployment and would tend to absorb the labour force which would otherwise end up by increasing migration to the already overpopulated cities in the region.

In general terms, the redefinition of the links between agriculture and industry, along with the development of the measures complementary to this redefinition, should lead to a heightening of the value of rural areas.

To overcome many obstacles that arise in this field it would be necessary to take a set of measures relating to ownership and speculation in land and landed property. A basic feature of this industrial/urban/motor-vehicle-dominated industrial pattern has been precisely the rapid and unplanned growth of urban conglomerates, coupled with the ensuing speculation in real estate. Among the multiple consequences of this phenomenon there are two that directly affect potential progress towards a new form of industrialization: first, the high profit obtained from these activities, which discourages the channelling of private investment resources into productive activities, and second, the drastic deterioration in the "quality of life" of the urban population in general, as regards housing, environmental hygiene and transport. Users of public transport, who in the large cities of Latin America represent at least two-thirds of the population, spend on average between two and four hours a day travelling, usually in precarious material conditions. Obviously, as long as there persists a comfortable and lucrative "investment opportunity" in the field of speculation in real estate, it would be

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illusory to try to channel private investment on a large scale into the industrial or agricultural sector, especially in view of the external (and in some cases internal) pressures to open the domestic market to imports. As a result of the high and indiscriminate protection that has prevailed in the region, productivity in construction and commerce, in contrast to what occurs in the developed countries, is significantly higher than in the industrial sector. To some extent the high profitability of financial intermediation, real estate and commerce appears to be the yardstick for defining the protection needed to obtain profits in industry which are not markedly inferior. Consequently, far from applying the protection needed to safeguard infant industries, we are coming very close to what has been called "frivolous protectionism".

With regard to the second result --the deterioration in the "quality of life"-- this is the most striking illustration of the practical and day-to-day consequences of the motor-vehicle/urban/industrial pattern. From this standpoint, it is a powerful motive for reflection on a new form of industrialization, which should, among other objectives, meet the need to curb and modify this trend towards a deterioration in the quality of life. One of the criteria for evaluating the alternative proposals should be precisely their capacity to contribute to this end.

These problems present a major obstacle to the advance towards a new form of industrialization. They are clearly linked with the need for social and democratic regulation of financial intermediation, a subject which in some cases also implies innovation regarding one of the aspects of the neoliberal policy adopted in some countries of the region.

b) Small countries

In the considerations put forward concerning these strategic areas the main reference hitherto has been to the situation of those countries in which the aim is to readapt the preceding industrial model, especially with respect to the motor-vehicle and capital-goods sectors. Implicitly, these reflections have mainly been inspired by the medium-sized and large countries. It is of interest, therefore, to re-read these same considerations as they might apply to the smaller countries, where the new form of industrialization would necessarily be based on a larger proportion of rural population, an incipient industrial infrastructure and a heavier concentration on a smaller number of traditional export products. From this standpoint, an outline is given below of this new form of industrialization in countries which have a small domestic market but are disposed to favour schemes of co-operation and regional integration. In other words, the concept of "endogenous technological dynamization nucleus" is interpreted in terms of what it would mean for the small countries.

The modernization of agriculture should be a major fulcrum both for the substantial raising of rural living standards and for coming closer to the necessary food self-sufficiency and generation of foreign exchange. Not only should promotion be given to the traditional export lines but increasingly to dairy products, meat, fruit and vegetables and the set of processed products derived from these, together with the vast array of pharmaceutical goods, toiletries and chemical inputs of vegetable origin, which should reach increasing levels of technological complexity.^{19/}

/This implies

This implies a linkage, in the first place, with the group of services providing technological support for the industrialization of agriculture 20/ with the different branches of application of chemistry to agriculture 21/ and with increasing activity in the metalworking sector: the production of implements, equipment and industrial installations for food processing, and also for making use of biogas.

The other two aspects of the integral industrialization of natural resources relate to the endowment of forestry and fishery resources, which should be able to take full advantage of the international markets. In both cases, it would signify advancing both "forward" --final products with increasing degrees of processing-- and "backwards" --promoting the metalworking support sector, including installation and repair activities and the manufacture of small fishing vessels.

The special justification of this new form of industrialization of the main natural resources of small countries lies in the conviction, amply corroborated by international experience, that what makes the utilization of natural resources important and permanent is precisely the local capacity to make creative advances in the industrial activities associated with them. The countries which lack natural resources yet are able to compete in the international markets precisely because of their creative contribution in the different phases of processing represent an extreme example of this capacity.

Development of hydroelectric energy, in addition to its intrinsic advantages from the energy point of view, can lead to major mobilization and training in the construction sector. Together with the construction of housing and the public works needed to reinforce the transport infrastructure, vital for the convergence of efforts in the different zones of the country, it represents for a certain period an important factor in the generation of zonal employment.22/ The dynamizing effect of this activity is, however, by definition temporary, and hence it should be assessed as a factor of initial mobilization and not as a permanent dynamizing resource.

Agroindustry and construction activities could be articulated in a growing and selective degree with the metalworking sector. This last, in addition to the components already mentioned (implements, equipment and installations for agroindustry, repairs, manufacture of small vessels, metal structures and products for construction), might include the assembly of certain transport equipment and the production and repair of parts and components.23/ This group corresponds to investment products for the metalworking sector, which would be complemented by durable consumer goods produced in this branch, limited to those of mass consumption.24/ The magnitude and importance of the metalworking sector could be rapidly increased in terms of its contribution to the training of manpower, the internalization of the effects of the investment process, the substitution of imports and the development of the capacity of the region to exploit to the full its natural resources.

The advances in the metalworking sector would lead to parallel development in certain areas of the electronics industry, such as some mass-consumption electrodomestic branches, the assembly of communications equipment and, subsequently, control and computation equipment associated with the modernization of public administration and the automation of certain agroindustrial processes. The possibilities open to

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the small Latin American countries in this sector are clearly bound up with the training of technical personnel in systems design, to enable the optimum use to be made of imported equipment and the establishment of information processing systems adapted to their particular needs. The interconnected electrical system could constitute the central nucleus for systems design, which might be used later in other activities, such as transport and communications. The assembly industry should be viewed mainly as a means of apprenticeship and training of manpower, rather than as a source of foreign exchange.

In this industrial strategy the main function of agroindustry (including the traditional crops of the region) would be to provide a surplus and generate purchasing power abroad, at least during an initial period, as well as guaranteeing self-sufficiency in food. The construction and metalworking industries would internalize the effects of the investment and the increased level of domestic activity. The metalworking industry, together with the infant electronics sector, would be the basis for raising productivity in the medium term. The transfer of surpluses would be channelled through the financial system and foreign trade, which would call for new forms of social regulation in consonance with the nature of the social alliance behind this "new industrialization".

The energy base for the support of this strategy might include, in the first place, hydroelectricity, geothermal energy, biomass and also the resources of the hydrocarbon and coal sectors. In rural areas special attention would be given to the possibilities of biomass, small hydro-electric power centres and solar energy for uses that require low temperatures. As regards the transport sector, steps would be taken to analyse the possibilities of using alcohol derived from sugar cane as a fuel, to establish norms to encourage the importation of energy-efficient vehicles, and to build up a regional railway network. In the case of a group of small countries, the central pivot of energy integration would be the interlinking of their electricity systems, which would be complemented by a decentralized scheme for the utilization of biomass, small hydro-electric power centres and solar energy. The energy potential of some countries should be exploited to set up industrial activities whose main feature would be the intensive use of energy.

The impact of this modernizing process would be basically determined by the magnitude and intensity of the training and specialization of manpower. The small countries, profiting from the previous experience accumulated and the mistakes made in Latin America, can take a big step forward in a creative effort. Thus, they could make intensive use of the most modern methods of mass communication to promote a decentralized, flexible and functional training scheme; this would also have a notable effect in ensuring both national identity and regional integration.

There is an increasing consensus regarding the need to complement formal training schemes with training on the job and, in this connection, it is essential in certain phases of industrial processing to seek opportunities not only to earn foreign exchange but also basically to contribute to the generation of technological "know-how". It would not be a question of reproducing or amplifying the system of subcontracting or assembly industries, but of recovering the power to train in other domestic activities. The effect of internal diffusion, along with the distribution of the benefits of this approach, is determined by the selection of the industrial processes and, above all, by the intervention of domestic agents in the concept of linkages with the international counterparts: it would be necessary to explore linkages with medium-sized enterprises of different countries, underscoring as the central objective the training phase. From this standpoint, it is essential to distinguish and combine situations in which skilled manpower is available for incorporation in complex industrial operations, drawing a distinction with other situations in which the main factor is the abundance of labour and not its level of skill.

The legitimacy of new political régimes in Latin America, coupled with the will to develop their human and natural potential, should make it possible to apply co-operation programmes in fields such as health, education, the transport and communications infrastructure, the energy base, international trade and the development of co-ordinated activity in the sphere of scientific research and applied technology.

From these considerations there emerges a picture of small countries which modernize mainly on the basis of national efforts, complemented by regional co-operation; which advance in the industrialization of rural areas with schemes in accordance with their energy potential and natural resources; which seek decentralization in production and in the various zones, in the ambit of a common strategic conception whose essential criterion is the development of the creative powers of the population. To achieve this latter aim, they rely both on the training derived from industrialization and on that which can be obtained through the most advanced and modern techniques of information and mass communication. This would be the profile of the "endogenous technological dynamization nucleus" concept in the case of the small countries.

2. Linkage between the industrial and services sectors

a) Industrial decline or complementation

The notion of a transition from an era governed by the industrial sector to a future in which the services will be the leading sector, thus complementing the sequence agriculture-industry-services, is based on two simple and consequently attractive observations: that the increase of incomes generates a more than proportionate demand for services; and that the increase of employment in the services sector is therefore greater than that in total employment and, consequently, a growing proportion of employment is in service activities.

On the basis of this idea, policy recommendations have been formulated in Latin American countries which have actually advocated the dismantling of industrial plant to accelerate the arrival of the new era. However, various comments can be made in this connection which, taken together, change the lineal image of a temporal sequence from agriculture through industry to services, and some of these observations are summarized below. The increase by a high proportion in the services sector is explained by the transformations in the manufacturing sector resulting from the increase in incomes, the intensification of international competition and the expansion of the public sector. The services generated by these transformations maintain a close technical linkage with the industrial sector, with which their relationship is one of complementation, not substitution, as might be deduced from the original formulation.

Some of the transformations of the industrial sector which lead to the expansion of certain services are the following:

i) The expansion of consumption of durable goods, cars and electrodomestic equipment leads to the expansion of the services of financing, marketing, maintenance and publicity, and the jobs created in these activities rapidly exceed those required in the production phase.25/

ii) The decline in the rate of profitability of the industrial sector, which began at the end of the 1960s, explains the channelling of resources into those services associated with the so-called "paper enterprises" (paper entrepreneurialism), with a resulting increase in the sectors of commercial intermediation, finance, legal counselling and real estate.26/ The recovery of the profitability rate would tend to modify the proportions observed during the period of crisis.27/

iii) The shift of competition from prices to differentiation of products stimulates publicity and marketing services.

iv) Technical progress in the industrial sector leads to a shortening of the working day, which decreases the physical effort required both at the place of work and at home. This produces a corresponding increase in the demand for entertainment services, including the consumption of industrial-type goods and

/equipment (television

equipment (television sets, sports equipment, tourist installations, etc.).^{28/} The leadership of the United States in the leisure "industry" is a factor of vital importance in assessing its future insertion in the international economy.^{29/}

v) The heightening of competition at the national and international levels stimulates specialization in the production of goods and services previously incorporated into the enterprises, which are now converted into independent entrepreneurial activities: computation services, engineering enterprises, management of financial activities, etc.^{30/}

vi) The internationalization of industry leads to the internationalization of allied service activities, which explains why it is precisely those countries which are most actively engaged in providing services abroad that are the most insistent in seeking the liberation of international trade in services.^{31/}

vii) The systematic expansion of the public sector in the industrialized economies, resulting from a complex process combining requirements of legitimation and accumulation characteristic of industrialization and urbanization, generates on the one hand the expansion of certain public services such as education and health; on the other, through the growing regulation, it leads to an entrepreneurial reaction which gives rise to a wide range of consultancy services to support the enterprises in their links with the State.

It is evident from the foregoing that there is no "magic" relationship between increase in income and demand for services; instead, there is an economic and social transformation which simultaneously modifies the industrial sector and a wide range of services associated with it, through relations which are different but all aim at complementarity.^{32/}

b) Effect on employment

A large proportion of the growth of employment in the services sector is to be found in occupations with a low and stationary level of productivity: retail trade, health and education.^{33/} In these activities the level of prices has risen much more rapidly than in industrial activities, in view of the slow growth of their productivity. They have thus become a by no means negligible source of inflationary pressure and a factor which partially explains the slower growth rate of global productivity.^{34/}

In the case of the health sector, mentioned as one of the most notable examples of the relation between the increase in income and the demand for services, the rate of price increases has been so high (particularly in the United States, but also in other industrialized countries) that there is a growing awareness of the urgent need to introduce institutional and regulatory modifications which will increase productivity and contain the rise in prices.^{35/}

/In general

In general terms, it may be said that services of low and stationary productivity are a feature of the initial phase of an industrialization process, that is, of the introduction of "industrial logic", with the resulting presence of production equipment and processes inspired by industry. This can be clearly seen in marketing, health and training, and even in such "tertiary" activities as hairdressing and psychiatric clinics.36/

To the extent that the "industrialization" of low-productivity services continues, with the increasing support of information processing, the contribution of these activities to the growth of employment will tend to decline. The services with high and growing productivity, such as communications, financial services or wholesale trade, are characterized by their high degree of "industrialization" and a notably lower level of employment, which also grows at a slower rate than that of the low-productivity services.37/

c) Leadership in communications

From the standpoint of supply, the basic explanatory factor of the "information revolution", as it is called, is the rapid technological advance during the 1970s in the fields of microelectronics, telecommunications and computation; this explains the marked fall in the costs of transmission, processing, storage and reproduction of information. In other words, the technical progress achieved in some branches of the industrial sector is the basis for the simple and seductive slogan that in the future information will replace capital and labour as basic factors of production. It is no mere chance that the communications sector, the most "industrialized" of the services, is that which appears to be assuming the leadership in the transformation of the productive structure of goods and services as a whole. In fact, if leadership is judged by the set of indicators representing growth rate of production, employment and productivity, level of productivity and fall in relative prices, the only productive sector that records higher levels than the economy as a whole in these five indicators simultaneously is the communications sector.

In the manufacturing sector, the privileged position of the communications sector is shared by precisely those activities producing the "hardware" for information technologies, i.e., microelectronics, computation and telecommunications. Hence, if one had to identify the sector which appears to be the one with greatest impetus, one would find it at the intersection of those industrial sectors that produce the equipment for "information technologies" and the service activities which transmit, process and disseminate information. On the basis of these sectors, the current technical change spreads, at different rates and in different forms, to the whole set of activities producing goods and services. It is a question of the leadership of what might be called the "information system", which includes a symbiotic combination of physical and logical components (hardware and software).

/d) International

d) International insertion and industrial competitiveness

The international competitiveness of countries and their long-term prospects of insertion in the world economy continue to be determined, basically, by the efficiency of the respective industrial sectors, which generate the technical progress disseminated to the rest of the activities, influencing their respective levels of productivity. In a recessive period, a country can tackle the unemployment problem by expanding the services not exposed to international competition (an option in which Latin America has great experience), nonetheless, in the medium and long term the problem of international insertion continues to be determined by the competitiveness of industry and of the "industrialized" services associated with it.

The foregoing clearly shows the importance of incorporating into the medium- and long-term analysis of the new industrialization the changes taking place in the industrial sector, the growing complementation between the industrial sector and services, the trend towards the "industrialization" of activities previously classified as "tertiary", the emergence of the leadership of the "information system", with its hardware and software linked around the axis of communications, and the resulting importance of the competitiveness of the manufacturing sector in determining the degree and form of Latin America's insertion in the international economy.

3. The environment and natural resources

Latin America has always been regarded as a continent with great reserves of natural resources, and especially of renewable resources. Unfortunately, this appraisal has given rise to continuous spoliation, aggravated by the growing domestic pressure to use more resources, since the processes of socio-economic growth and transformation and population changes have not been accompanied by adequate management of the environment.

Natural wealth may or may not be transformed into resources, according to the socio-economic conditioning factors and the technologies prevailing. The dynamism of the resource concept acquires special importance in the face of situations like the present crisis. For a better assessment and utilization of the advantages that these resources may represent for the long-term development of the countries of the region, it is of interest to examine the basic criteria for their evaluation and management.

a) Prospection and evaluation of natural resources

The resources, and especially the reserves, of each Latin American country have become known because of the pressure to incorporate them into the market, whether domestic or external. Hence the prospection and evaluation of the natural resources is basically a result of domestic demand and of the insertion of each country in the world economy.

/The need

The need to explore new social and productive solutions provides the opportunity to convert into determined resources elements of wealth which were formerly not considered as such, and it likewise calls for the incorporation of all the scientific knowledge available in order to be able to understand and assess the resources obtained from the interaction of ecosystems or those which are at present overlooked.

Hitherto, most of the studies on natural resources have dealt with each resource separately. Thus, there are research studies and assessments on water, edaphic characteristics, climatic, geological or geomorphological resources, flora, fauna, etc. Certain levels of aggregation are obtained only when studies are made on the fitness of soils, since then the studies on soil are integrated with orographic, climatic and water-related aspects. Some levels of aggregation are also reached in studies of hydrographic basins; beyond that little progress has been made.

b) The ecosystem as an integral resource: attributes and interactions

The need to generate new resources and especially to enable the changes brought about in the development process to be sustainable in the long term makes it necessary in the future to consider and assess ecosystems as integral resources capable of being transformed and modified by man in such a way that they lose or acquire specific attributes.

The Latin American region has a multiplicity of "zones of life" (to use Thortwhite's term), which vary widely in their degree of human occupation. This has led to a heterogeneous mosaic of ecosystems, with very varied forms of intervention and transformation. The lack of understanding of the behaviour of these ecosystems, coupled with the urgent need to extract products for economic growth, has led to the deplorable environmental situation in which we now find ourselves.

The challenges in this field are very great. In the future, in addition to evaluating traditional resources (water, soil, climate, etc.), the ecosystems must be assessed as integral resources. It is a question of appraising the interaction of the ecosystem itself and, above all, its capacity to reproduce and maintain itself.

This makes it necessary to establish a policy of innovative scientific research, which will explore much more than the classic resources. It is of particular interest to learn about the behaviour of the ecosystem, its productivity, its resistance to and power of recovery from man-made disturbances, its capacity for fixing elements and retaining water, its trophic features and its capacity for natural controls, its main limiting factors and the possibility of changing them, etc. Research is needed on the way in which the available environment can be utilized, both in respect of traditional resources and the attributes pertaining to the ecosystems through their natural functioning. This represents the projection

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of the concept of the "endogenous technological dynamization nucleus" into the sphere of natural resources.

The growing degree of manipulation and transformation of the environment as a result of development has had an increasing ecological cost, whether from the overexploitation of the ecosystem (especially of the soil) or because of the effect of the residues created by production. The spatial effects produced in the interrelations between ecosystems are becoming increasingly serious. Consequently, the planning of physiographic entities is especially important. In particular, when water is the controlling factor, the planning of hydrographic basins can help to solve the complex problems which arise from the aforesaid conflicts, since it makes possible the integrated use of the territory and the complementation of its components.

The search for alternative sources of development calls for a strategy designed to appraise specific resources which hitherto have not been given the importance they deserve. The natural environment provides these resources. There are many resources in the natural environment which pass unnoticed owing to the shallowness of research studies and prospections. A typical case is that of certain species of trees, whose qualities can only be appreciated by research into their attributes, once they are identified. What usually happens is that these species, in contrast to those traditionally utilized, are treated merely as part of the mass of surface vegetation.

In addition to these neglected resources, there are many which are in danger of extinction in the region and should be protected and developed. Some species of woodland fauna are an example of this. The territories of some of these species go beyond the limits of individual properties, and this exposes them to elimination through lack of effective controls. In this way we are losing numerous resources which might help to satisfy basic needs, particularly in respect of food.

c) The management of renewable natural resources

In order to take advantage of the resources offered by the environment, which in our region are very rich and varied, it is imperative to modify the existing systems of exploitation of renewable natural resources, since they lead to continuous depredation and also reduce the advantages that might be obtained with adequate management.

This situation calls for two types of measures: one type seeking to modify the socio-structural framework conditioning the use of resources, and the other seeking to bring about radical rectifications in the technological model for adapting the ecosystems artificially for agricultural development.

With regard to the first set of measures, and apart from the classic problems of prices, credits and marketing, there is the serious problem of the structure of land tenure and its forms of regulation, which up to now have been responsible for negative land use practices and for the overexploitation of resources.

/The technological

The technological model hitherto prevalent in Latin America has led to a high degree of artificial modification of the ecosystem, copying agricultural methods aimed at securing high productivity of land and labour. These methods, however, need energy subsidies and high capital density per unit of area, while they diminish the use of manpower. The modification of the model is necessary, not only in order to make full use of the environmental attributes which exist and which derive from the natural behaviour of the ecosystems adapted, but also to promote a form of exploitation less dependent on packages of foreign technological elements and on energy subsidies, and more in line with the real challenges of agricultural development, such as the increase of productivity and the provision of long-term employment.

Two types of zones must face these challenges in the future in particularly adverse conditions: the arid and semi-arid zones and the humid tropical zones.

In the first of these, the fragility of the ecosystems has resulted in marked erosion, and the challenge now facing us is how to change this trend. Among the limiting factors the most important is water, so that the planning of hydrographic basins is of major importance. Many genetic resources which are at present overlooked could be extremely useful in improving the efficiency of energy and water use.

In the humid tropical zones the basic challenge is to create agrosystems through intervention of a degree and type that will sustain them in the medium and long term. The extraordinary quantity and quality of the resources which compose these ecosystems and the ease with which they can be damaged call for a radical change in the technological models now being used.

d) The management of non-renewable natural resources

The exploitation of non-renewable natural resources, in terms of the rates of extraction that may be determined, should be consonant with the development model adopted in a country. Our region has substantial reserves of metallic and non-metallic minerals, many of which, in view of their conditions, have been incorporated into the exploitation process.

The technological changes envisaged in relation to the substitution of some resources, the increased use of others and the notable innovations in the recycling of many of them demand strict planning on the basis of the projections and forecasts concerning these processes.

Since the exploitation of non-renewable natural resources involves a heavy financial outlay, it is essential to be able to rely to some extent on the recovery of these investments and the procurement of the surpluses needed for development.

Special mention should be made of prospection systems for these resources. To begin with, prospection studies must be made which increase the degree of certainty of the knowledge regarding the existence and amount of these resources. The need for this has been proved by the numerous negative experiences of premature depletion. It is therefore very necessary to have proven reserves, rather than probable or possible ones.

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Secondly, there must also be a strategy for the exploitation of these resources which improves and refines the methods of studying the economic feasibility of probable deposits.

Finally, in so far as these are justified socially and economically, our region should incorporate the great advances made in the recycling of metallic minerals in the developed countries.

e) Material and energy balances and energy efficiency

The energy crisis revealed the extreme vulnerability of Latin America to changes in the supply and price of energy resources. The different countries of the region are unequally endowed with energy resources, especially those deriving from petroleum. In most of the countries the burden of finding the foreign exchange required for petroleum imports intensified the economic crisis and energy strategies were established, based on the respective balances, with a view to generating a supply of resources to produce energy in keeping with the projections of demand. Almost all the countries drew up strategies based on greater production of both traditional resources and others from alternative sources. At the same time, however, major efforts were made to reduce the demand, and there were substantial modifications in the annual growth rates of energy consumption.

Development strategies, without exception, are based on increases in the use of energy. Limitations of finance and resources make it necessary to put policies in an order of priority. On the one hand it becomes necessary to improve the efficiency of energy use in order to reduce the energy/output ratio. On the other, the quest for alternative sources must be continued and reinforced. In addition to strategies promoting hydroelectricity and the use of nuclear energy, Latin America has good prospects of producing energy from biomass, whether through energy crops (alcohol from sugar cane, forestry plantations) or through the utilization of residues.

The other alternative sources, such as solar energy and wind energy, should also have a place in future strategies.

The energy crisis also raises doubts about the prevailing technological model for agriculture which, on the one hand, consumes a large amount of energy and, on the other, fails to make full use of the energy supply from the environment. As indicated above, this model needs to be modified so as to make use of the attributes and aptitudes of the ecosystems.

f) Future resources

A large proportion of Latin American territory is totally or virtually untouched. This gives the region an important place in the future scheme of world resources. Nonetheless, the degradation caused by continuous human occupation is gradually reducing these virgin zones. Recent technological advances, such as those of genetic engineering and others that may be foreseen, convert these spaces into producers of genetic resources. These genetic banks, on land and in the sea --until recently without any clear prospects of utilization-- are transformed by these technologies into highly valuable resources, which can bring with them unsuspected innovations. This corroborates the importance of protected areas, which in some countries are only valued as landscape, natural or tourist assets. Hence we need to extend and deepen scientific research so as to identify zones which are of interest on account of their uniqueness and diversity, which might provide resources for the future.

4. Agricultural development

a) A summary of the diagnosis

The productive structure of the agricultural sector has undergone profound changes as a result of many factors including the following: the rapid expansion of the urban-industrial complex (and with this, the growth and diversification of the domestic demand for inputs and products of agricultural origin); the maturing of investments in irrigation infrastructure and the development of genetic varieties which respond very favourably to fertilizers; and the expansion of the mechanisms of direct and indirect finance for agricultural production which, coupled with a considerable rise in the penetration of commercial and agroindustrial capital, have increased the use of more advanced technology, thus heightening the bimodal character of the existing agrarian structures.

Within this framework, from the beginning of the 1950s until the end of the 1970s, regional production grew at higher rates than those of the population, which in their turn were high: 3.7%, 3% and 3.3% in the three decades in question. The growth was even higher than in the developed countries and in the rest of the developing countries during the same period. Nevertheless, the growth of domestic supply (particularly of basic foods) was in many countries of the region lower than the effective domestic demand, thereby leading to considerable increases in imports, which in the period 1975-1980 reached higher rates than the annual average of 13%. This excessive permissiveness in importing goods probably discouraged the domestic supply.

The international insertion of regional agriculture --with the exception of two or three countries-- is characterized by a marked asymmetry: on the one hand the agricultural exports consist mainly of a small number of traditional lines for which world demand is non-dynamic (or even declining), and which also represent marginal components of the basic food basket both in the exporting and importing countries; on the other, food imports --which grew in the past decade by over 10% per year on average-- consist of basic elements for the national diets (cereals, oilseeds, dairy products, etc.) originating almost exclusively in the developed countries and controlled by a small number of transnational corporations.

These features of the dynamics of foreign trade have resulted in a relative diminution of the share of Latin American agricultural exports in world trade, in a growth of the region's share in imports, and in growing vulnerability of the national food systems, above all in some key branches in which an important and increasing part of the domestic supply depends on the volumes imported. This is the case with wheat (62% of which is imported, if Argentina and Uruguay are excluded) and oilseeds (33%).

In the field of foreign trade, the repercussions of the world economic crisis have been immediate and important. On the one hand, the growth rate of the volume of food exports fell by almost 50% and the growth of imports declined by close on 60% in relation to the average values of the past decade, so that these rates stood at 1.9% annually for exports and 4.2% annually for imports in the period 1978-1982. Additionally, there appears to have been a downturn in levels of fertilization, probably as the result of reduced imports and the higher costs of imported inputs,

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which has meant that the use of fertilizers per hectare under crops has fallen by 18% between 1980 and 1982. Although no specific figures are available, the foregoing suggests that there was also a fall in the importation and acquisition of machinery and other means of production in the agricultural sector.

To the problems arising in connection with domestic demand as a result of the recession and domestic supply owing to import restrictions must be added the contraction of the growth rate of external demand, which has been due both to the recession proper and also, and in particular, to the persistence and even intensification of measures to protect national agriculture in the developed countries.

b) Main objectives

A strategy which represents an alternative to the passive acceptance of the trends indicated in the diagnosis is to give top priority to two great objectives: first, the eradication of rural poverty, and second, the reduction of external vulnerability.

The eradication of rural poverty is merely the expression, in a specific sphere, of the national aim of eradicating poverty in all its various manifestations. The magnitude, location and determinants of rural poverty are, at this stage, too well known to imagine that this can be made to disappear in a reasonable period without decisive action on the part of the State.

The significant reduction of external vulnerability, in product lines and production processes which are crucial from the standpoint of the basic needs dependent on agricultural production, is an aim directly linked with the form of insertion in the international economy and in this sense also constitutes a specific sectoral aspect of the more general objective of the quest for autonomous development. Since it is a question of goods associated with the satisfaction of the most basic needs, however, the reduction of external vulnerability in this field acquires particular importance.

c) Food security as an integrating objective

The two objectives mentioned above form an integral part of another objective which goes beyond the confines of agricultural policy and, strictly speaking, concerns the development strategy as a whole. This is the quest for food security, which FAO recently defined in the following terms: "The final objective of world food security is to ensure that all people have, at all times, physical and economic access to the basic foods they need... Food security should have three specific aims: to ensure the production of an adequate quantity of food; to achieve maximum stability in the flow of such food; and to guarantee access to the available food by those who need it".

In other words, it is a question of advancing in the establishment of national food systems --these being understood as the set of socio-economic relations existing from the process of primary production to the final consumption of the food-- which would meet the following requirements:

/i) To

i) To be sufficient, in the sense of generating a domestic food supply which in volume and composition will satisfy both the effective demand and the basic needs of those sectors which, through income or other problems, cannot convert them into market demands.

ii) To be stable, in the sense of possessing mechanisms which will neutralize cyclical fluctuations in production volumes and prices, particularly in the case of those products which constitute important components of the diet of the majority sectors.

iii) To be autonomous, in the sense of reducing to a minimum the vulnerability of domestic supply, as regards sufficiency and stability, to phenomena generated in the external market.

iv) To be sustainable in the long term, in the sense that the conditions of sufficiency, stability and autonomy must not be achieved at the cost of such exploitation of natural resources (renewable and non-renewable) as to make it impossible to maintain these conditions in the long term.

v) Finally, and most important, these systems must be equitable. By its very nature, this concept is ambiguous, but nonetheless, in the existing context of the countries of the region an acceptable definition in this sense would be one which in the first place ensures the universal achievement of indispensable minimum nutritional levels and, in the second place, prevents the consumption of luxury foods on the part of certain sectors of the population from adversely affecting one or more of the five attributes indicated.

d) The main processes of an alternative agricultural development dynamic

To achieve the objectives put forward, the set of policies directed to the agricultural sector must aim at the creation and maintenance of a development dynamic characterized by the following set of processes:

i) Reversal of the trend towards heterogeneity of agricultural production. For most of the countries of the region, this means the modernization and strengthening of the peasant economy, which implies an assurance that access to productive resources (especially land, water, inputs and implements) is made available in amounts and on conditions which will permit at least the satisfaction of basic needs and the autonomous control of production and marketing by this sector.

It should be noted that, since peasants are at the same time important producers of basic foods and major constituents of the rural poor sectors, an improvement in their levels of production and productivity has the twofold objective of increasing the supply of foodstuffs and of eradicating rural poverty. If we add to the foregoing the possibility of employing in this sector technological options which are more intensive in the use of labour and less intensive in the demand for imported inputs per unit of production, we see the close correlation that exists between the strengthening of peasant agriculture and the achievement of food security as defined above.

/ii) Selective

ii) Selective reorientation of the transfer of surpluses. The generation of a process of homogenization of production, especially within the framework of the constraints imposed by the crisis, implies a sustained period of retention of the surpluses deriving from the agricultural sector or of transfers of surpluses not only from the non-agricultural sectors to the agricultural, but also from the modern agricultural sector to the backward but potentially dynamic sectors of peasant agriculture, and to other dynamizing activities which are located or could be located in rural areas (see point iii) below). The foregoing, of course, should be tackled in such a way as to produce in the agricultural sector as a whole, in reasonable but in no case very short periods, first of all the capacity for self-support and then the capacity for the generation of transferable surpluses.

The mechanisms for producing the proposed reorientation are very numerous and, in view of the different forms they would take in each of the national experiences, we shall not specify them here. It is sufficient to say that they range from differentiated price and credit policies (to which reference is made later on) to the reallocation of public expenditure, especially as regards the magnitude and characteristics of investment in the infrastructure (small hydraulic works, neighbourhood roads made by local labour, small collection centres for producers' organizations, technological research and diffusion of information on the subject of peasant products).

iii) Industrialization of agriculture and revaluation of rural space. Part of the resources arising from the reorientation of surpluses --which will vary from country to country-- should be directed to the development of rural industries of different sizes, preferably those which can be efficiently articulated, through co-operatives and associative enterprises, with peasant production. The aim would be to enhance the value of peasant production and to offer employment (complementary to agricultural activities proper) in industrial occupations not necessarily associated with the processing of agricultural inputs. It is a question, on the one hand, of achieving the spatial reorganization around family agriculture, but at higher levels of organization, of a series of activities which originally belonged to this agriculture but were hived off, not only sectorally but also spatially, in the process of division of labour and specialization. It is also a question of promoting the decentralized development of activities which, although not concerned with the processing of agricultural inputs, can be integrated with this through the labour markets, with reciprocal advantages and great social benefits in contrast with the hyper-urbanization and high industrial concentration which characterize most of the countries of the region. Naturally, the integration of industrial activities will need to be accompanied by a coherent policy on transport, education, health and recreation.

The experience of Europe and Japan in building links between peasant agriculture and agroindustry, and between small farming and industrial work of different types, provides examples of the efficacy of this type of option.

iv) Reversal of the asymmetry as regards the international insertion of the countries. It is clear from the description of this asymmetry given in the diagnosis that the difficulty of reversing it should not be underestimated, partly because many of the problems involved are beyond the control of the countries of the region,

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either separately or in conjunction, since they depend on the policies of the large importing and exporting countries. Nevertheless, there are several areas regarding the expansion of exports or the reduction and substitution of imports in the food and nutrition field which are still insufficiently exploited and might acquire great importance in the course of time.

In Latin America the process of diversification of agricultural exports has been slow. A small group of products which have no great dynamism in the world market and whose expansion cannot therefore continue to be regarded as a basis for the future development of the sector still predominate. The incorporation of a variety of products which enjoy more dynamic demand in world markets and allow for greater volumes of local value-added (however small the amount of each one considered separately) could have enormous aggregate importance, as shown by some recent experiences with citrus juices, fruit, vegetables, forestry products, footwear, etc. Furthermore, this approach provides the added advantage that the diversified patterns thus achieved act as a safeguard against serious fluctuations in revenue from abroad.

It should be noted that some countries in the region have made spectacular advances in penetrating international markets with certain "modern" lines. This suggests that, in certain conditions, the agricultural sector can display great flexibility and a capacity of response which one would not normally expect from it in Latin America.

In the import field, in addition to the obvious measures of reduction or elimination of purchases of luxury foods which the crisis itself should impose, it is necessary and feasible to advance in the replacement of imported agricultural inputs by national inputs, above all in those food branches which have grown very rapidly (stock-feed, oil-seeds, dairy products) and where there are no complex technical obstacles standing in the way of substitution.

Another underutilized area is that provided by the regional and subregional markets where agreements on purchases from third parties, an increase in internal trade and the creation of dynamic interdependence in the sphere of agriculture and the food industry, coupled with the intensification of compensated trade, can lead to major reductions in the disbursements of foreign exchange for food imports. Nonetheless, it should not be overlooked that the criteria determining the origin of imports are mainly based on the financial facilities offered by the large exporting countries, and in crisis conditions these acquire even greater importance.

v) The reduction of technological dependence. In undertaking a task of this nature we should not underestimate the high cost or the long time required to develop creative processes or even to adapt technologies already available in the world market to the requirements of local resource endowments. This does not mean, however, that we should accept as the only option the present habit of passively incorporating technologies conceived in different spheres; on the contrary, it points to the need to establish for the agricultural sector a technological policy which has the continuity and coherence needed to cover the periods required for the development of alternatives. The importance of the role of the State in this field

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is undeniable, not only because of the volume of resources that will have to be committed but also because of the social character of the bulk of the benefits that would be derived from its development.

In terms of general policy, an important step in the direction proposed would be to abandon the importation of "integral technological packages", which involve imported inputs and means of production and lead to the displacement of manpower. Instead, through a perfectly viable effort of adaptation, some of their components could be replaced by locally-produced inputs or more intensive use of labour.

Another reason for rejecting the trend towards passivity is the need to counter the growth of patterns of diversification and differentiation in food demand which call for inputs and means of production unavailable in the region, however long it may take to bring about the required changes in these consumption patterns.

Regional and subregional agreement on technological development is undoubtedly an area in which the progress made is still insufficient and one in which the proper division of labour at the regional level on the basis of a common scientific and technological development policy for the food and nutrition sector would have evident advantages, many of which have already been duly evaluated.

vi) Recuperation and preservation of natural resources. The processes of erosion, desertification or salinization, depletion of groundwater, deforestation, etc., which have reached catastrophic levels in many regions, cannot remain outside the scope of public and private decision-taking, nor can we continue to resign ourselves to the ecological damage deriving from the transfer of peasant agriculture to marginal areas as a result of the invasion of peasant farms by entrepreneurial agriculture. In the design of policies differentiated by type of product it is therefore necessary to incorporate the specific treatment required by each of the ecological zones, if we are to achieve food systems that can be sustained in the long term. In view of the diverse situations in the countries of the region, the relevance and application of the principles indicated above will be different in each case and their reduction to greater degrees of specificity and concreteness will require consideration of at least the following differentiating factors in the national situations:

a) The absolute size of the economies (or of the countries in question), because of its effects on the relative importance of the internal market or the external market for agricultural production and on the potential function of agricultural exports in the global dynamics of the economy.

b) The proportion of the population living in rural areas or, as a corollary, the proportion of the economically active population engaged in agriculture, because of its impact on the heterogeneity of the productive structure of the sector (relative weight and degree of differentiation of the peasant economy vis-à-vis the entrepreneurial economy) and on the selection of the most appropriate technological options.

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c) The differences in the per capita availability of arable land and in the ratio between arable land and population occupied in production, because of its importance for the selection of technology, for the dimensions of the possible generation of food and other surpluses destined to develop the urban-industrial sector, for the heterogeneity of the productive structure, etc.

The degree of heterogeneity of crops and of the size and type of farms is of the greatest importance in the design of the sectoral policy. The greater the differences (both within and between the regions of a country), the greater will be the need for policies differentiated by type of producer (and by regions) and for decentralization, co-ordination and producer organization, in order to achieve an agricultural policy with some capacity for consensus and mobilization of the agents required to take part in its implementation.

Hence it would have to be decided, in each of the national situations, which social sectors, which economic agents and what types of alliance between them would be capable of promoting State action in this direction.

e) The role of the State

If the objectives put forward here and the processes needed to achieve them are valid, the question arises of the extent to which they can be achieved by the spontaneous functioning of the internal and external market forces.

There are numerous arguments of different kinds, which need not be detailed here, which lead to the conclusion that this functioning, far from producing a dynamism that would result in greater homogeneity and integration of the productive structure, a reduction in external vulnerability and an increase in distributive equity, tends on the contrary to increase polarization and dependency. This is the natural result of the enormous heterogeneity of the productive structure and of the ensuing inequality with which the agents confront each other as buyers and sellers in the various markets. The manifest results of the recent experiences known as "neoliberal", which adopted and applied the thesis of the subsidiary position of the State in the economic field, corroborate this statement. In contrast, it can be affirmed that there are numerous examples of countries where agricultural development has been achieved with the deliberate support of the State, in a framework of relative homogeneity of the productive units and a high degree of organization and influence of producers' associations. The policies of price support, of State purchasing centres, of regulation of the areas sown, of substantial direct and indirect subsidies for production (equivalent in some countries to more than half the value of the product), of protection against external competition and of incentives for the penetration of export markets, of the creation and maintenance of vast scientific and technological research networks and of agricultural extension structures, etc., are only a few examples of the more notable methods of intense public intervention in advanced agriculture, another feature of which is its long-term view and the maintenance of its application through several decades.

Latin America also has a long history of direct and indirect public intervention in the agricultural sector, which markedly increased from the 1930s onwards. Its results, however, have tended in most cases to consolidate and even to sharpen

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the trends towards heterogeneity in the productive structure, both through a marked urban-industrial bias, which led to the undervaluation of rural areas, and, in the agricultural sector itself, through a bias in favour of modern entrepreneurial agriculture. This bias was reflected, for example, in the following: the types of beneficiaries who profited most from the development of the sectoral infrastructure; the distribution of credit, generally subsidized, destined for agricultural production; the absence of a tax structure which levied charges proportional to the productive potential of the land; the tariff reductions or exchange rates and import conditions which favoured agricultural machinery and certain types of agricultural inputs; the policies of price regulation which, with a view to reducing the cost of wage goods, ended by creating relative advantages for products more associated with the entrepreneurial than with the peasant structure, etc.

It should be noted in this connection that, despite the absence of significant economies of scale in the application of the essential components of the new technologies (particularly those associated with the "green revolution") --since fertilizers, seeds and irrigation facilities (once the infrastructural works have been carried out, generally at the expense of the public sector) are perfectly divisible-- the structure of land tenure and the institutional framework created a polarizing bias in favour of the adoption of these technologies, to which was added a component of mechanization which was not inherent in them and which ended by making them adaptable only to the larger units.

The pattern of technological development applied, besides accentuating the polarization of the levels of productivity and income in the agricultural sector, led to a rapid increase in external dependence on inputs and machinery, as mentioned earlier.

On the few occasions when policies were applied which made substantial transfers to the peasantry and small farmers, these were markedly paternalist or protectionist in character, and this deprived them of the orientation and continuity needed to ensure the long-term strengthening of production by their beneficiaries. The same limitation characterized the various public assistance schemes directed to the poorest rural sectors.

The foregoing considerations show that it is erroneous to pretend that there is a dilemma between an interventionist and a subsidiary position, or between more or less State participation in the economy: this evades the main issue, which is simply the content and orientation of public action or, more accurately, the type of relationship established between the State and the social agents taking part in the gestation and application of the policies. It is in this field that radical changes are required in order to achieve the objectives described above.

In general terms, the changes put forward call for the progressive establishment of a democratic and participative framework which will ensure an efficient relationship between planning and the market with regard to the achievement of the proposed objectives.

VI. INTERNATIONAL ECONOMIC RELATIONS

1. General prospects for the international economic relations of Latin America

The international economic trends described above indicate that, at least during what remains of this decade, the development of the Latin American countries will encounter powerful external restrictions, aggravated by the interdependence which exists between the various aspects of the external context. This interdependence is expressed in the combined ("scissors") effect of the increase in debt servicing and the contraction in the inflow of external capital, on the one hand, and the stagnation of trade, protectionism and the deterioration in the terms of trade, on the other.

In order to cope with a restrictive and uncertain external context, the Latin American countries will be compelled to rejuvenate their international economic diplomacy in order to pull the North-South negotiations out of the stagnation into which they have fallen. The developing countries took a great step forward in devising a common strategy for negotiation with the developed countries, the first articulated expression of which was at the first United Nations Conference on Trade and Development over 20 years ago, and in sticking to that strategy throughout the period which followed. However, owing in part simply to the passage of time, this strategy has begun to show serious limitations. In the first place, it has concentrated primarily on the demands of the developing countries, without being adequately supported by a continually updated analysis of the trends recorded in the industrial countries and in the world economy as a whole; this has given it a static character which has prevented the developing countries from taking timely action to defend themselves against the risks and take advantage of the possibilities offered by the world economic system. In the second place, as differences have arisen in the situation and characteristics of the various countries represented, their joint goals have become increasingly fragile. It is worth noting, however, that the strategy does incorporate the points of common accord among the developing countries; thus, it has so far succeeded in fully reconciling the need to maintain cohesion among them with that of paying greater attention to the growing differentiation observable between the various groups of countries within the Third World; had this not been so, some of these groups might have reduced their support for the multilateral economic negotiations, preferring instead direct negotiation. Finally, as a consequence of the need to reflect faithfully the demands of all the countries within the Group of 77, the strategy is based on an excessively ambitious list of demands, which makes it difficult to choose those items whose negotiation might be more relevant or more feasible at a given moment.

To update their international economic diplomacy, the Latin American countries need to formulate a more selective or particularized negotiating strategy based on a dynamic analysis of trends in the world economy, while at all times maintaining the indispensable unity of the Group of 77. They also need to defend the negotiating bodies which the Third World has succeeded in building up over long years of effort, modernizing them and steering them constantly in the direction of the most burning issues arising out of the North-South negotiations.

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2. Latin America's external trade relations

a) Protectionism

The region's exports are up against a complex arsenal of tariff and non-tariff barriers in the markets of the industrialized countries. Among the former, mention may be made of the negative effect of the graduation of tariffs, which increase according to the degree of processing of exports, so that they constitute a very considerable hindrance to the region industrialization process. The most important non-tariff barriers, for their part, are quantitative restrictions on imports, variable surcharges, safeguard clauses, "voluntary" restrictions, discriminatory practices, countervailing duties, technical barriers to trade and subsidies for production and exports. Protectionism has also increased in other forms disguised as "agreements" between the parties; the countries of the region have had to accept such agreements because they are the only way of exporting to some developed countries, as happened in the case of the Multifibres Agreement.

The new rules applied today in the trade in goods among countries, particularly among industrialized nations, are based on concepts foreign to the multilateral system. Recent examples which are frequently brought into play, include the following: i) "unacceptable levels of market penetration" or "maximum share of the market": accusations which industrialized importer countries bring in order to justify restrictions on purchases from certain countries; ii) "minimum import prices": a means of setting prices and cancelling out any possible comparative advantages which imports from third countries may have over national production; iii) "low-cost ("unfair") production" which enables the industrialized countries to limit the advantages of exports from regions or countries where labour is cheap, etc.

Protectionism in the agricultural sector has been one of the main obstacles to the dynamic expansion of the production and trade of Latin America's basic commodities, especially those from the temperate zone (grains, meat, dairy products, oil, sugar). The policies applied by some industrialized countries with a view to ensuring agricultural self-sufficiency have seriously limited the conditions of market access in the case of a large number of commodities.

However, it is in the field of manufactures that the protectionist tendency has intensified the most in recent years and the largest variety of restrictions has been imposed. Various industrialized countries have applied new restrictions to the import of commodities of interest for the region, particularly in such sectors as leather goods and footwear, clothing, and electronic and related articles, thus seriously affecting the growth rate of exports.

Although it is difficult to measure the global repercussions of the increase in protectionism, there are grounds for considering that this phenomenon constitutes one of the principal problems now affecting international economic relations and is preventing dynamic reactivation of the world economy, since it is harmful not only to North-South trade but also to trade among the countries of the North.

/b) Conditions

b) Conditions for strengthening international trade

As its point of departure, this analysis recognizes that international co-operation will continue to be necessary for the solution of many of the problems besetting the world economy. Abandoning the dialogue with the industrialized countries or categorically refusing to pursue the negotiations scheduled in the different international forums in the near future would be unreal and counter-productive for the unity of the countries in the Group of 77. What should be sought, therefore, is not the elimination of the North-South dialogue or of international co-operation as an instrument or mechanism of negotiation, but a new strategy and new forms of negotiation which can change the principles and rules of the game applied in the past and replace them with others which enable the developing countries to broaden their participation and increase their influence in the negotiation process.

i) The scope of the negotiations and possible alternatives

In this respect, a first lesson which can usefully be drawn from the experiences of the North-South dialogue in various forums relates to the restricted and compartmentalized areas in which these negotiations have been carried out.

For the developing countries, the segmentation of the items discussed and of the negotiations themselves has had a very high cost, basically for two reasons. In the first place, it has made the process of co-ordination and joint action more difficult and has instead aided the industrialized countries in their efforts to create greater divisions and divergences among the developing countries; secondly, it has reduced the bargaining power of the latter to a very low level.

Experience with previous multilateral trade negotiations, especially those carried out within the framework of GATT, has demonstrated the limitations of global negotiations in which the interests of all countries --both developed and developing-- are brought together and integrated. In view of the asymmetrical division of power between these two groups of countries, the result has always been, as noted above, that the negotiations concentrate primarily on solving the trade problems affecting reciprocal relations among the industrialized countries, while the interests and objectives of the developed countries are sidetracked.

An alternative to a new round of multilateral negotiations, in which developed and developing countries participate globally, might be an essentially North-South negotiation. This would mean that for the first time, the objectives and interests of the developing countries could occupy the forefront of the negotiations.

Another possibility might be for the developing countries to enter into these negotiations with each of the leading industrialized countries or groups of countries separately rather than dealing with them as a group.

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Finally, it would be worth exploring one possibility which could be an alternative or supplement to those described above, namely to try negotiations specifically between Latin America and the developed market-economy and socialist countries on problems which are most relevant to the region.

Without abandoning the negotiation platform which the region has built up with the other developing regions (and in particular the Buenos Aires platform agreed to in 1983), an attempt could be made to negotiate with the market-economy and socialist groups concerning problems and issues of particular importance in Latin American international economic relations.

It must, however, be noted that if the developing countries are to gain any benefit from the forms of negotiation suggested above, a basic prerequisite is the strengthening and improvement of the mechanisms for concerted action and co-ordination established between them in order to organize a joint response and strategy for dealing with the challenge represented by the stagnation in international co-operation: to this end, the possibility of establishing a specialized secretariat within the Group of 77 has been considered in the past.

ii) New rules and principles governing trade relations

The principal requirements for achieving a new system to ensure more equitable, healthy and dynamic trade have already been defined in the discussions held within UNCTAD, so they may be dealt with very briefly here.

In the first place, the trade system of the future must support the process of dynamic growth and structural change of the world economy. Protectionism --and especially its discriminatory aspects-- is to a considerable extent a reflection of the structural rigidities characterizing the world economy. The assumption that structural adjustment would occur automatically as a result of the free play of market forces has proved false; it is therefore necessary to consider structural adjustment policies as a new dimension of the future trade system.

Secondly, it is necessary to create a satisfactory system of safeguards in order to be sure that the problems and difficulties which will inevitably arise from time to time can be resolved in a way which is transparent, foreseeable, non-discriminatory and equitable.

Thirdly, attention must be paid to the way in which processes outside of the present system of trade or not adequately absorbed by it are treated in future. These include restrictive trade practices, a large proportion of the trade in agricultural commodities, services trade, and the transactions of transnational corporations and State trade enterprises.

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Fourthly, the trade system of the future must provide a framework in which the development of trade relations among subsystems can be satisfactorily articulated. In addition to European economic integration and co-operation groupings (such as the EEC, EFTA and CMEA), there is a growing trend towards such subsystems in the developing countries, at the subregional, regional and interregional levels.

The fifth problem concerns the treatment which should be accorded to the developing countries in this new scheme. The Generalized System of Preferences constitutes only a partial response to this problem. In addition to the fact that it has still not been permanently incorporated into the system of trade, its scope and impact have been weakened by the introduction of new concepts, such as those of graduation and reciprocity. The future system of trade must resolve all these contradictions and establish a solid link between trade and development.

The sixth point in this connection is that the multilateral trade system created at Bretton Woods was never intended to operate on its own but was to be supported by other mechanisms and systems in order to attain the objectives of full employment, currency stability and the transfer of sufficient resources to the developing countries.

It is obvious that the meeting of these requirements, in order to establish a new system of international trade, will not depend solely on the action which may be taken by the developing countries in this connection.

An important fact which will have to be given more attention in future negotiations is that not only does the present order not work for the developing countries, it has also ceased to function and to benefit the developed countries themselves. The changes and reforms which are negotiated should be aimed at safeguarding the interests of all the parties, for the benefit of the international community as a whole.

iii) Possible action at the regional level

There are basically two kinds of action which might be agreed on at the regional level: the first is of a basically preventive nature and is aimed at avoiding the application of new measures, while the second is to be taken as a response to protectionist measures which affect the basic interests of the countries of the region.

It is most important that the region should be able to obtain more information concerning the mechanisms governing the taking of protectionist decisions in the main industrialized markets.

With regard to measures for responding to protectionism, Latin America should be more adequately prepared for applying similar measures to the exports of developed countries to the region. Symmetrical treatment might also have a preventive effect, since industrialized countries contemplating the application of protectionist measures would have to give careful consideration to the adverse effects which reprisals might have on their economies or enterprises. Resort to

/such treatment

such treatment would also put the negotiations on a more political footing and broaden their scope, since it would do away with the sectoral bias or tendency to concentrate on a specific commodity by increasing the range of commodities affected by protectionism; finally, it would also increase the number of diverse interest and pressure groups affected by such measures. All this would make it easier to view the problem as a whole and might lead to solutions which were more adequate and rational for all concerned.

Finally, it might be felt that the most important contribution the region could make to the promotion of world reactivation would be to continue fighting on two parallel fronts. The first battle is being waged for greater recognition of world interdependence in terms of the relations, problems and interests of the developing and the developed countries and of the growing importance of the former in the working of the world economy. In other words, it is a question of showing that the developing countries must, in view of their interests and potential for reactivation, participate actively in any attempted solution for emerging from the current crisis. On the second front, the aim is to emphasize the interaction which exists among the monetary, trade and financial systems: an objective which calls for an integral approach to international actions designed to mitigate or eliminate the defects which now characterize these systems.

3. International financial links and the external debt

The heavy burden which external debt servicing has imposed on the Latin American economies will not only limit their development possibilities for a long time to come but could even become completely unbearable unless the international community changes some of the criteria applied in the rescheduling operations carried out so far. One of these criteria consists in the view that the payments difficulties experienced by the Latin American countries are due to transitory circumstances similar to those often encountered by certain bank transactions in normal periods, which increase the risk of new loans in connection with rescheduling and justify raising their cost and granting them only for short periods. Another criterion applied by the international financial community relates to the need for the debtor countries to apply orthodox (and hence recessive) adjustment policies as a necessary condition for maintaining their creditworthiness in the eyes of the international financial community. Yet another criterion is based on the view that the interests responsible for the external debt in the Latin American countries are pre-eminently private, since close to four-fifths of this debt is with private banks.

The analysis made of the international situation in other parts of this document shows that the increase in the external debt of the Latin American countries was the result of structural factors of a global nature and, above all, of the extraordinary climate of international financial permissiveness which prevailed since the first half of the past decade as a consequence of the world recession, the reactivation policies applied by the industrialized countries, and the financial surpluses accumulated by the member countries of OPEC; these factors cannot possibly be regarded as representing transitory circumstances. The recessive adjustment policies applied by the Latin American countries to satisfy the criteria of the

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financial community as expressed by the International Monetary Fund placed even greater limits on the growth and long-term payment capacity of those countries. The fact that the extraordinary growth in Latin America's external debt was to a substantial extent due to structural factors operating at the world level means that it cannot be handled exclusively as a private matter but must be regarded as constituting a public problem, in which all the interests concerned bear substantial responsibility and whose cost must be distributed more equitably among all of them. It is therefore necessary to seek medium- and long-term solutions in which the debtor countries and institutions as well as the creditor banks, the monetary authorities of the developed countries and the international financial institutions assume their share of the responsibility.

In this connection, a wide variety of formulas approaching the problem from different angles have been suggested. One of the most important conclusions which can be drawn from the debate so far is that none of these solutions used on its own would be enough to solve this problem and that a combination of various solutions will necessarily have to be applied. Whatever combination is actually selected, it must reflect certain criteria. From the point of view of the debtor countries, it seems advisable to proceed in the respective renegotiations towards more effective co-ordination of the varying positions with a view to ensuring that the countries of the region do not spend an excessive proportion of their export earnings on servicing the debt or find themselves forced to bring their development processes to a halt for many long years. From the point of view of the creditors, the private banks will have to absorb a greater share of the risks involved in the agreed transactions and, above all, they must continue to grant the new credits needed to reschedule the servicing of the debt in the long term. Greater support should also be provided by the governmental and intergovernmental institutions having responsibilities in this matter. The International Monetary Fund, which has played a more active role than in the past, should make the terms it is trying to impose on the rescheduling operations more flexible. Other international financial institutions, such as the World Bank, should mobilize additional resources to compensate the countries affected by the application of interest rates which are abnormally high when measured against their historic average. Perhaps the most important responsibility of the developed countries is connected with the need to eliminate those factors which have raised interest rates so high --the fiscal deficit and monetary expansion.

Agreement among the Latin American countries on concerted positions has proved to be an important tool both for unifying the criteria being used and for presenting them more effectively to the international community. This is the lesson of the Latin American Economic Conference held at Quito and of the Consensus of Cartagena.

4. The challenge of regional co-operation and integration

The prospects for the international economy, the widely held conviction that it is necessary to introduce changes in the development style of Latin America, the criteria on the articulation of production and technological development set forth in previous chapters and the changes underway at the political level all combine to highlight the importance and feasibility of more dynamic co-operation and regional integration.

/At present,

At present, however, skepticism prevails as to the progress made by the main integration schemes existing in Latin America, both as regards LAFTA (now ALADI) and the Central American Common Market, which came into being at the end of the 1950s, and also, although to a lesser extent, as regards the Andean Group and the Caribbean Economic Community, which were created later on. This is partly due to under-estimation of the long-term achievements of these processes and partly to the lack of knowledge concerning the existence of a number of new types of co-operation among the different Latin American countries, which in some cases go beyond and supplement the programmes provided for in the formal integration arrangements mentioned above.

One characteristic which these new forms of economic co-operation share is that as a general rule they refer to agreements, projects or specific actions of interest to two or more countries, without automatically committing all the member countries of a particular integration scheme. Another is that they are not always based on inter-State agreements but frequently involve governmental or non-governmental actors other than those traditionally thought of. Thus, a growing number of new types of economic complementarity are to be observed in the fields of energy and infrastructure, industrial and technological co-operation, and financial co-operation, and other central aspects of Latin American development. All this has meant that although the formal integration arrangements may have seemed to move slowly, the economic ties between the countries of the area have grown steadily stronger.

At the same time, one of the main consequences of the international crisis in Latin America has been a reduction in the margins of action which the countries of the region had managed to acquire and an increase in their external vulnerability.

The search for new forms of regional co-operation in order to increase the participation of the countries of the region in the management of those problems looks promising. Very significant progress has already been made in this respect, examples being the Santo Domingo Agreement and the work of the Contadora Group with regard to co-operation and peace in Central America, and the efforts of the Quito Latin American Economic Conference and the Consensus of Cartagena with regard to the co-ordination of the positions of the various Latin American countries regarding the debt problem.

As already noted, integration and co-operation offer different ways of helping the countries of the region to overcome the difficult circumstances through which their economies are passing. At the same time, they make it possible to create more stable conditions for future economic development. The paths that may be followed vary as to their nature and temporal scope and may provide solutions to both short-term problems and long-term structural problems.

In the short term, integration and co-operation may help in getting out of the crisis through the use of instruments promoting more effective utilization of installed capacities and human resources, thereby keeping the use of the region's scarce foreign exchange down to a minimum. Expansion of regional trade (without reducing exports to third countries) and the substitution of imports from outside the region are two fundamental mechanisms for restoring the levels of economic activity which were lost in the crisis.

/To achieve

To achieve these objectives (increase of intra-regional trade and substitution of imports from outside the region), there are many instruments available, the most important of which are tariff preferences, the elimination or limitation of non-tariff restrictions, the routing of some State purchases towards suppliers in the region, the improvement of systems for settlement of payments and reciprocal credits, and agreements of partial scope and compensated trade arrangements.

In the medium and long term, integration and co-operation may help to create suitable conditions for more independent, stable and accelerated development by creating a bigger economic space than that available at the national level. Thus, for example, joint initiatives can be undertaken to overcome the sectoral lags created by an incomplete and disarticulated industrialization process and to strengthen the links between production sectors. Support can also be provided for the development of branches or sectors which have lagged behind, such as the capital goods and science and technology sectors. In the same way it will be possible to give a real content to co-operation in the realm of food and energy security if there is a common perspective concerning the urgency and necessity of dealing with the risks of dependence in those sectors.

Regional co-operation in the field of science and technology can play a key role both in permitting the development of local technological capacity in relatively smaller countries and in mobilizing investments and specialized human resources on a sufficient scale to move on, collectively, to areas of spearhead technology.

At the economic level, the heterogeneity in the size and potential of the economic of the region tends to give rise to structural imbalances in trade relations, which are hard to overcome with conventional instruments of integration such as tariff preferences and machinery for settlement of payments. Just as the trade between centre and peripheral countries cannot be put into balance without making structural changes in the composition and level of trade between these categories of countries, the commercial imbalances within the region cannot be overcome unless powerful remedial measures are taken.

Co-operation in the realm of the joint exploitation of natural resources has shown that it can be an important element for the least developed countries and that it should be explored in greater depth. Water, petroleum, mineral, agricultural, fishery and other resources may, if they are duly developed and exploited, help in the development of countries which sometimes possess them in great abundance but lack the financial, organizational and technical resources to make use of them to the full. Projects designed and developed by two or more countries of the region working together can liberate significant amounts of resources to aid the progress of the least developed countries while at the same time also benefitting their larger associates in regional arrangements.

Two other objectives should also be borne in mind in subregional integration processes: i) seeking to ensure that existing instruments for integration develop in such a way as to help to bring together the subregional schemes, and ii) attempting to balance the progress made in partial-scope measures --particularly bilateral measures-- with the instrumentation of mechanisms of a multilateral nature. The first objective relates to the ideal of promoting articulation between subregional

/integration schemes

integration schemes in order to increase the presence of Latin America on the international scene and to tighten economic ties throughout the region. The second objective is to bring the achievements made in the field of partial-scope actions into harmony with the need for progress in the application of multilateral instruments, so that in the end the two types of mechanisms converge towards common goals of a regional nature, to the mutual benefit of both processes.

In addition to the powerful obstacle to integration represented by the economic heterogeneity of the member countries of each subregional scheme, geopolitical tensions and the diversity of political régimes have also slowed down integration and co-operation in Latin America and the Caribbean. The effects of geopolitical tensions not only weaken the links between the countries of the region but can actually jeopardize the very foundations of the national development of Latin American and Caribbean countries.

The consolidation of democratic processes and the settlement of disputes would help to reduce military spending, to the benefit of the development of the countries of the region.

The reduction of military spending would make it possible to set aside more resources for economic and social purposes, would relieve external constraints, thus favouring growth, and would help to create more favourable political conditions for understanding and co-operation among the countries of the region.

If integration is seen as a process in which all the social, political and economic actors should play an active part, then the existence of democratic systems of government becomes a very important element for reaching really significant degrees of integration among the participating countries.

VII. STATE, PLANNING AND DEMOCRACY

1. Reflections on ECLAC's conception of the role of the State

a) The regional ideas

In view of the economic, social and political challenges presented by the current crisis, neo-liberal lines of thought are losing popularity and all eyes are turning to the State in the hope that it will be able to organize the action of society as a whole. One must ask, however, whether the State will be willing and able to do so.

The lack of knowledge and the theoretical, empirical and doctrinal confusion that surround the question of the nature and role of the State make it difficult to answer this question. The main schools of economic thought in Latin America, including ECLAC, have devoted very little effort to analysing the State. A study of how ECLAC has seen the role of the State can provide a good example of the type of approach --with its good and bad points-- which has prevailed up to now.

Originally, ECLAC saw the State as the main protagonist of development, largely because of the shortcomings it noted in private economic agents and in the market mechanism. It did not arrive at this view by applying doctrinal principles; on the contrary, as in the case of the development programme it advocated, ECLAC's approach was imposed by circumstances.

As is well known, this conception represented a response to the repercussions of the crisis of the 1930s in Latin America. That crisis led ECLAC to question both the development pattern that had been followed by the countries of the region and the institutional foundations of the national and international economic order on which it was based. This is not to say that it rejected them, but rather that it felt that they should not be accepted uncritically as a result of the doctrinal influence of the centres; they should be evaluated in order to determine whether they provided a suitable basis for the peripheral economies that were trying to transform their development pattern.

There is no explicit and systematic analysis of those institutional foundations in any of the documents produced by ECLAC during that period; perhaps because of their controversial nature, they could not be discussed openly. At any event, it is possible, from scattered references to those foundations, to outline the type of institutional order ECLAC considered desirable and the role it saw for the State within that order.

ECLAC's views on those issues were ambivalent. On the one hand, it stressed the importance of the dynamism and creativity that are generated by individual efforts encouraged by private enterprise, as well as the greater economic efficiency that can be achieved through private management of businesses. On the other hand, it pointed out the shortcomings of those foundations, which make them unsuitable, in themselves, as a basis for the decisions and tasks required by development.

/Their main

Their main shortcomings arise from certain characteristics of private economic agents and of the market. These agents do not have the resources necessary to carry out the tasks required by development; above all, however, they lack the global perspective that would enable them to take decisions that would be more likely to foster development. A global perspective requires one to overcome the limitations of a vision that is guided only by the interests of one particular enterprise and take into account other aspects, such as those pertaining to relations among the different sectors of the national economic structure, economic relations with other countries, the social and political implications of economic decisions, appropriate technological transformations and others which, moreover, must be viewed within a broad time horizon.

Furthermore, this partial vision of private economic agents cannot be offset by the market mechanism, which does not allow for the aforementioned aspects to be taken into consideration, as the signals it gives are only a reflection of the effective demand arising from those same agents; the sum of several individual rationales does not make for an overall social rationale. Moreover, the peripheral economies must control and reorient the stimuli originating in the international market; otherwise, they would only reproduce an economic structure whose deficiencies have become evident as a result of the crisis. Development will not be achieved through the spontaneous action of market forces, but rather through the deliberate action of the entire society, under the leadership of the State.

Hence, the role which ECLAC proposed for the State during those years was justified, as well as oriented and limited by those shortcomings. In general terms, the scope and depth of this State intervention is determined by the exigencies of the development programme proposed and by the weakness of the private agents and the market mechanism required to carry it out.

ECLAC felt that the State should provide orientation and take direct action in several areas of the economy, some of which were particularly important. In the first place, it stressed the aforementioned global and long-term vision, which should be organized systematically under a plan aimed at transforming the structure inherited from the outward development pattern so as to allow for the shaping of a modern industrial economy. In the second place, there was a need for direct action in the decisive areas of that transformation plan; in particular, it was felt the State should promote capital accumulation by increasing the domestic savings coefficient and attracting and channeling external resources, protect and encourage industrialization, attenuate external vulnerability, create an infrastructure, and encourage and orient technological change. In the third place --and this is directly related to the previous two points-- there was the need to prevent and control the various types of economic disequilibria which inevitably occur in a structural transformation of the type called for under this plan.

If judged by the doctrinal principles prevailing at that time in Latin America, this intervention appears to be quite far-reaching, but it would be wrong to think that ECLAC was suggesting that it be extended to the point of stifling private economic agents or doing away with the market mechanism. Indeed, it sought instead to find a balance between the public sector and the private sector, between the

/State and

State and the market, in order to take advantage of the positive aspects of each one, make them complementary to each other and avoid the negative consequences of an excessive predominance of one over the other. This balance was to be the expression of an institutional framework combining the fundamental principles of a market economy with the essential action of the State. In the particular combination originally proposed by ECLAC, the State's action was aimed much more at complementing, supplementing and supporting that framework than at transforming it radically. In other words, State action was to be aimed at encouraging private initiative whenever possible and replacing it only when inevitable. In brief, ECLAC advocated a "planner State", which, guided by the development plan and using the necessary monetary, fiscal, exchange and tariff instruments, would guide the economic activity of the society as a whole; the direct conduct of such activity, however, was to remain, preferably and principally, in private hands. The end result of this process was to be the strengthening of both the private economy and the State.

In the early 1960s, ECLAC made some changes in its original programme which resulted in a further extension of the scope and depth of the economic and social role of the State. Among other things, ECLAC stressed the need for structural reform --in order to encourage capital accumulation and adequately orient its use, to improve the distribution of wealth and to promote production-- and for policies designed to redistribute directly the fruits of economic progress. In both cases, the State was to play an important role, it was to deal also with the redistribution of the means of production --whenever this became necessary as a result of the inefficient management of private enterprise, as in the case of the agrarian structure-- and of income, in order to mitigate social inequality and the social and political problems it caused.

Since the mid-1970s, ECLAC's overall proposals have undergone further changes; there has not been a drastic change, however, in the original conception of the role of the State and of the relationship between the private and public sectors which has been the basis of ECLAC's vision of the ideal institutional order.

b) Theories and experiences of the industrial centres

In developing its theory of the role of the State, ECLAC drew on the theories and experiences of the centres, although modifying them to suit the circumstances of the peripheral countries. From the 1930s onwards, the main trends in the history of the centres have had to do with the establishment of the welfare State or the social State of law; at the theoretical level, these trends are exemplified in the idea of the "organizer State" and the forms of State intervention envisaged in Keynesian thought.

At the risk of oversimplifying, one may describe the nature of the organizer State. The intention of those who originally held power in the State was to organize society according to their criteria and interests; the archetypes of this approach were the "absolute State" and the economies organized to serve the interests of State power (mercantilism). The very economic growth that enabled the absolute State to impose the order that was essential to its own survival and

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expansion, however, brought about a diversification of the nuclei of power other than State power, and these reacted against absolutism. This reaction was reflected especially in the liberal doctrine of economics, according to which State power must be subordinated to the criteria, interests and powers of economic organization; and in the liberal-democratic political doctrine according to which absolutism must be dissolved by the rule of law and the expansion of civil and political rights.

The consolidation of liberal and democratic trends --achieved to a greater or lesser degree in various specific situations-- led to a multiplication of internal powers; indeed, in every society where these processes took place, power structures became increasingly complex, and certain nuclei of power, of different origins, exercised influence on many spheres of society. Moreover, this complexity occurred in societies which, mostly as a result of these very processes, had reached a high level of economic interdependence and political integration.

Both the multiplication of the power nuclei and the conflicts among them once again brought to the fore the problem of "order", which the absolute State had tried to solve by using a strong hand, although this problem is somewhat different in nature in highly integrated and interdependent societies having many power nuclei --particularly economic and political ones-- that have nothing to do with State power. In principle, this order is achieved through the mechanism of the market and through representative democratic institutions. During the economic and political crises of the early decades of this century, it became evident that something must be done to compensate for the weaknesses of the market and to expand and strengthen democratic institutions. This is the problem that the organizer State attempts to resolve by harmonizing opposing interests and co-ordinating the action of the different parties with a view to achieving a collective goal. To do this, the State must recover for itself a greater portion of the power that is scattered throughout society, establish institutional mechanisms for settling conflicts that are suited to societies having a high degree of economic diversification and political participation and, above all, be able to orient and co-ordinate collective action.

As regards State action in the economy, the model was implicit in Keynesian thought. In brief, Keynes holds that the capitalist market system cannot spontaneously establish the volume of production that is required to provide for full employment and he therefore holds that the State should help achieve this volume by regulating effective demand through fiscal and monetary policies. Once the desirable volume of production has been achieved as a result of the compensatory and regulatory measures taken by the State, it should be possible, through the mechanisms of the capitalist market economy and the State's action, to determine what should be produced, how it should be produced and how the value of the final output should be distributed among the factors of production.

c) The dilemma of the peripheral State

After the crisis of 1929 and the Second World War, when the issue of State intervention was raised in Latin America, it was noted that the societies of the region were faced with something more than the problems arising from the crisis.

As ECLAC pointed out, they were also faced with the need to transform their pattern of economic growth. Hence, it was not a question of promoting the expansion of an existing system, but rather one of creating a new system; this in turn required new economic agents --having different capacities and potentialities-- and new material means. Moreover, the question of national integration had not yet been resolved; the appendicular linkage of certain areas and sectors of the economy with the exterior had only increased the heterogeneity of the economic and social structure. What was really needed was to promote not only physical and economic integration but also social integration, inasmuch as large sectors of the population were not recognized as members of the society in which they lived. In brief, in order to become real national States, the Latin American societies first had to deal with the task of nation-building.

The political aspects of nation-building are also related to democratization. As has been said before, many countries were faced with the political imperative of transforming all their inhabitants into citizens; at the same time, as in the societies of the centres, they had to harmonize contradictory interests. It was really a twofold task; on the one hand, they had to integrate those who had been left out of political life and, on the other, they had to bring harmony amidst the conflicts that arose among those who were already participating in political life. As is evident from the political instability of the region, efforts to achieve this were not always successful.

To all these problems must be added the problems arising from the peripheral nature of the Latin American societies. In Latin America, the State was subject to certain "external" factors which significantly influenced its decisions and its performance, both because of their position and role in the international economic structure and because of the existence of important domestic power nuclei whose decisions were guided from abroad. Consequently, the State had to overcome its peripheral position and try to place itself on an equal footing with those States on which it was dependent.

In brief, the crisis of the outward growth model showed how great were the challenges which faced the societies and States of Latin America. The centres had dealt with these challenges over a much longer period of time and thus the problems had arisen gradually. In the Latin American countries, however, these problems overlapped each other --although in different ways in different countries-- thus creating a heterogeneous situation.

Since these were only some of the problems the Latin American societies had to face, and since the State played a decisive role in the process, the models afforded by the welfare State and by the Keynesian forms of intervention were obviously inadequate. The role of the State in Latin America had to be broader and more far-reaching than in the central countries because, although the latter were indeed going through a serious crisis, they did not have to deal with such issues as the transformation of their growth pattern, the economic and political integration of very different structures or the productive absorption of large sections of the population who followed to precapitalist modes of production.

The idea is that the "planner State" takes a much more active role than would be the case under the Keynesian model because its objectives are not only to guarantee full employment and promote economic growth (how much to produce) and ensure a more equitable distribution of income (how to distribute), but rather it must also restructure the economy with a view to industrializing it (what to produce) and orient the utilization of the factors of production according to their availability (how to produce) --all this from a peripheral position which requires much closer control of external economic relations and their influences. The Keynesian model concentrates on compensating private activity through regulating measures designed basically to stabilize the economy over the short-term; ECLAC holds that the State should take the initiative itself --in the absence of important private agents-- by implementing changes aimed at restructuring and developing the economy over the long term. In both cases, the "indirect" activity of the State is important; in other words, the State is to use conventional policy instruments to influence the "direct" activity of private agents. Nevertheless, the State must do more than merely taking short-term decisions and play a decisive and "direct" role in the accumulation of capital when the aim is to promote growth over the long term.

A comparison of ECLAC's thinking on the role of the State with the historical experiences of the central countries can be enlightening: the problems which ECLAC thought the Latin American States had to face --except for the problem of its peripheral position-- have also been faced by the central States at some point in their history; the only difference --a big one-- is that the central States dealt with those problems over a long period of time (from the days of absolutism up to the present), whereas the Latin American countries must deal with them all simultaneously and over a much shorter period of time. Therefore, in the light of the experiences and theories of the centres and the needs of our societies, ECLAC's assessment of the key elements of the tasks facing our States was correct and this view has been reinforced and updated as a result of the current crisis. In making its original assessment, however, ECLAC did not ask itself whether the Latin American States were able to rise to the occasion, i.e., whether they could in fact deal successfully with those problems.

d) ECLAC's conception of the nature of the State

Although the State was supposed to play a major role in the development programme, ECLAC did little, during the early years, to study the nature of the State and its real capacity to carry out the tasks assigned to it. Indeed, in order for a development programme to be drawn up and applied, it was essential, at least, that the State have certain specific characteristics; whether or not such a State existed, however, was not a central question, at least not an explicit one. Hence, ECLAC's ideas concerning the nature of the State remained, to a large extent, tacit.

The gist of these tacit ideas, however, may be summarized as follows. The State was considered to be an economic agent which interacted with other individual and collective agents within and outside the national society. It was, however, a multiple agent, since it was represented by all those who held positions --both "political" and "technical"-- within the State apparatus.

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It was held that in order for other multiple agent to be effective, it should have the following features:

- i) internal unity and coherence of the different agents representing the State, under the authority of governmental leaders;
- ii) autonomy, particularly intellectual autonomy, with respect to other agents, and the ability to see beyond the partial and sectoral vision of the latter and devise an overall plan reflecting a long-range vision and expressing the general interests of the population of the nation as a whole;
- iii) economic and political power enabling it to impose its views on other agents, either as mandates from the political authority or as influence exercised through economic policy instruments controlled by the State;
- iv) technical and administrative capacity to carry out efficiently the programme proposed, and
- v) control over external economic relations in the same way as all States have exercised control in the sphere of political relations.

It may be said that in ECLAC's initial thinking, the State was conceived as an orchestra conductor who guarded the autonomy and liberty of the musicians in the orchestra, but who, in different ways, influenced them to play the music he had composed. Moreover, ECLAC's emphasis on the role of the State was based on a concept of political action in which a technical rationale played a decisive role; it was the State which formulated and put this rationale into practice through a development plan and the mechanisms of planning.

e) Internal critiques of ECLAC's conception of the State

One of the most persistent criticisms of that concept of the State has come from the liberal school of thought. As is well known, liberal doctrine is opposed to any State intervention that is not oriented towards supporting and expanding the capitalist market economy. According to this view, it is not the State's job to elaborate and apply an overall technical rationale; this should be the spontaneous result of the activity of private agents and the market. Moreover, the State, by its very nature, tends to limit the freedom of private economic agents and easily falls prey to inefficiency and corruption. Consequently, liberal theorists are not in favour of expanding the role of the State, but rather of controlling it so that it will carry out its duties in a manner that is suited to private economic interests ("subsidiary State").

Space does not allow us to present here our criticism of the liberal approach; however, it is important to point out two important aspects of that view. Firstly, liberal theory advocates controlling the power of the State but pays much less attention to the concentration of economic and political power in private hands; secondly, in recent years, it has applied its anti-State principles,

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both in the centre and in the periphery, for the purpose of dismantling these State structures and functions that had come into being as a result of efforts to construct more democratic and equitable societies. Indeed, the liberal school has made the mistake of not distinguishing between State intervention designed to strengthen authoritarian and oligarchical criteria and that which is designed to extend democracy and justice.

Because of these and other weaknesses which we have already mentioned, liberal political thinking does not provide a theoretical alternative to the ECLAC conception; on the contrary, its excessive confidence in the virtues of the market goes hand in hand with a near-sighted vision of the importance of private power and of the nature of State intervention. Nevertheless, ECLAC had also been mistaken in its analysis of the State and hence was subjected to persistent criticisms which stressed the need to adopt another approach to the study of this problem.

In the internal development of ECLAC's thinking, this criticism was expressed, in the mid-1960s, on two fronts: that of sociological analysis and that of the reflections which resulted from the so-called "planning crisis".

ECLAC's sociological analysis was always oriented towards the search for a "comprehensive approach" to development, and this soon led it to study power structures. A review of the changing history of economic and political processes will show that they are the result of conflicts and alliances between social classes and groups; the economic and political "patterns" or "styles" which take hold are the reflection of structures of dominance that have become permanent enough to give a stable direction to those processes.

When development is analysed as the result of collective activity, the question arises as to which economic and political "agents" would and could formulate it any carry it out.

From both standpoints, both that of historical analysis and that of the programme of action, sociology turned to the question of power: its main nuclei, its distribution in society, its various manifestations (economic, political, cultural and others). This, however, did not lead to a more detailed study of the State apparatus and its activities, for the effort was concentrated on the social forces which presumably molded the structure and orientation of the State. In other words, much greater attention was paid to the State defined as a system of dominance than as an apparatus, i.e., to the social and political forces contending to control rather than to the constitution and functioning of its institutional structure.

The ideas which arose from the analyses of the so-called "planning crisis" were complementary to those arising from the sociological critique. Indeed, as the difficulties arising from the application of development plans were examined, attention again turned to the phenomenon of power, although this time with more direct reference to the State apparatus.

It was found that the State apparatus did not have the internal unity and coherence it had been assumed to have and that, instead, it was an extremely complex structure that was engaged in a task of increasing magnitude in which many actors

/were trying

were trying to impose their own interests by resorting to the use of various types of power. Also, the orientation of State action was usually not a result of the autonomous and imperative application of its technical rationale but rather was the result of complicated decision-making processes involving the interaction of State and private power nuclei, in which the technical rationale was intermingled with political and bureaucratic rationales. The technical and administrative efficiency of the State could not be considered a datum of the situation but rather, on the contrary, a difficult problem; and finally, State control of economic relations with the exterior was increasingly limited in an international economy that was rapidly becoming transnationalized.

As a result of these criticisms, a different picture of the nature of the State, of policies and planning and, consequently, of how development plans should be drawn up and implemented, began to take shape. In other words, it was necessary to change the "political formula" which for a long time had enabled ECLAC to avoid confronting directly the political problems of development. The concept of the political process in which decisive influence was exercised by a single actor, the State, had to be replaced by another one in which many different actors, with different power resources, influenced the decision-making process; and the State was not necessarily the most powerful of these actors. The so-called external State that was superimposed on society had to be viewed as a part of society --usually a central and decisive part-- but one which was inextricably united to it. The State-society duality in which the State is dominant had to be conceived as a close merging of the two; the vision of the State as a single coherent unit had to be replaced by one in which the State is a multiple and sometimes inconsistent entity; the State conceived as the subject of a higher overall rationale had to be replaced by the concept of a State in which individual and sectoral rationales arising from its heterogeneous function, prevailed. The clear separation between economics and politics, according to which economics is considered to belong in the realm of the technical rationale as opposed to the presumably arbitrary and unscientific nature of politics, had to be abandoned in favour of an approach according to which the technical, economic, political and bureaucratic rationales are all put at the service of a planning function directed by a substantive rationale arising from within the society itself.

These criticisms were sound enough and thorough enough to have a profound impact on the conventional context in which ECLAC has examined political questions in general and the State in particular. When these questions are reformulated according to the ECLAC approach, the decisive question is how to formulate and apply strategies oriented towards development, autonomy, equity and democracy without the support of the ideal State, the existence of which had always been taken for granted?

2. State action: doctrines and reality

a) Spheres of action: real evolution and causes

The historical trends and the current situation with respect to the functions and structure of the State in Latin America have evolved from the role it has played in economic, social and political processes, all of which have to do with the consolidation of its internal and external power. In general, because of the nature of those processes and the problems to which they have given rise, the State has expanded and diversified its structure and taken on broader and broader functions.

State action in the economic process has been concentrated mainly on laying the economic and political foundations for growth and developing and promoting such growth through activities pertaining to regulation and production. From the stage of outward growth onwards, through the various phases of industrialization, the State has had to expand its sphere of action because it is the entity that is mainly responsible for supporting those processes.

If one looks at this evolution from the standpoint of the productive function of the State, one notes that during the time when commodity exports were predominant, the State supplied the specific infrastructure required for this pattern of growth (roads, railways, ports); during the initial stage of industrialization, it also provided the general infrastructure (e.g., energy and communications infrastructure) and financial support; and during the later stages of industrialization, it also took care of the production of basic inputs that were relatively less profitable on the market (steel, shipyards, etc.). Along with all this, it often assumed responsibility for the production of export commodities and took on many other production activities.

The main reasons for the increasing influence of the Latin American State in the economic process in general and in industrialization in particular are to be found in the underdevelopment and peripheral nature of the economies and societies of the area. Because of this situation, local private agents are intrinsically weak when faced with the challenges of economic growth, whereas external agents are so powerful that if there were no restrictions on their penetration, they could jeopardize the autonomy of any national State. The relative weakness of the local agents and the strength of the external ones, in a context of growing economic, financial and technological demands, make it essential for the State to assume an increasingly important role. This situation, especially during the early stages of industrialization, has characterized most of the countries of "late" development, including some outstanding ones, such as Japan. In such cases, the State has tried to attract and/or control external agents while enhancing the development of the national private sector; indeed, it has often created or promoted activities of the national private sector by offering investment opportunities, financing, protection from external competition and from domestic risks, the assurance of stable demand (by means of the State "purchasing power"), cheap inputs, guaranteed profitability, etc. Although the underdevelopment of the peripheral countries tends to be characterized by the weakness of the local social sectors that have been decisive in the development of the centres --both the bourgeoisie and the proletariat-- the State has often made considerable efforts to strengthen them.

/The State

The State has strengthened the private sector and its strength has in turn increased the economic power of the State. Nonetheless, the coexistence between the State and the private sector has been tense, as each one claims for itself the role of controlling the economic process. The history of Latin America has many examples of the strife between "nationalism" and "liberalism", "State direction" and "free enterprise", as well as various uncertain solutions providing for a practical coexistence within a wide range of formulas, from a mixed economy to State capitalism.

Nevertheless, it is not only a question of the complex power play between two actors struggling for supremacy while at the same time sustaining each other; it is also important to consider the ambivalent role of the State in the development of peripheral capitalist systems. In light of the above, it seems wrong to assume --from a "zero-sum" game perspective-- that any increase in State action implies a concomitant decrease in private influence; on the contrary, much of the increase in State power has been essential to the expansion of private enterprise. Moreover, the public and private sectors have intermingled closely in the predominant growth pattern, and in those cases where this pattern has been most successful, it has been based on a relatively stable combination and mutual understanding.

That is one side of the coin. The other side is the fact that the economic growth of Latin America has shown a tendency towards heteronomy, a social and regional concentration of power, wealth and income, the exclusion of large social groups from the fruits of growth and the aggravation of social conflicts. These tendencies cause disequilibria which have increased as a result of social and political processes of growing mobilization and democratization. In its efforts to promote economic growth, the State has had to resolve difficult sectoral disequilibria; by the same token, it has had to take action with respect to the social conflicts that arise from growth itself, from the disparity between actual growth and the expectations of the population, and from the social and political demands resulting from mobilization and democratization.

Indeed, the State's action in the social process is primarily directed towards dealing with the problems arising from the clash of opposing interests in an economic process that tends towards concentration and exclusion and a social process that is impelled by the principle of equitable distribution of the fruits of growth. This means it has to assume responsibility for mitigating social and regional inequalities and promoting a broad social policy.

The State has also had to deal with opposing trends in the political process. In addition to performing its classical functions relating to internal and external consolidation, the State must, on the one hand, uphold an institutional order the dynamics of which lead to an increasing concentration of economic power and, on the other, provide an overall vision that goes beyond powerful private interests while at the same time serving as a flexible institutional framework for all the social forces activated by democratization.

In brief, these are the main challenges which face the State at the economic, social and political levels. They have been dealt with in many different ways and

/different priorities

different priorities have been established among them but, on the whole, these are the main features of the anatomy and physiology of the State in Latin America at this time. These challenges have increased in recent years as a result of the economic crisis and redemocratization processes; thus, the dilemma is to find out what form State action should take under the specific historic circumstances of contemporary Latin America and within the context of strategies oriented towards democracy, autonomy, growth and equity.

It is difficult to find an answer to this dilemma because the growth of the State apparatus has been accompanied by a systematic and detailed study of its true nature, capacity and orientation. Economists have concentrated on drawing up normative models in the belief that a "planner" State would implement them; sociologists and political scientists have been much more concerned with examining the social and political forces which make up the systems of State dominance that influence the working of the State apparatus, than with studying the changing structures and functions of the apparatus itself; public administrators, for their part, have drawn up a set of objectives and procedures for increasing the efficiency of the State apparatus which bear no relationship to national strategy requirements. In the meantime, the State apparatus grows and diversifies, becoming more and more of an unknown quantity for those who think they know it and who use it.

b) Criteria for State action

If the State is both the object and the subject of a development strategy and if the "construction" of the State is, therefore, one of the main objectives of that strategy, it is essential to decide what type of State is desirable and to what extent it should take action in the economy and the society.

To this end, one must inevitably refer to political principles, even if in practice, these must be adjusted to specific circumstances within the boundaries of what is possible. These principles may be organized according to certain key "political formulas" which in turn include their own specific definition of the role of the State. These formulas do not provide an exhaustive list nor are they mutually exclusive; rather, they should be considered as a device for methodically clarifying the doctrines behind the controversy on State intervention in the economy.

If the issue is seen as one of determining what the role of the State should be, there are three "political formulas" which take different approaches as regards the social actors in which they place their trust, the type of rationale they feel should prevail, the diagnosis of the current critical situation and the way in which they propose to deal with it.

According to the liberal formula, the decisive social actors are the private enterprises, especially the most dynamic and productive ones, and the prevailing rationale should be one which is based on the economic calculations of those enterprises and the logic of the market which serves as the framework of their action.

/According to

According to the statist formula, the decisive agent is the State apparatus and the logic which should prevail is that of the technical and political rationale emanating from the State.

Finally, according to the democratic formula, all social, State and private actors are considered to be important agents of the political and economic process --although priority is given to actors which are excluded in the two formulas mentioned above-- and the rationale which should orient the process should be that which arises from the interaction of the actors and the decision-making process established through democratic mechanisms.

The above summary of these three very important political formulas may be over-simplified; the point, however, is to draw attention to the fact that they differ on the key issue of which social actors should, in the last analysis, direct the political and economic process and what type of rationale should prevail. Evidently, most political controversies can be reduced to underlying differences of principle as regards the political formula that is considered desirable.

Each formula has its own diagnosis of the current crisis, and each one places fundamental responsibility for it on the other political formulas, i.e., on the actors and types of rationale advocated under the other formulas. In recent years, for example, much attention has been given to the liberal diagnosis according to which the main causes of the current crisis are to be found in the excesses in which "overburdened" States fall because of the many demands placed on them, which are exacerbated by an "ungovernable" democratic process. According to this view, such phenomena weaken the crucial social actors --the most dynamic private enterprises--, thus undermining both their economic calculations and the logic of the market mechanism, all of which has serious implications for investment, productivity, economic growth, the inflation rate, political stability, etc. By the same token, each of the other formulas bases its diagnosis on the perverse behaviour of the rival formulas and on the impact of such behaviour on the actors and the type of rationale which, according to it, should prevail.

It is easy from the above to draw conclusions as to the role attributed to the State under each of these political formulas. In brief, according to the liberal formula, the main function of the State is to support private agents and the market mechanism so that they can work in the best possible manner. Advocates of the statist formula hold that the prevailing rationale should be that of the State. Within this position, there is a wide variety of possibilities as regards the functions that should be carried out by the State. These refer especially to State regulation of private activity, the direct participation of the State in economic activity and the "social" role of the State; the extent and depth to which each of these positions goes also vary greatly.

Under the democratic formula, the State is conceived as a battlefield as well as an instrument for achieving harmony among the different social groups. In this regard, it does not have a significant degree of autonomy but rather is a reflection of society. Thus, the main function of the State is to guarantee the working of democratic mechanisms without leading the society, as it is assumed that society as a whole will find its own way through the working of these mechanisms.

/In actual

In actual fact, each of these formulas stresses some aspect of reality that cannot be neglected in considering the role of the State in the current crisis. The strength of the liberal formula lies in the considerable concentration of private economic power that has occurred over the last few decades and the resulting increase in the power of the actors considered most important under this view; because of the influence it has in the political and economic process, this power cannot be ignored nor can the factors on which private enterprises base their calculations, and hence their economic behaviour, be changed at will.

For these reasons, the actors and the rationale of the liberal formula have a role to play in any realistic political formula. It must not be forgotten, however, that this rationale does not necessarily work in the best interest of the society as a whole; rather, it works in the interest of its actors, which consist mainly of the transnational corporations, the predominance of which could directly affect the level of autonomy that the Latin American countries can actually achieve. Consequently, it is important to take advantage of their dynamic potential while at the same time regulating and controlling their activity in order to make it consistent with that of the other actors and rationales.

The statist formula is based on a notable increase in the power of the State, but, especially, on the need for it to orient and intervene in societies that are becoming more and more complex, both economically and socially, and are characterized by an increasing concentration and transnationalization of private economic power and a great increase in political activity among all social groups. Nevertheless, it is also known that the State is not always a reservoir of technical rationality and that its operation is often governed by the interests of the groups which make it up. Hence, while State actors and their rationale can make an important contribution, their functions must also be combined with elements of the other formulas.

Finally, the democratic formula would be justified if only because the agents and rationales of the other formulas do not necessarily represent society as a whole, much less, the majority and marginal groups. Consequently, the role of the State and of the most important private actors must be influenced by decisions arising from political participation by all social groups; this participation is becoming stronger at the present time thanks to the momentum provided by the processes of democratization.

No basic formula contains all the elements necessary to make it both desirable and viable; the three must therefore be combined. Indeed, throughout history there has been a great variety of "hybrid" political formulas in which the elements of these three basic ones are mixed in different ways; such is the case, for example, of State capitalism, democratic statism and others. The search for the proper role of the State in the current crisis should therefore begin with a systematic exploration of those hybrid political formulas which are desirable and viable under current conditions. It is important to realize from the outset that whatever combination is proposed, there will always be an inevitable tension among the elements of the different formulas. The resolution of this tension would be the best possible demonstration of the political art of development, which always requires a good dosis of originality and flexibility.

/In brief,

In brief, any proposal for action vis-à-vis the current crisis and the problems of development in Latin America must take into account the general lines of the political formulas considered desirable and viable; these will then become both the object and the subject of the proposal. These formulas should be based on a combination --differing according to the different specific situations--, of the ingredients of the three basic formulas --liberal, statist and democratic-- since they all have elements which must be considered in the design of a new formula. These elements represent the value which large social groups attach to the principles on which they are based or the influence of the power nuclei which back them up. The role assigned to the State and the nature and extent of economic and social action considered desirable for it will depend on the combination that is chosen and how it is adapted to different national situations. Moreover, whatever formula is considered desirable, it will always be characterized by tension and instability because it will represent a combination of heterogeneous and often opposing elements of the basic formulas. The social actors must therefore be prepared to be flexible and not dogmatic, as the political circumstances will call for a constant effort to be made to harmonize interests and rationales.

c) The State's action upon itself: strengthening of the State apparatus

On this basis, it is possible to go a step further and describe some of the specific features of the political formula considered desirable, taking into account some of the main values which orient the general action proposal, i.e., growth and transformation of the structure of production, autonomy, equity, democracy and stability. These values considerably limit the range of choice of a desirable political formula and bring out some of the features it must inevitably have if it is to be consistent with these values.

Two features are especially important, i.e., the strengthening of the State apparatus and the establishment and consolidation of democratic forms of political organization. (This second aspect will be discussed later on.)

The strengthening of the State apparatus is important for several reasons. Firstly, the history of the development of the central and peripheral countries shows that the State apparatus has expanded its functions and powers, particularly during times of economic crisis, when it is especially important to have a central power controlling the disequilibria caused by the crisis and seeking a way out of it. The current crisis will certainly not be any exception.

Secondly, as has been mentioned before, there is a lack of economic, social and political integration in most Latin American societies, which tend to have profound internal discrepancies. "Structural heterogeneity" is still prevalent and it gives rise to disparities in productivity and average income as between regions and economic sectors, a serious inequality as regards power, living conditions and standards among social groups, the existence of groups that are excluded from political participation, the persistence of ethnic inequalities and differences in access to goods and services and full citizenship, as a result of which the sense of national identity is very weak. This sense of national identity, which is crucial to integration, especially in "new" States, is further weakened

/by cultural

by cultural dependency, which weakens national forms of life and expression. In brief, the material and ideological foundations on which national States are built are obviously weak, and they must be strengthened through a process in which the State apparatus itself must play a leading role.

Thirdly, the prevailing trends on the international scene are those which reduce the margin of autonomy of the peripheral countries, such as the aggravation of the political and military conflict between the great powers, the gradual transnationalization of the production apparatus of these countries or the notable increase in their financial dependency. It must be remembered that the only way these countries will be able to resist these trends and maintain or increase their margin of autonomy will be by strengthening the State apparatus, as this is the only restraining wall they have to protect them.

Indeed, during the last few decades, despite the growth of the State, a notable relative imbalance has developed which favours the private powers and works against State and democratic powers. It is not only or mainly that there has been a strengthening and "conglomeration" of the local private sector --which is notorious in several countries--, but it is also that there has been an increase in the presence of transnational corporations in the economic structure of the Latin American countries.

These enterprises had penetrated the commercial and financial areas during the period when commodity exports prevailed. The advance of industrialization during the postwar period, however, marked the beginning of a massive insertion and domination of the corporations in that process. To this must be added the very significant part that has been played by outside bankers and financial groups in recent years.

The process of strengthening the State apparatus should follow, in general terms, the archetype of the planner State conceived by ECLAC and described above. This planning capacity is based on three main factors, i.e., technical and administrative efficiency, political capacity and economic and financial power. Everyone accepts the objective of technical and administrative efficiency, provided it is not placed above the other objectives that should orient the action of the State apparatus. Indeed, after the many years during which the bureaucratic Weberian rationale prevailed, unopposed in "administrative reform" processes, Latin America has reached the point where it is evident that the efficiency achieved through that model must be subordinated to the "social effectiveness" of the overall action of the State; the attainment of this effectiveness will depend on the State's action being consistent with the various objectives sought.

The objective of political capacity refers basically to the willingness of the State to establish obligations or mandates for all social groups and to enforce compliance with these obligations, by coercion if necessary. Nevertheless, this "strong" or "effective" State cannot be based only or preferentially on the use of the coercive power that characterizes an authoritarian political organization; rather, it must be based on principles which, in the opinion of the governments, lend legitimacy to those mandates. In the context of the contemporary Western political culture to which the Latin American countries belong, this legitimacy

/can only

can only be achieved when democratic political principles are being followed; in other words, the obligations considered legitimate will be those which are established by a State through democratic procedures. Only thus will it be possible to achieve the high level of responsibility and individual and collective discipline on which a vigorous and stable State political capacity must be founded.

The economic and financial power of the State is closely related to its political capacity, since the two attributes support each other. This power is expressed and exercised in several different ways, but its central nucleus is the process of capital accumulation; in the last analysis, the degree to which this power has actually been achieved in a given situation must be assessed with respect to the State's capacity to control the accumulation process. Only thus will the State be able to place itself on an equal footing with private economic powers. It is difficult to decide which procedures will be the most appropriate ones for consolidating this power; the most widely known ones are the appropriate use of economic policy instruments, direct investment of a productive type, and control over public and private financial mechanisms. Nevertheless, the best combination can only be determined in the light of specific circumstances.

d) State action vis-à-vis the crisis: general criteria

External restrictions and the prospects of slow growth impose on the State certain priorities, some of the most important of which are the following:

i) The State must overcome the external restriction; this is a prerequisite for promoting growth and gradually satisfying the needs that have accumulated. This means that a smooth flow of communications must be established between the State and the society, the structure of production must be increasingly articulated, industrial sector must be integrated, education and the communications media must be linked with the scientific and technological complex of the production system and large public and private enterprises must be articulated with small and medium-sized industries.

ii) The State must adopt behaviours, define instruments and establish institutional mechanisms that lead to an increase in domestic savings. The external restriction which, over the last decade, has in some countries gone hand in hand with a weak investment process will inexorably lead to a period of austerity in the area of consumption. This in turn will call for a selective investment effort based firmly on domestic savings.

iii) Economies having a moderate growth rate which are subject to the external restriction and need to compensate for lags in investment will not be able to increase significantly the magnitude of their programmes for meeting basic needs (health, food, housing, education, employment), even though the content of these programmes may vary radically. As far as the State is concerned, this means that it will have to concentrate on the more modest and less organized users; as far as the society is concerned, it will have to assume responsibility for providing some of these services, which would be decentralized. The market will have to take care of that portion of each one of these services that is directed to higher-income users. In this respect, it must be noted that there is a basic difference between what has been questioned in the industrialized countries as the "widespread over-protection" by the welfare State which developed during the years of rapid growth in those

/countries, and

countries, and the situation of "widespread lack of protection" which prevails among the unorganized lower- and middle-income sectors in Latin America. Whereas, in the advanced countries, "widespread over-protection" may lead to a rigidity that can hold back the necessary process of economic and social adjustment, in most of the Latin American countries, the prolongation of a merciless marginality, accentuated by the crisis, makes it difficult to consolidate civilized forms of social coexistence and, in some cases, may even seriously jeopardize the survival of national States. If the solution of the economic crisis is to mark the beginning of a development style that allows for social and political stability, it will be absolutely essential to neutralize, even if only gradually, this "widespread lack of protection". In the countries that are now industrialized, economic modernization preceded the democratization of society, sometimes by more than one century. Precisely because the industrialization of Latin America has been late in coming, the region can take advantage of the store of scientific and technical knowledge that is already organized and available; on the other hand, it must introduce innovations in the social sphere in order to ensure that modernization will be compatible with the achievement of the goal of democratization which has been disseminated throughout the societies and which must not be delayed.

iv) The State must conceive a long-term strategy designed to allow for a sound insertion of national and foreign local enterprises in the international markets. As is well-known, it is the States and the leading enterprises who, in close articulation, share the dominant role in the international market. The State, even if it limits its production activities to strategic items, must be "obsessed with production"; in other words, it must provide long-term support in various spheres (research and development, training, public purchasing, financial support, infrastructure) to the group of enterprises (private and public) that are involved in the process of constructing comparative advantages. In the Latin American countries, the State has traditionally followed an economic policy designed, in so far as possible, to "insulate" the domestic economy from adverse external circumstances or protect economic activities from foreign competition. This has been accomplished with varying degrees of success, depending on which country was concerned and how adverse outside circumstances were. More than being protectionist, the State has acted as a "protector State" in every country of the area in recent decades, except during the interval of opening-up policies which seriously affected some of the countries, especially in the southern part of the region. Once that period passed, however, and despite the fact that some governments favour opening-up and promote exports as an instrument for overcoming the crisis, the State is again being seen as a necessary element of protection for the growth of the countries. The emphasis that has been placed on this characteristic of the State is justified not so much by the thorough historic analysis on which it is based, but by the limitations which the new circumstances affecting the State will impose on its future behaviour.

v) Under such circumstances, the State will be increasingly called upon to fulfil the role of intermediary between the external pressure to ensure an outward flow of resources in order to cover interest payments on the debt, and the internal pressure to meet urgent social demands and foster economic stabilization and growth. In other words, the State must abandon its role as a "protector" and design an economic policy capable of producing a surplus that can be transformed into foreign exchange in order to meet the interest on the debt, and, at the same time, meet the demands made of it and promote the growth of the economy.

In brief, the State is faced with the challenge of achieving compatibility between the pressures from abroad and those which are generated domestically. The

/external pressure

external pressure tends to depress the economy and the internal pressure tends to avoid this depression. The point of equilibrium would seem to lie in the State's power to negotiate with the external agents and to enforce its policies domestically. This balance will always be a precarious one, because if it is achieved it would not make a significant impact as far as growth is concerned. Hence, support for political power would deteriorate before too long, although this would occur to different degrees in different countries, depending on the type of government concerned. Governments of a democratic type might have greater political capacity and be able to keep the pressure from abroad within limits that would be tolerable to creditors, but this type of government does not usually have a great capacity to exert pressure "from below" in domestic matters. The dilemma can only be resolved by following a systematic and vigorous policy of external negotiation and a domestic policy that gives priority to harmonizing the interests of groups and sectors in order to achieve political stability and growth.

vi) The State must make the large private enterprises more transparent and must ensure that public entrepreneurial activities are also transparent and properly regulated. The ideological debate between public and private enterprise should at least be complemented by some reflection with regard to activities (public or private) which, by their nature, should be accountable under democratic procedures and which are often feudal holdings that are impenetrable both to public scrutiny and to the executive branch itself. These situations come to light only when the private enterprise concerned goes into bankruptcy and seeks public support, or when the subsidies required for public enterprises exceed domestic or external financial capabilities. International experience suggests that the following basic criteria should be established for the proper management of a large enterprise:

- A high degree of autonomy in the management of the enterprise.
- Accountability to the public.
- A high level of commitment, on the part of the workers, to the objectives of the enterprise.

In recent years, it became evident in different countries of the region that lack of accountability and regulation affected the management of the large private and public enterprises, led to a loss of autonomy of private enterprises vis-à-vis financial intermediaries, and to an excessive growth of the State, which in some countries was assigned a subsidiary role. At the root of this curious gap between talk and reality was the failure of both public management and of the large private groups to open themselves up to public scrutiny, while public ownership did not guarantee the search for the "common good" nor did private ownership guarantee "decentralization".

vii) It will be many years before the State in Latin America will have a large degree of freedom in the economic sphere. This, together with the need for it to concentrate its attention on priority questions (overcoming the external restriction, macroeconomic equilibria, physical infrastructure, basic social services for the modest and unorganized strata), makes it necessary for routine issues to be considered in a framework of great normative flexibility and surveillance by the private sector, whose contribution to employment and to the solution of the external restriction should be the essential criteria for the granting of "public favours". The "underground economy", Italian style, should be legitimated in so far as it contributes to generating employment and foreign exchange.

3. Public planning and policies

If the preceding sections were concerned with the what and the why of State action, this is devoted to the how: that is, it suggests some methodological criteria as to the framework in which this action should take place. Outstanding among these criteria are naturally those relating to the formulation and application of the public plans and policies through which State action is manifested.

a) The design of strategies and plans for reactivation in the medium term

The short-term bias that has characterized the handling of economic policy in most of the countries in recent years will have to be corrected by the formulation of medium-term strategies for surmounting the crisis and introducing structural change in line with the new development style which will serve as a background to management of the prevailing situation.

In practical terms this task might begin with the selection of priorities based on the assessment of resources and the listing of needs in order to establish a clear adjustment between the possible and the desirable.

Once the order of priorities in each national situation has been defined, the second task --perhaps just as important as the first-- consists in the design of the development policy, the following aspects of which are highlighted by the experience of recent years.

The design of development strategies should not be an end in itself but should be one of the first steps in the planning process, to be necessarily followed, for the effective promotion of development, by others comprising execution, follow-up and evaluation. Such strategies define the broad lineaments which orient the action of the government and the private sector; they are the starting point of State action and not its goal.

Therefore, rather than tracing a norm for the future, the strategy should contain a series of optative procedures vis-à-vis a variety of international scenarios and foreseeable reactions of social groups and economic agents. The growing uncertainty and the conflicts in the contemporary world call for a strategic rather than a normative approach.

Strategies do not always precisely define the function of the State. Since it is a question of functioning in mixed economies, State action should aim at an adequate equilibrium between the market and planning. As was pointed out in the preceding sections, we must recognize not only the general deficiencies of the former but also the dangers of excessive interventionism; it will be useful, therefore, to describe in detail the scope and limits of the action of the State and of the market and the ways in which they function.

Recent experience has provided some lessons on the functioning of the market and the price system which it would be wise to take into account when working out the new strategies and reactivation plans. These lessons indicate that the State

/should establish

should establish the key prices of the economy which are basically concerned with the factor market (wages, interest rates, exchange rate, tariffs), whereas there should be greater freedom in the goods market, except when it is necessary to create incentives in order to mobilize resources, promote production, eliminate bottlenecks, support basic consumption, and correct monopolies or distortions in the allocation of resources. In other words, just as there are obvious risks in generalized interventionism, there should equally be an awareness of the aspects of the price system which lead to an unsuitable allocation and distribution of resources.

Strategies of reactivation, which entail an expansive and not a recessive adjustment, should be given much more precise and selective limits. Generally they go beyond the areas in which they could exercise effective control and invade others which could be left to the private sector or the market. In planning the tasks of reactivation, the most dynamic areas should be selected and included in the programmes, since planning tends to be more effective when its objectives are clearer, its policies more general and its direct controls few in number.

At the same time these strategies --in contrast to overall development plans-- should be more precise about the temporal dimension. Taking the main objectives into account, the tasks should be spaced out in time so that those executing the economic policy can visualize their temporal sequence, giving priority to some and postponing others; similarly they should be flexible so that they can incorporate the necessary adjustments without distorting their global concept or exposing their frame of reference to premature failure. This means admitting internal and external conjunctural adjustments and, to a certain extent, recognizing that there are unforeseeable elements which can be assimilated without substantially changing the time horizons of the objectives. Hence the economic agents should be able to deduce from the plan a certain sequence in the objectives which will rationalize decision-taking and give credibility to its purposes, especially in the short term.

b) The compatibility of objectives and politics in the medium and short term

In abstract terms a distinction should be made between short- and medium-term objectives and also between policy instruments in these two temporal dimensions. Thus, for example, medium-term objectives, such as changes in income distribution and in the productive structure, are habitually confronted with other short-term aims, such as reducing the inflation rate and the external deficit. The same distinction should be made between permanent instrumental policies which aim at medium-term goals, and policies of conjunctural adjustment which seek to solve transitory imbalances deriving from cyclical fluctuations or unexpected changes in contingent variables, such as falls in export prices or bad harvests. Permanent policies comprise all those legally sanctioned norms which affect resource allocation, income distribution and the growth rate, such as tariff and tax policy, the regulation of the domestic and external capital markets, and the wage régime. Adjustment policies are those which affect key prices of the economy, such as the exchange rate and the interest rate, public expenditure and the money supply. Whereas the former are usually subject to negotiation between the executive and congress, the latter are left to the discretionary management of the executive.

/In theory

In theory short-term disturbances could be handled with instruments of "fine tuning" which correct the imbalances without changing the trend of development in accordance with the strategy and its permanent policies. Nevertheless, short-term maladjustments can be so great in practice that they totally disarticulate the development policy, which has to take second place in view of the urgent need to correct an unexpectedly high deficit in the external sector or an increase in domestic expenditure caused by a natural disaster. In this case the short-term aims come to have greater priority than those of the medium-term and the application of the instruments of adjustment creates very marked effects which may be opposed to those that are supposed to be produced by the permanent policies.

Regarded from this standpoint, the task of achieving compatibility should be undertaken on several levels.

i) As regards medium-term policies, there should be coherence between the aims and instruments of permanent policy. For example, if the plan is to foment a substantial increase in exportable goods and import substitutes, a high level of protection should be established in the tradeable goods sector through the exchange rate, tariffs and export subsidies. If, on the other hand, the aim is to raise domestic saving, both public and private, this would necessarily entail stable real interest rates, the raising of taxation rates and the reduction of public expenditure.

This task is of course a complex one owing to the multiple interactions existing in the economy. Thus, for instance, the promotion of investment by means of low interest rates may foment the flight of capital and aggravate the external imbalance; the control of the fiscal deficit might depress effective demand to the point of cancelling out the aims of reactivation; monetary stability might involve a disproportionate sacrifice as regards a wages level compatible with the cost of living; reduction of the trade deficit during the phase of recessive adjustment might persist so long as to curb recovery, through the lack of basic inputs or the obsolescence of capital goods; the adjustment of the public sector accounts might adversely affect investment, with the risk of sacrificing the goals of expansion; the change in the relative prices between tradeable and non-tradeable goods through rises in the nominal exchange rate might cause considerable imbalances between the capital account and the current account. Similar inconsistencies might occur between the policy of fiscal equilibrium and employment goals, or the policy of monetary stability through controls on the expansion of credit might lead to a rise in interest rates, together with the postponement of investment projects which make intensive use of manpower. These examples are given as a warning against the incompatibilities and contradictions of policies. Some of them will be inevitable, but the diagnosis and the form of reaction of the different economic agents can also be of importance. Nevertheless, if the policies are undertaken from an integral standpoint, involving an analysis of the coherence of the main objectives and their respective instrumentation, there will be less risk of contradicting the programmed economic policy and less possibility of delaying the transition from a recessive phase to another of expansive adjustment and stabilization.

ii) A second aspect of compatibilization has to do with the imperative need not to sacrifice long-term goals to the demands of the immediate situation. Structural reforms and redistributive changes in favour of the groups in greatest need must not be lost sight of during the adjustment process; in this sense the policies must necessarily incorporate long-term goals as a guideline for government action and short-term goals to correct external and internal imbalances. Once the severest problems of the recessive adjustment have been surmounted, redistributive policies should come to the fore to correct the inequitable costs that fall on social groups, sectors or regions. To achieve this, the long-term social considerations of economic policy are no less or even more important in the design of social policy than short-term economic considerations.

iii) A third aspect of importance relates to the necessary coherence between conjunctural adjustment policies and permanent policies. It sometimes happens that, as a result of an external crisis, an abrupt devaluation is applied. This can overstimulate the production of tradeable goods beyond the adequate limit of effective protection, generating quasi-rents in the exporting sector and in the import-substitution sector. Nonetheless, it can also unleash domestic inflationary pressures which, in face of the prevailing nominal levels of domestic expenditure, wages and public expenditure, provoke an unforeseen fall in real domestic demand, production and employment. This measure can have notably negative effects when, as a result of the low price elasticities of supplies of exportable goods and import substitutes, the devaluation does not succeed in reducing the external deficit and creates a recessive situation in the domestic market.

Consequently, the handling of the short-term macroeconomic policy should be based on a knowledge of the possible reaction of the economic agents to changes in the policy parameters and should keep within the bounds of the permanent policies and medium-term objectives.

iv) Apart from the technical problems associated with the design of coherent strategies and reactivation plans, there are also obstacles to compatibilization in the political, institutional and administrative fields. Firstly, the objectives and policies frequently become weakened when passing from the national to the sectoral or regional level. This is usually linked with the greater or lesser capacity for information, co-ordination and control existing between the respective institutions.

Secondly, it often happens that quasi-autonomous bodies and even public enterprises themselves adopt a behaviour pattern which differs from the orientations of the general policies and in some cases contradicts them. Finally, the viability of these policies depends in essence on the volume of the financial backing and of its timely receipt, which means that there must be adequate co-ordination between the ministries of finance and economy and the central banks. This should not be interpreted as meaning that the influence of the volume of resources overrides that of the design of policies; on the contrary, it propounds the need for an adequate investment policy and proper selection of projects.

/c) Programming

c) Programming of the public sector and of State enterprises

As already indicated, the tasks confronting the State in the crisis call for the adoption of measures destined to organize and modernize the State machinery so that it can better perform its basic functions of development promotion and management, along with all the other activities aimed at improving and expanding the production and distribution of goods and services. The State should concentrate its efforts on intensive inward programming which will result in a clear definition of the system of priorities for public expenditure and the specific spheres of its projected activity in relation to the rest of the economy.

In these activities it is crucial to distinguish between the fiscal areas proper and those of quasi-autonomous bodies and public enterprises. A first step would be to establish an integrated system of public sector accounts, which would make known both the income and expenditure of the rest of the economy, the transfers between agencies, and the structure of public credit, both internal and external. Only by such means will it be possible to detect the factors responsible for the global deficit of the sector.

In the second place, a programme of expenditure should be carefully worked out, on at least a three-year basis, which respects the overall priorities of the plan. Two aspects must be emphasized here. As a result of the crisis there are a large number of unfinished investment projects in various countries, owing to shortage of funds in the national component; obviously the completion of these projects should have priority over the initiation of new ones. At the same time, the necessary complementarities between current expenditure and investment expenditure should be observed.

Thirdly, a careful projection of public revenues should be made, taking into account the existing taxation system, the predictable trends of the social security system and other quasi-autonomous entities, and the maintenance of the real levels of tariffs and prices of public services. By these means it will be possible to see whether or not the resulting deficit exceeds the target of expansion of domestic public credit viewed from the standpoint of stability. If it does, it will be necessary to define a set of measures to increase revenue and reduce expenditure in order to comply with the pre-arranged overall limit. This stage is crucial from the viewpoint of compatibility of policies, because there is a risk that reducing expenditure or expanding revenue may generate disincentives for the private economy which will end up by cancelling out the sought-for reactivation of production. Here, an economic and not a purely fiscal analysis of the measures becomes essential. The existence of a national bank of investment projects, which will determine their effects on employment, the external balance and production, could be a powerful help in this assessment. A similar contribution could be made by basic studies on the impact of taxation, tariffs and charges on the production costs of enterprises.

With regard to the execution of the budget, it would be useful for the action of the ministries and quasi-autonomous agencies to be expressed in a set of strategic programmes which make an integrated approach to the promotional work of the State in

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sectors, subsectors, and regions, which in their turn should articulate the various projects receiving public finance. Within this sequence there should be appropriate mechanisms for the planning and budgetary authority to carry out the tasks of follow-up, evaluation and control, so as to make the necessary adjustments at the right moment without major alterations in the progress of the plan. With regard to the control of programme execution, it would be desirable to correct such discretionary practices as financing current expenditure through the system of transfers or non-tax resources. The first of these practices has reached such dimensions at the sectoral, regional and local level that in some cases it has gone beyond the control of the State itself. The second type of practice, based on foreign trade or the profits received from certain national assets (reserves, investments, funds) has created a false image of programming or become an allocation remote from reality and often no longer governed by criteria of equity and efficiency.

The subject of State enterprises embraces several problems deriving from the considerable weight these enterprises have acquired in the generation of the gross domestic product, in the production of basic services, in the volume and availability of external indebtedness, and in the amount of their expenditure, which in some cases is greater than that of the central government. Nevertheless, there are very differing criteria on the linkages that should exist between these enterprises and the other institutions of the public sector, within the context of the economic policy adopted. Examples of this diversity can be seen in the scales of charges of public enterprises, which tend to fluctuate considerably both in conditions of self-financing and in régimes of price subsidies and control; in the purchasing policies of the enterprises, which range from the "statutes of official purchases" and the elimination of exemptions in order to subject them to the policy of import control and force them to buy domestically, to a condition of full autonomy and the formation of a decentralized sector with rules and procedures independent of the central administration and the private sector. At the same time, there is great diversity in the ways in which these enterprises fit into the plans for science and technology, development of basic engineering capacity and sectoral complementation.

To avoid the problems which derive from such a diversity of criteria, the activity of State enterprises should fit into the general strategy and that of the public sector, a process which should include the following aspects:

i) Clear definition of the activities to be undertaken by the State in accordance with pre-established criteria on strategic areas, priority areas and complementary areas, with a view to concentrating the State's action in the sectors in which its intervention is most effective.

ii) A clear definition of the economic and social objectives of each enterprise, within clear guidelines on efficiency and financing, in order to support the development of the productive apparatus and a progressive redistribution of income.

iii) A permanent and generalized system of control and evaluation so as to ascertain their contribution to output and income distribution. To achieve this it would be necessary to establish prices of account; goals of production and social coverage; guidelines on the generation of surpluses, according to the type and nature

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of their activity; and norms on their contribution to the national, regional and local development plans. No less important would be the guidelines on forms of support for the less privileged groups.

iv) An appropriate system of incentives for backing up their performance and promoting creativity and competitiveness; as a result of these measures some public enterprises have taken the lead in the supply of goods and services.

v) An adequate system of management, without the risks of excessive bureaucracy. To this end they should be given a certain minimum of stability in the development of their plans and some degree of administrative independence, so as to prevent their conversion into one more extension of the bureaucratic machine or an additional resource for providing State employment.

d) The systematic evaluation of public policies

Finally, it is worth underlining the importance that the systematic evaluation of public policies can have for increasing their efficiency. In such assessment it is always difficult to distinguish, even in ex-post analysis, between the influence on each economic event of the economic policies directed to that end and the effect of exogenous aspects such as the international situation, climatic factors and other elements. It should be noted also that the achievement of certain specific goals is often indirectly affected by policy measures primarily directed towards other sectors or problems of economic policy. Nonetheless, the conception and method of application of programmes and measures have frequently been major obstacles standing in the way of the attainment of economic policy goals.

In dealing with the subject of policy evaluation, it is not our intention to offer general formulas for increasing the efficacy and reducing the cost of economic policy measures. On the contrary, we start with the assumption that such general formulas do not exist or cannot be expressed without resorting to such a high degree of abstraction as to make them ineffective. Instead, our intention is to assume, in designing public policy programmes, whether these be general or specific, economic or social, global or sectoral, that there will not necessarily be economic measures capable of putting them into practice automatically. This has been a very frequent implicit assumption, as may easily be seen by examining the development policies adopted by the countries during the last 25 years.

The relative ineffectiveness of some policies has led to the quest for new and original ones; it does not seem satisfactory, however, to rely only on this possibility, particularly as it seems likely that it is much more advantageous to improve the methods of application of policies already known and tried. In fact, the region has accumulated a rich store of experience in the application of policy measures; this wealth is frequently derived from relative or partial "failures", and the analysis of this experience in each national case may be the best basis for adopting better methods of policy application in the future.

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For example, what better illustration can there be of the defects of the method of policy application than the frequent occurrence of tax evasion? Some attempts at tax reform that have been made with a view to increasing the rationality and equity of the taxation systems have been of little avail, since the actual tax revenue reflects the distortions caused by evasion rather than the aims of the legislation. Thus, for example, because of the different opportunities of evasion available to different economic groups, a direct progressive tax on income can, in practice, turn out to be more regressive than an indirect tax. The basic objective of the measure tends to be distorted by the peculiarities and defects of its application. However, the important thing is that the features of the phenomenon are or can be known in each country, and the analysis of this experience will surely give rise to serious thought and useful ideas for minimizing its effects. For instance, if it is decided to have recourse to modern information techniques and systems in order to verify from different sources similar information supplied by different enterprises, the programming of this task should be based on knowledge already acquired concerning cases and methods of evasion.

Examples can certainly be multiplied by referring to experiences with régimes for the promotion of direct foreign investment, exports, afforestation, public enterprises, and others. The main common feature is that there are ample possibilities of increasing the efficacy and efficiency of the policies by improving their methods of application. It would be simplistic and ingenuous, however, to attribute all the imperfections observed in the past to defects in application. There are more complex causes; for instance, one could hardly demand more stability from economic policies than from the political régimes that produce them, or assume that the State has more capacity for administering policies than is to be expected from the level of institutional development achieved. In other words, owing to confusion between the theoretical possibilities of State intervention in different sectoral areas and the real capacity of the State concerned, the latter is assigned a volume of tasks which is apparently only limited by the imagination of the policy-makers.

In each country and in each sphere of economic and social policy an effort of ingenuity and imagination will be needed, not so much in the conception of new measures as in the improvement of the methods of application of the familiar measures that may be adopted. There is a fund of experience on which to base this task. And in addition to ingenuity and imagination, there will be a need for other less spectacular virtues, such as probity, perseverance and keenness. And, of course, for these qualities to be applied, there must be a social, political and institutional framework which will stimulate and reward them.

4. Participation, social concertation and democracy

a) The strengthening of democracy

In this chapter, which is devoted to the subject of the State, some reference must be made, however briefly, to the main political aim of development strategy: namely, to establish and consolidate democratic forms of political organization.

/This aim

This aim has three main justifications: the intrinsic value of democratic principles; the part that can be played by the democratic mechanisms of articulation of interests in the stabilization and institutionalization of the political process; and the relation existing between the prevalence of both of these and the objectives of social equity.

In supporting a development strategy with democratic roots it must be borne in mind that this implies a specific method of solving the decisive problem of co-ordinating complex and politically activated societies. On the one hand, the authoritarian mechanisms of decision-taking must be rejected, since they run counter to the very essence of democracy, which assumes general participation in this process. On the other hand, other mechanisms of articulation, such as the market and national feelings of identity, are not sufficient. The physical, economic and social integration of society is a prime requisite for the functioning of a thorough-going democracy, just as the solidarity produced by national sentiments is an important element in establishing and consolidating stable democratic mechanisms for decision-taking and the settlement of conflicts. But democratic planning --the idea reflection of democratic articulation-- can only be conceived as a process in which all the social actors, whether public or private, take part in the formulation and co-ordinated realization of the national goals.

The institutional mechanisms of democratic articulation are, in the first place, those proper to liberal democracy, based on the aggregative and representative functioning of the political parties, on free elections, parliamentary institutions, and the civil and political rights on which these mechanisms are founded. The obstacles in the way of the full application of these mechanisms in many Latin American countries, and the regressions that have taken place in some of them, indicate the difficulty of the future task and the incompleteness of that hitherto realized, while at the same time the renewed strengthening of democratic movements indicates the persistence of these political values.

Nevertheless, both in the central and in the peripheral countries --and especially, among the latter, in the relatively more developed ones-- there are important nuclei of economic power whose articulation, essential for stabilizing and orienting the political and economic processes, is not fully achieved by the conventional democratic mechanisms. Outstanding among these nuclei are the entrepreneurial association and the trade unions, which in their wide variety pluralize and at the same time complicate the aforesaid processes. This situation has given rise to the emergence of procedures for achieving social concertation among these powers, which do not seek to replace those of liberal democracy but to complement them. These procedures, which frequently succeed in becoming institutionalized as economic and social councils, have had a precarious existence in Latin America, but they represent a promising path for efforts to construct forms of harmonization and concertation of interests. Just as the institutions of liberal democracy are based on the existence of civil and political rights, these councils require the participation of all social groups, for which they need to attain a considerable degree of awareness and organization of their interests. There is little use in a concertation which excludes an important segment of the social groups. Both the classic and the modern forms of democracy and concertation

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may be partial, limited or restricted; the objective is to convert them into generalized or total forms. Such a conversion brings with it, as is well known, fierce conflicts, since it implies a change in the political régime. These conflicts are especially traumatic in those societies in which there is a persistent blockage of the political participation of a large proportion of the population; in such cases the aforesaid conversion tends to adopt the form of a social upheaval.

Liberal democratic mechanisms and procedures of concertation do not exhaust the process of democratization, however. The growing concentration of economic power, both public and private, entails a search for means by which this power can be shared out more equitably and controlled. The objective is evident and has been underscored by many: it is to deepen the democratization of the State machinery and private enterprise, which constitute the current supreme forms of concentration of economic power. This democratization can assume various forms, embracing the participation of employees in the management and capital of enterprises, the promotion of co-operatives, etc. In several Latin American countries co-operatives are being strengthened, but experiments in participation in private and State enterprises have been few and far from successful. In this connection, some central countries are experimenting with formulas which deserve to be followed with attention, since they aim at overcoming the dilemma presented by the simultaneous existence of two opposing trends: economic concentration in large organizations and the urge towards democratization.

All the democratization mechanisms indicated require as an indispensable foundation the existence of a democratic society, that is to say, a society which accepts the legitimacy of the institutional mechanisms through which the diverse interests are organized, expressed and influenced. Mechanisms are empty forms if they are not sustained by a profound social consensus which legitimates them. Such a consensus constitutes the basis of "democratic discipline", an essential element if a State is to have sufficient authority to carry out decisions reached democratically.

The three aspects of the democratization process (liberal democracy of the classical type; social concertation, and democratic control of the main State and private nuclei of power), in conjunction with the social consensus which should serve as their base, constitute the framework for the objectives of a thorough-going democratization process. They represent an almost utopian project, but should not be discarded for this reason. It is not a question of a rapid and complete attainment of Democratic Society, but of recognizing its principal forms and advancing towards them; institutions are consolidated by constant and prolonged human effort, so that the only way to achieve this society is by applying its principles as widely and persistently as possible. It may be added that the current moves towards a return to democracy in Latin America indicate that the said objectives point in the right direction and confer viability to what until recently seemed an unattainable goal.

The existence of a democratic form of political organization constitutes at the same time one of the essential conditions for the application of a strategy oriented towards equity. When it is no longer possible to rely on the pre-existence of the

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planning and reformist State, it becomes evident that without democracy the level of equity cannot be raised and, consequently, the establishment and strengthening of democracy must be made a priority objective of a strategy of that type, especially in "weak democracies" like those of Latin America. This is particularly important during a crisis like the present, since democracy is the only real defence which the less powerful groups have against being forced to bear a disproportionate amount of the costs of the crisis.

Similarly, the stability of a democratic political system depends on society attaining a certain minimum level of equity; in other words, it will not be possible to set up vigorous and stable democratic institutions in societies where deep economic, ethnical, social and cultural inequality prevails. Hence it can be maintained, especially in relation to the long term, that equity and democracy are mutually reinforced and constitute two almost inseparable aspects of the global strategy.

In this connection, it should also be remembered that democratization embraces two associated aspects: on the one hand, the activation and training of the actors, so that they can participate in the democratic procedures of decision-taking, which is especially important in societies such as those of Latin America, where many of them are far from possessing the necessary awareness and organization for this purpose; on the other, the rationalization and institutionalization of democratic processes of decision-taking. If the activation and training of the social actors is not accompanied by the establishment of solid mechanisms of articulation, the political process will end in chaos; if these mechanisms do not incorporate all the relevant actors, they will represent merely a spurious and unstable form of democracy.

In earlier pages, when mentioning the need to strengthen the political capacity of the State, it was maintained that it should not be assumed that democratic systems have an intrinsic weakness owing to the broad and complex process of decision-taking which is their essence. Democratic régimes have to be firm in exacting the fulfilment of the mandates which emerge from this process, avoiding any confusion between democracy and permissiveness; indeed, the same firmness shown in the defence of democratic methods of decision-making should be exercised in ensuring that those decisions are complied with. There is no doubt that the recent history of the developing countries provides many examples of the negative consequences suffered by democracy itself if it fails to insist on compliance with its mandates.

This complex relationship between liberty and compulsion and between decentralization and unified action which should characterize democracy, should be particularly borne in mind when considering forms of participation. This will ensure that, in their development, they do not obscure the elements of duty and responsibility which should accompany them.

b) Forms of participation

On a more concrete plane of analysis, we can distinguish between two levels of participation of the social actors in the taking of decisions relating to the development strategy: macroparticipation, and participation at the sectoral, regional and community level.

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At the level of economic and social macroparticipation, and also sectoral participation, some countries have set up economic and social councils in a laudable attempt to inform or incorporate representatives of entrepreneurial and trade-union organizations in the elaboration of medium-term plans and in the fundamental decisions of public policy. These efforts constitute praiseworthy initiatives in an arduous task regarding which there is insufficient experience in the region. There is a long way to go, however, if these exercises in participation are not to develop into simple instances of information and presentation of demands by privileged interest groups, but are instead to constitute real instances of analysis and discussion of national problems, of the restrictions and conditioning factors that face the country, and of the options open to public policy. Only through this type of socialization of the problems will the government be able to achieve the solidarity of the social agents vis-à-vis the difficult decisions that it must adopt.

Some recent national plans, such as that of Mexico, have established basic guidelines for the participation of the society in the different phases of the plan. These guidelines establish the following procedures: a compulsory procedure for the public sector; one of co-ordination at the national, departmental, regional and municipal level, in which an important role is assigned to the national, regional and municipal planning offices; one of concertation between the public sector and individuals in order to reconcile interests and mechanisms of action within the priorities of the plan and, finally, one of induction, in which there is specification of the policies and instruments which are intended to promote, regulate, orient or prohibit certain actions by the social agents, in fulfilment of the development goals.

If the above-mentioned four forms of participation could be fully achieved we would be advancing on a basis of solidarity towards the execution of the plan and establishing solid foundations for the adoption and strengthening of democratic institutions.

As regards participation at the territorial level, there must be a recovery of the administrative capacity of regions and municipalities through instruments which support their autonomy and strengthen their financial structure, giving them greater independence in the tasks of collecting revenue and assigning these resources, without detriment to the centralized control of decision-making and of the taking of wide-ranging measures which are of nation-wide importance or which require large resources. For many years, despite a considerable body of legal norms and a costly policy of subsidies and transfers of every type, the response in terms of regional, state and local development was far from achieving the results expected. In those cases in which autonomous corporations with considerable popular representation and a better knowledge of the problems were created and reinforced, however, the achievements have been and continue to be highly positive.

The foregoing example represents a useful form of participation of the social agents for the effective establishment of a participative and socially concerted planning system. In this way the different social groups can take an active and co-ordinated part in the discussion of alternatives and the design of plans and

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policies. Popular promotion through planning means that the various social groups, and especially the most marginated ones, participate in social benefits and are integrated into the progress of the country, playing an active role in the solution of their own problems and in those of society as a whole. To achieve this, mechanisms and institutions must be created which will guarantee a minimum of representativeness, organization and co-ordination, without falling into the "paternalism" or "welfarism" characteristic of some public bodies responsible for social participation.

In this sense, the establishment of a democratic and participative framework implies the fostering of major changes on two planes: that of the adjustment of the public machinery and that of the organization of producers and also possibly urban consumers, particularly in peripheral areas of large cities. With regard to the public machinery, it is imperative to proceed with the decentralization of the political and administrative functions, the deconcentration of the use of resources and the integration at the local level of the multiplicity of public measures, especially those which can complement each other directly or indirectly. With regard to producers, there must be strengthening (or promotion, where these do not exist) of organizations which are as homogeneous as possible in relation to the interests of the participants, in spheres of territorial location recognizable as such by the actual producers, who would constitute the local level of integration of the public segments. The foregoing proposals call for the political will and strength needed to counter the natural trends of bureaucratic logic towards concentration of power and verticality of management in the public sphere and towards the spurious representation which is produced in heterogeneous producer organizations as regards the interests of the smallest members. Only in a framework in which an organized rural and urban social network has been constituted and in which the political structure has been decentralized, deconcentrated and integrated at the local level will it be possible to put forward participative policies --at least in respect of those aspects which most directly affect the living and working conditions of the producers-- and thus to transform the organization itself into a productive resource of high potentiality. However, there can be no question of considering "participation" as a set of more or less detailed rules which lead to the inclusion of representatives of the interested groups in "commissions" or "committees" of specific bureaucratic areas, regardless of whether they are near to or far from the location of the territorial groups, or as the formality of arranging for certain assemblies to be convened by officials of specific public institutions to "decide" a few affairs of mutual interest. On the contrary, participation should be understood as a continuing practice which will be the real expression of the power of the persons concerned over their work process and the destination of its results.

c) The democratic project and the social actors

The first task of democratic régimes is to overcome the crisis with sufficient efficacy to recover a reasonable level of autonomy in respect of economic and social policy, to distribute the burdens in a manner considered equitable, to put an end to the disorganization and arbitrariness of public administration, and to promote investment and production.

/Such régimes

Such régimes must mobilize a sufficient consensus among the different social forces to enable them to act coherently. Hence the importance already mentioned of the idea of social concertation as a means of educating public opinion, ensuring public participation in the formulation of policies, and obtaining the public's support for the strategy agreed on.

Democratic projects have no easy task ahead in their attempt to reconcile economic realism, democratic values and the arbitration of the demands of the key forces of society with a view to obtaining a combination of support and acquiescence broad enough to guarantee the survival of the régime itself and achieve some progress in general well-being. Their viability depends on the structural changes which they introduce into the societies and the economies, on the evolution of the external sector, and on the receptivity and flexibility of the forces capable of making themselves heard.

In present conditions, democratic projects must view popular participation in a very different way from that conceived by the development styles in vogue until recently. For the different sectors of society to be able to formulate realistic responses vis-a-vis the options open to them and contribute to their construction, they will need to possess a relatively highly-developed capacity for overcoming undetermined issues and putting up an energetic defense of their interests with the necessary patience and capacity to establish a compromise. To this end, perhaps one of the most important factors in evaluating the future of democratic projects consists in the support provided by the different social classes, with their perceptions of their own situation and of the national situation, and the political parties and other organizations through which these classes are linked with the formulation of policies.

It can be taken for granted that the relations between the democratic projects and the power élites --entrepreneurs, financiers, politicians and the military-- will be difficult; in general, the élites are not very susceptible to conversion to the values which guide democratic projects, but they may have good reasons for supporting them provisionally when confronted with the breakdown of authoritarian oligarchies or military régimes and the consequent risk of social disintegration.

The characteristics of the middle strata have a different importance for the viability of democratic projects, since their participation --which is combined with lines of action aimed at guaranteeing their own progress and protection-- is "internal" to these projects, which cannot be conceived without the active participation of some components of the middle strata and at least the passive support of the majority of the remainder. The most evident obstacles to the integration of the middle strata into the democratic projects stems from the privileged status that these strata have attained through the increase in the disparities created by education, the benefits of professional status or income derived from this, and the levels of consumption now demanded by the middle strata as a right.

A problem even more "internal" to the democratic projects lies in the functions of intermediation of the middle strata and the general features of "clientage" associated with them. In their capacity as professional politicians and lawyers,

/they mediate

they mediate between the State as the provider of public services, and the mass of the population. In their capacity as bureaucrats and professional-level employees of the public sector, they perform various functions of intermediation between the State and the public. As managers of different sectors of the economy they mediate between the direct producers and the market; as teachers, they mediate between the young generation and the social structures which it will enter. In authoritarian régimes some of these functions have lost importance. With the emergence or reappearance of democratic régimes, however, there will be new opportunities and real needs for intermediation in political organizations, in interest groups and in the bureaucracy, and the individuals belonging to the middle strata, especially the educated young, will try to take advantage of them.

The attributes of urban wage-earners are also of obvious "internal" importance for democratic projects. At present their organizations are very much on the defensive and tend to see in democratic projects opportunities of recovering stable employment and their previous levels of real income.

In many cases, especially in the most impoverished rural zones, the possibility of genuine "incorporation" and the capacity of individuals to make themselves heard may be slight. Nevertheless, if the styles of democracy are not to be a form of social domination by the middle class, a way must be found to bring about the vigorous and autonomous participation of the "excluded", the "marginated" or the "dominated", so that they can promote their own interests and transform the style of development by means of new forms of interaction with the State, the élites and the intermediaries.

At the same time, certain specific groups acquire immense importance. The creativity of intellectuals and social scientists detached from the public sector, and their capacity to interact with political leaders, technocrats and the public in general, is of capital importance. Equally crucial is the creativity of planners, economists, engineers and other technocrats who work in the public sector. Another decisive factor continues to be the emergence of political leaders, and ultimately heads of State, capable of personifying the democratic project and centering the national debate on its needs and promises.

A crucial objective of the democratic projects is to concert the interests of these groups and sectors, but this calls for an environment of growth, even if only moderate and only realizable in the medium term. It is extremely difficult to concert agreements if the crisis is not surmounted. At the same time the State cannot remain aloof from the concertation itself, but rather its obligations and functions should also be a subject of this same concertation. For example, in many countries the social groups do not recognize the State's new obligation to pay an enormous external debt, nor do they seem to accept that fulfilment of this new obligation should stand in the way of advances in other areas of State activity. This lack of recognition gives support to the presumption that State actions are unproductive and debilitates the State's capacity to guide the process of concertation. The redefinition of the remaining functions, both productive and directive, of the State should also be the subject of the aforesaid concertation. Even if State intervention is carried out selectively, without covering a very large number of variables which

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make this action ineffective, this selectivity should also be agreed with the various groups and sectors of society and even within the State machine itself. In this way a State would gradually emerge which, even though it maintained the attributes of an "arbiter", would acquire others which would define it as a State deeply involved in the play of interests of the society, in which the fundamental mechanism of linkage between it and the society would be a wide-ranging process of concertation.

Notes

Notes

1/ A. Sen, Goods and People, paper presented at the Seventh World Congress of the International Economics Association, Madrid, September 1983.

2/ With regard to this distinction, see: A. Sen, "Poor, relatively speaking", in Oxford Economic Papers 35 (1983), pp. 153-169.

3/ Klaus Esser and others, Changes in world economic conditions: implications for Latin America, German Development Institute, 1985; Sandro Sideri, Europe and Latin America in the World Crisis, 1985; Isaac Minian (ed.), Transnacionalización y periferia semi-industrializada, CIDE, 1984.

4/ Data provided by PREALC.

5/ OECD, Industry in transition, Paris, 1983, p. 146.

6/ See, for example, CEPII, Economie Mondiale 1980-1990: la fracture, Paris, October 1984.

7/ OECD Economic Outlook, July 1982.

8/ OECD, Industry in transition, Paris, 1983, pp. 138 and 147.

9/ For the quantitative indicators, see OECD, OECD Science and Technology Indicators, Paris, 1984.

10/ R. Reich, "Making Industrial Policy", Foreign Affairs, Spring 1982, p. 866.

11/ OECD, Interfutures, 1980; OECD, Technical change and economic policy, 1980; OECD, Science and technology policy for the 80's, 1981; OECD, Industry in transition, 1983.

12/ See I. Katz, Domestic technology generation in LDC: A review of research findings, prepared in the context of the Research Programme on Scientific and Technological Development in Latin America, sponsored by ECLAC, IDB, the International Development Research Centre and UNDP, Buenos Aires, 1980.

13/ It is important to note, however, that Latin America is not alone in applying this simplistic criterion to the search for economic options; it has also been used in the advanced countries, where "Manchesterian" utopias compete with utopias in which Japan is seen as the paradigm. This shows mankind's perplexity and its existential need to find appealing formulas which would make it possible to overcome not only the crisis of the real economy but also the crisis of theoretical thinking.

14/ See Y. Kubo and S. Robinson, "Sources of industrial growth and structural change: a competitive analysis of eight countries", Proceedings of the seventh international conference on input-output techniques, UNIDO, 1984.

15/ Ibid., p. 245. See also ECLAC, The Latin American Common Market, United Nations, 1959, Sales No.: E.59.II.G.4, and La industrialización latinoamericana en los años setenta, Cuadernos de la CEPAL series, No. 8, 1977.

16/ Estimated on the basis of information obtained from Y. Tori and K. Fukasau, "Economic development and changes in linkage structure: an input-output analysis of the Republic of Korea and Japan", Proceedings of the seventh international conference on input-output techniques, op. cit.

17/ For a strict and suggestive analysis, from a neoclassical standpoint, as regards the function of the State and the limitations of the market in the industrial and technological development of the semi-industrialized countries, see Howard, P. and Larry Westphal, "Industrial Strategy and Technological Change: Theory versus Reality", a paper presented at the Conference on New Directions in Development Theory, sponsored by the United Nations University and the MIT International Studies Centre, Cambridge, Mass., January 1985. More recent quantitative indications of the public contribution to the financing of research and development activities in the OECD countries are to be found in OECD, OECD Science and Technology Indicators, Paris, 1984.

18/ In the case of Korea, see Kilman Chon, "State of the Arts, Series on Micro-electronics: Republic of Korea", UNIDO/IS.490, October 1984. With reference to the United States, see Herb Brody, "States view for a slice of the pie", in High Technology, January 1985, pp. 16 to 23.

19/ Enzymes, steroids, drugs, essential oils, colorants, freeze-dried coffee, soluble coffee, canned citrus juices, sausages, stock-feed, and frozen and dried products.

20/ Agricultural mechanization services, seed plants, agricultural soil consultancy services (chemical composition, surface and ground water), technical assistance on crops (irrigation, fertilizers, soil use, etc.), genetic research enterprises and institutes, meat refrigeration and storage services.

21/ Fertilizers, pesticides and use of plastics in agriculture.

22/ Plants making ceramic facings, parquet, sanitary equipment, doors and windows, piping, electrical installations, water taps and cocks, bricks, locks, metal structures, bolts and screws, paints, kitchen furniture, etc.

23/ Grey and nodular iron castings, light forgings, cooking autoclaves, electric motors, receptacles, thin metal plates, compressors of up to 100 HP, water pumps, deep-well pumps, plants producing coachwork for omnibuses and trucks, freight trailers, steel industrial structures, motor-reconditioning plants, machinery service workshops, systems for the transport of solids (conveyor belts and augers), plants for producing radiators, batteries and accumulators, low-tension transformers, tires, brake drums for vehicles, refrigeration equipment.

24/ Heaters, refrigerators, ventilators, etc.

25/ For the United States, see the relevant figures in US Department of Commerce, US Industrial Outlook 1984, and OECD, Industry in transition..., op. cit., p. 25.

26/ Robert B. Reich, The next American..., op. cit., chapter VIII.

27/ Figures on the recovery of profitability in the advanced countries appear in OECD, OECD Economic..., op. cit., pp. 54-58.

28/ It is estimated that the annual working period per man at the beginning of the century was 140 000 hours, and that it has now probably dropped to 72 000 hours. See CEPIL, "Marchés, technologies et nouvelles relations internationales", Económica, Paris, 1983. Article by Shigeto Tsuru, p. 101.

29/ Daedalus, Print Culture and Video Culture, Autumn 1982.

30/ OECD, Industry in transition..., op. cit., p. 25.

31/ See the document on services in Commission of the European Communities, Brussels, November 1983.

32/ T. Stanbaek, P. Bearse, T. Noyelle and R. Kavasek, "The Service Economy", Conservation of Human Resources, Series 20, Columbia University, 1982, p. 40.

33/ Robert B. Reich, The next American..., op. cit., chapter X, and US Department of Commerce, US Industrial Outlook, op. cit. See also table 1.

34/ T. Stanbaek, P. Bearse, T. Noyelle and R. Kavasek, "The Service Economy", op. cit.

35/ US Department of Commerce, US Industrial Outlook..., op. cit., pp. 52-53.

36/ P. Druker, Our Entrepreneurial Economy, Harvard Business Review, January-February 1984, pp. 62-64 and R. Egdahl, Should we shrink the health care system?, Harvard Business Review, January-February 1984.

37/ US Department of Commerce, US Industrial Outlook..., op. cit., table 1.