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Review

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*Deputy Executive Secretary for
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Gert Rosenthal

*Deputy Executive Secretary for
Co-operation and Support Services*
Robert T. Brown

Director of the Review
Raúl Prebisch

Technical Secretary
Adolfo Gurrieri

Deputy Secretary
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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (–) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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CONTENTS

Note by the Director	7
Crisis and development in Latin America and the Caribbean. <i>Executive Secretariat, ECLAC</i>	9
Statement delivered at the Expert Meeting on Crisis and Development in Latin America and the Caribbean. <i>Enrique V. Iglesias</i>	57
The Latin American periphery in the global crisis of capitalism. <i>Raúl Prebisch</i>	63
The political and social outlook for Latin America. <i>Torcuato Di Tella</i>	89
Modification of the industrialization model in Latin America. <i>Klaus Esser</i>	101
The process of accumulation and the weakness of the protagonists. <i>Victor E. Tokman</i>	115
The international crisis and Latin American development: objectives and instruments. <i>François Le Guay</i>	127
The revival of American hegemony. <i>María da Conceição Tavares</i>	139
Crisis, adjustment and economic policy in Latin America. <i>David Ibarra</i>	147
Remarks and comments	
Massad, C. "The real cost of the external debt for the creditor and the debtor", <i>CEPAL Review</i> , No. 19, April 1983, pp. 183-195	
<i>A note on the formal analysis of real debt servicing</i> (Roger Lindquist and Soren Wibe)	
<i>A reply</i> (Carlos Massad)	155
Recent ECLAC publications	156

Note by the Director

Between 29 April and 3 May 1985, ECLAC held a meeting to examine the current situation and future prospects of Latin America and the Caribbean. The crisis which Latin America has been experiencing for several years now and the problems produced by the pattern of development that most of the countries have followed since the Second World War have sparked a wide-ranging debate in the region concerning the nature and causes of the crisis, its probable future course, and the most effective ways of dealing with it. ECLAC has taken an active part in this debate, as shown by the many papers which have been written on these subjects, some of which have also been published in *CEPAL Review*.

ECLAC wished to present some aspects of its thinking on this complex situation to a group of leading academics from Latin America and Europe and, especially, to hear their interpretation of the situation and listen to the proposals they might wish to make. This meeting gave rise to a wide-ranging exchange of ideas, some of which are presented in this issue of *CEPAL Review*. The first article in this issue, entitled *Crisis and development in Latin America and the Caribbean*, summarizes the ideas of the ECLAC Secretariat. It is followed by the personal views of Enrique Iglesias and Raúl Prebisch, which were also presented early on in the meeting. The remaining articles provide a small sample of the many papers that were presented; the variety of approaches and doctrinal positions taken reflect the intellectual exchange which marked the conference.

The viewpoints expressed in the articles are, of course, the sole responsibility of their authors and do not necessarily coincide with the ideas of the ECLAC Secretariat; nonetheless, it is worthwhile to present them here because they highlight some of the salient issues and positions in Latin America today.

Crisis and development in Latin America and the Caribbean

Executive Secretariat, ECLAC

At its twentieth session, held in Lima in April 1984, the Economic Commission for Latin America and the Caribbean decided, *inter alia*, that at the 1985 session of the Committee of the Whole one of the main items should be "the examination of those pivotal aspects of long-term economic and social development policy which could serve as sources of inspiration for meeting the challenges posed to the countries of the region by the changes in the international economy".¹

Since that date, the Secretariat has given priority attention to the fulfillment of this mandate. First of all, various technical studies were prepared which are included in a set of documents completed in April of this year.² Secondly, an expert meeting was convened to examine and comment on these documents. At this meeting, held at ECLAC headquarters from 29 April to 3 May, over a hundred personalities from inside and outside the region assembled to give their different points of view in a rich and fertile debate.³

The present document is a revised version of the analytical summary considered on that occasion and it takes up some of the many lines of thought which arose from the debates. It has been submitted to the Committee of the Whole of ECLAC—and, more broadly, to the governments of the region—in pursuance of what was decided in the resolution mentioned above. Its central purpose is to continue to encourage the exchange of ideas on the most important elements of the economic policies and economic and social development strategies which should be applied in the years to come, and in it the options open to the region in order to seek a response to the present crisis and make proper preparations for the future are analysed. The document is divided into three parts.

Part I seeks to explain the past evolution, the advances made in the economic and social field, and the elements of heterogeneity which define the possibilities open for the future, after which attention is centred on the abrupt changes in trends which took place as from 1980 and the origin, characteristics and scope of the crisis.

Part II explores the restrictions and conditioning factors affecting the future development of the countries of the region, placing emphasis on those phenomena which call for important changes in the historical growth pattern, on the natural assumption that the region must overcome the crisis and reactive the economies which make it up.

Part III refers to the general orientations that could be given to economic and social development in the medium and long term. Special account is taken of the time horizon of the next ten years, although consideration is also given to the longer-term prospects linked, *inter alia*, with the foreseeable changes in the international economy. On the whole, the proposals involved are of a very preliminary nature and will call for subsequent elaboration.

Both in the long-term evolution and in the different manifestations of the crisis and the way of tackling it, there are important differences among the Latin American countries, stemming from their economic size, their resource endowment, the relative level of development, the special features of

¹ Resolution 457 (XX) of 6 April 1984.

² The essence of these contributions is collected together in a three-volume document and an analytical summary entitled *Crisis and development: the present situation and future prospects of Latin America and the Caribbean*. See *Crisis and development, Analytical summary* (L.C/L. 333 (Sem. 22/6)), 23 April 1985; Volume I, *Change and crisis: Latin America and the Caribbean, 1950-1984* (L.C/L. 332 (Sem. 22/3)), 22 April 1985; Volume II, *The onset of the crisis and the economic policy response: effects and options* (L.C/L. 332 (Sem. 22/2) Add. 1), 24 April 1985, and Volume III, *Challenges and options for future development* (L.C/L. 332 (Sem. 22/L.3) Add. 2), 11 April 1985. See also *Central America: Bases for reactivation and development* (L.C/L. 331 (Sem. 22/5)), 27 March 1985, and *A view of the Caribbean* (L.C/L. 327 (Sem. 22/4)), 14 March 1985.

³ See *Report of the Expert Meeting on Crisis and Development in Latin America and the Caribbean*, Santiago, Chile, 29 April-3 May 1985.

their peoples, and the various approaches to economic policy taken by their governments. The possibilities open to them and the problems faced by each of them therefore display great diversity. This obviously makes it impracticable—even if it were desirable—to try to work out generally valid development formulas, but this nevertheless does not detract from the value of the search for common denominators, the examination of national experiences, and the discussion of some of the most important elements involved in the definition of the development strategies that could be followed in the years to come. Naturally, the specific forms that these strategies and policies may take can only be considered within the ambit of each country, bearing in mind its special features and preferences.

Introduction

At this moment in time, in the middle of the 1980s, it seems superfluous to stress that in recent years the countries of Latin America and the Caribbean have suffered the deepest and longest recession since the 1930s. The harmful consequences of the crisis are all too well known. The region as a whole has seen real per capita income fall to the level it had already reached in 1977; open unemployment and underemployment have grown; rates of saving and investment have been eroded; consumption stands at a depressed level, and real wages have shrunk. Moreover, the room for manoeuvre in the application of economic policy has become very restricted.

The severe imbalances of external and internal origin which arose in all the countries have been reduced to some extent, but in no wise overcome. Although improvements—albeit only temporary—are observed in the balance-of-payments situation, inflationary tensions have reappeared in a number of cases and are yielding only slowly in others. Furthermore, the recessive nature of the adjustments which in many cases have made these improvements possible sheds doubts on their permanence or viability.

The fact that most of the countries of the region have based their growth to an excessive extent on external indebtedness and have tried to put off the most painful expressions of the adjustment process by this means has led to the accumulation of a heavy debt burden whose servicing costs are a singularly negative influence on the balance-of-payments and public finances. This latter feature helps to give distinctive characteristics to the effects of the international recession in Latin America compared with other developing regions.

The immediate problems that have to be

faced merge with and sometimes magnify the structural shortcomings of the Latin American economies, which had given rise to severe lags and imbalances even back in the 1970s. The peculiar combination of modernization with structural heterogeneity which is a special feature of Latin America has had the result of causing profound economic and social changes which, while they represent significant advances towards more complex societies and economies, retain at the same time in their structure heterogeneous elements which represent limitations on the possibility of attaining suitable conditions for self-sustaining development.

Outstanding among these elements are the lack of suitable structural links between primary and secondary activities; inadequate forward and backward linkages in the manufacturing sector, together with cases of inefficiency and technological backwardness; the extreme external vulnerability of the economies; the dual character of agriculture, which operates at both the modern and the subsistence level, and the incapacity to create sufficient productive jobs to cope with the rapid expansion of the economically active population: a factor which in turn helps to explain the persistence of the extreme poverty in which substantial portions of the population still live and the economic and social heterogeneity which continues to be present in all the countries.

The above-mentioned economic phenomena have been accompanied by important political and social changes. In some countries, long-standing tensions have overflowed into violent situations which have still not been solved. In others, autocratic régimes have been replaced by elected civilian governments. Although it is

not easy to establish a cause and effect relationship between the evolution of economic, political and social developments, there is no doubt that there are multiple interrelationships between them, and these may help to explain the unusual political effervescence to be noted now in the region and the renewed importance which is being given in many countries to the attainment and consolidation of pluralistic and democratic societies as an intrinsic objective of development.

This effervescence forms part of a very dynamic picture of change, both in the region and in the surrounding world. The central countries, for their part, are going through a veritable technological revolution which, among many other consequences, will have the result of significantly and rapidly changing the system of comparative advantages in world trade. This, together with gradual changes in the hierarchic position of different nations in the international economy and the consolidation of new actors on the world stage—such as the transnational corporations— involves opportunities but also perils for countries which have been characterized up to now by their slow capacity for adaptation.

Furthermore, for many different reasons, the Latin American countries will continue to face growing difficulties in the years to come in mobilizing external financing: a telling contrast with the fact that the main industrialized economy of the world has now become a net importer of capital.

At the domestic level, the crushing weight of the external debt, the contraction in levels of saving and investment, and the gradual obsolescence of the existing stock of capital—which has been inadequately replaced in the last few years—are only a few of the new factors which present themselves as obstacles to the reactivation of the economies.

In short, after over 30 years of impressive achievements but also of important shortcomings in economic and social matters, the countries of the region now stand at the crossroads. If they do not persist with the adjustment process—despite its painful consequences—and if they do not adopt reactivation programmes on new bases, the outlook is not encouraging.

Faced with all the above phenomena, we must reject from the outset the view that the recent recession, deep though it is, is only of a

transitory nature and that in the near future the countries of the region can return—on the basis of the old historical model—to the path of growth they had become accustomed to during the three decades following the last war. Instead, events seem to confirm the hypothesis that the countries of the region are now faced with different circumstances which it will require time, sacrifices and novel solutions to overcome.

We must also reject as a way out of the crisis the recommendations based on a neo-liberal paradigm which advocate the decided integration of the Latin American economies into the world economy so that the reactivation of the industrialized countries can take along with it the developing countries. Quite apart from the well-justified skepticism which might be felt regarding the sustained nature of the recovery in the central economies (and, if such a recovery were to take place, the dissemination of its effects among the developing countries), it seems very unlikely that conditions could exist in which all the Latin American and Caribbean countries could simultaneously rapidly increase their exports and place them on markets which are of limited size and are also conditioned in the central countries by strong protectionist tendencies designed to allow the technologically backward industries of these nations to adapt themselves to a new situation. The fact is that a new international division of labour is being built up which will not exactly depend on the free play of the market forces.

This is not to deny the presence of important potential for the exports of the region or to deny that some of the small economies could convert their export sector into the motor of growth. What we do wish to maintain is that it would not be realistic to concentrate the efforts of all countries on a strategy aimed at the indiscriminate opening up of their economies at the expense of established economic activities which were created with great effort and sacrifice in the period following the war and which continue to generate dynamic impulses, although not always as efficiently as might be desired.

This document only briefly sketches the bases and guiding principles of a strategy which neither advocates seeking reactivation on the basis of historical patterns nor espouses the paradigm in vogue in some industrialized countries.

The strategy put forward is based on the profound conviction that the countries of the region must take decisive steps to react to the set of new circumstances of external and internal origin which will condition both their growth possibilities and their possibilities of achieving other universal objectives of development.

If such action is not taken, then the uncorrected imbalances will probably persist, accompanied by a rate of economic activity which is very slow or even negative. This would not only compromise the achievements of the past but would also jeopardize the possibility of consolidating and intensifying the recent processes of greater democratization in several countries.

The central idea on which a considerable part of this document is based consists of the recognition that development must be guided by the principles of growth, autonomy, equity and democracy. The relations between these objectives, however, are complex. They are interdependent, since it is impossible to conceive of self-sustaining development without all of them being satisfied to some essential degree, yet at the same time there are many situations where there is a conflict between the simultaneous full achievement of these objectives. In such situations, it is necessary to seek solutions which ensure that each objective is fulfilled to more than a certain minimum extent.

Naturally, in specific national situations, it may be particularly urgent to try to achieve one or another of the objectives in particular. In the present Latin American crisis, for example, it is clearly imperative to recover autonomy in the formulation, and above all the implementation, of the countries' economic policies if it is desired to recover the capacity to grow and to make new changes in the societies of the region. As already noted, it is very probable that the unfinished structural changes in the international economy will prevent the region as a whole from benefiting to a substantial degree from the financial aid and markets of the central countries. We must therefore inevitably admit that Latin America and the Caribbean have before them an enormous task in solving new difficulties and old problems by their own efforts. In other words, it is neither realistic nor desirable to expect the solutions to come from outside.

It should be clearly understood that the

foregoing does not mean that the countries of the region should be cut off from the financial, trade and technological flows operating in the world economy, but that their endogenous capacity for the development of production and technology should be strengthened, their national and collective autonomy should be improved, and in this way the region's insertion into the changing international economy should gradually be modified.

To this end, the countries of the region will have to adapt their productive apparatus in order to make fuller use of the stimuli of national, subregional and regional demand and selectively gain access to international markets. Both the adjustment and the reactivation will basically be the result of the creativity, efforts and initiative of the Latin American societies. It follows from this that among the universal objectives of development—growth, change, improvement in income distribution, greater autonomy, and progress towards more pluralistic, participative and democratic societies—the objective of gaining greater autonomy or increasing the room for manoeuvre in the formulation and execution of economic policy acquires special urgency. Without satisfying this pre-requisite it would be difficult to achieve the other objectives.

The starting point for an alternative strategy lies in gaining political recognition of the fact that the region is probably at the beginning of a stage of slow development and that without the integral mobilization of the social energy of each country the likely outlook would rather be one of further setbacks. Consequently, it is important to formulate a strategy which reconciles the adjustment with the reactivation and reorientation of the economies right from the start. There are, of course, no easy recipes or painless methods of achieving the adjustment. What is undoubtedly to be recommended is that the cost of this adjustment should be better spread over time and among the different strata of the population. The depth and seriousness of the crisis have erased the dividing lines between short-term and medium-term economic policy, since the adjustment, reactivation and development do not correspond to successive phases of the strategy but form part of the same policy. This way of conceiving economic policy requires greater emphasis to be placed on the protection and stimula-

tion of supply—especially that which generates foreign exchange through exports or efficient import substitution—rather than on strict controls tending to reduce demand.

With regard to the reorientation of the economic development of the countries of the region, it will be essential to redouble our efforts to overcome structural imbalances such as the lack of proper linkages between economic activities, inefficiency, technological lags, weakness of management, and shortcomings in the training of labour and the form of insertion in international markets. To this end, the task of articulating the productive system in the most efficient manner must be undertaken with a pragmatic and flexible approach. As already noted, the development of new export lines must be carried out in a selective manner.

Efforts must also be made, with regard to production aimed at satisfying domestic demand, to improve its efficiency, secure greater inter or intra-sectoral linkages, and adapt advanced technologies—or develop our own technologies—which are appropriate to the needs and conditions of the countries of the region.

The Latin American economies will very probably suffer for a long time to come from constraints due to the shortage of financing and the need to make remittances of capital abroad. This being so, the domestic savings effort and the effectiveness of investment will be called upon to play a decisive role, for which purpose suitable fiscal policies and the reordering of financial systems will be needed.

In this connection, the fulfilment of the objective of equity will also play a functional role. The reversal of the downward trend in the income of the masses of the population will make it necessary to increase the supply of basic goods—food, clothing, footwear, construction materials, some consumer durables—in which the region has already acquired a good deal of experience and whose production generally requires only a few imported inputs but makes intensive use of labour. This does not mean that technologically complex activities should be discouraged, but they should instead be promoted in a selective manner, preferably in line with a subregional integration criterion.

Intra-regional co-operation would thus become another pillar of the reactivation and de-

velopment effort, not only on the basis of the traditional criterion of uniting markets and substituting imports, but as an important means of gaining greater efficiency and developing new technologies. It is not a question of insisting on the fulfilment of formal undertakings which call for the gradual and progressive harmonization of policies and activities in national economic life, but rather of promoting joint action to solve common problems.

Among such problems is that of tackling in a collective manner—at the subregional or regional level—some of the limiting factors of the international economy and even possibly getting together to try to influence or alter the inertia displayed by the policies of the industrialized countries. Relations with the central countries will continue to play a decisive role in the future of the countries of the region. Latin America will have to make a greater effort to interpret and react to the trends of the international economy. This is essential not only in order to take advantage of external opportunities, but also in order to anticipate and reduce the effects of the restrictions coming from the same origin. Joint negotiations, or at least consultations among the governments of the region, could continue to play an important role in ordering trade and financial flows, as well as in putting forward solutions to specific obstacles such as those deriving from external indebtedness, especially as regards the need to give some relief to many countries of the region and share costs more equitably between creditors and debtors.

The development of human resources at all levels must also play an important role in the reorganization of the development of the countries of the region. This is an unavoidable condition for stimulating creativity, gaining greater efficiency, applying and developing appropriate technologies, and even helping to form more pluralistic, participative and democratic societies.

It will also be necessary, at least in some countries, to put into effect long-postponed reforms for modernizing and improving the linkages among primary activities and between them and secondary activities. This is particularly relevant with regard to overcoming the disparities between the modern agricultural sector and subsistence peasant agriculture. The solution of this

heterogeneity of production in the agricultural sector and the overcoming of other long-standing problems in Latin American agriculture will call, *inter alia*, for the strengthening of the peasant economy by giving it greater access to productive resources; reduction of the dependence of the sector in order to adapt the technologies used to local resource endowments, and seeking a progressive reduction in the asymmetry observed in the international insertion of the Latin American countries into the agricultural commodity markets. In the same connection, it will be necessary to reorganize industrial development so as to achieve more efficient forms of production which are better adapted to the conditions actually prevailing in the region and have greater intra- or intersectoral integration, with a view to achieving what is known as the "endogenous technological dynamization nucleus". Small and medium-sized enterprises would play an important role in this effort, not only because they can reach high levels of efficiency, but also because they frequently generate more employment and more value added per unit of investment than large-scale enterprises.

The reordering of Latin American development necessarily involves the reappraisal of the role of the different economic agents, and particularly that of the State. It is therefore also necessary to explore the dynamic tension which exists between the logic of the market—which, for reasons of efficiency, favours the fittest without any considerations of justice as regards the distribution of income or power—and the administrative assignment of resources through direct State decisions. Both forms of assigning resources should coexist, although with different mixes and forms from one country to another, according to their customs, institutions and special forms of political interaction.

The scheme of development advocated is conceived within a participative and democratic framework, viewed not only as an intrinsic objective but also as an indispensable instrument for

fulfilling the economic objectives. In a crisis, there is always a temptation to use authoritarian solutions. These, however, would do away with the elements of solidarity and creativity which the resumption of development calls for in both the political and the economic spheres. Therefore, the main means of settling social conflicts, converting new sectors of the population into bearers of change, and reconciling the conduct of the agents of production should be democratic concertation, with the government and the governed sharing power and responsibilities around a national development project. The possibility of overcoming the crisis is not to be found only, or even principally, in the technical and economic field, but rather in the political sphere, since it depends basically on achieving the union of the State and civil society in the struggle to recover the capacity to achieve development.

In short, the development of the countries of the region in the 1980s is faced with similar dilemmas—both false and authentic—to those which it faced before, among them: growth versus equity; outward-oriented versus inward-oriented strategies; consumption versus investment; the State versus private enterprise; planning versus the market; and the exploitation of resources versus protection of the environment. Now, however, these dilemmas have to be faced within a framework of radically changed circumstances which change their scope and characteristics as well as the way they must be tackled. The present document identifies some of these changes, and the way in which they affect Latin America's prospects, and it also presents a preliminary sketch of the lines of action which the region and the individual countries could begin to establish with the purpose of resuming the path towards economic and social progress. The fact that we have to simultaneously tackle three processes which cannot easily be reconciled—stabilization, reactivation and structural change—represents the most difficult task that the region has faced since the Great Depression of the 1930s.

I

Change and crisis: Latin America and the Caribbean, 1950-1984

1. *Main features of the evolution of Latin American development since the end of the war*

In the economic and social fields, the region underwent profound changes in the three decades from the period just after the war up to 1980. In a number of countries, such factors as the expansion of production capacity, the strengthening of the middle groups, the growth of education and health services and the dynamic insertion of the countries into the international economy gave rise among many social groups to the conviction that the pattern of development was running along the right lines. The numerous and important underlying problems seemed of lesser account compared with the achievements that were being made, and there was confidence that economic growth would eventually solve such difficulties.

This confidence was temporarily further strengthened when, despite the world economic recession of 1974-1976 and the subsequent limited recovery of the centres, the region nevertheless managed to maintain its economic growth, although, as was later to be seen, at the cost of using up part of the available room for manoeuvre. Many countries affected by the energy crisis were able to maintain and even increase their imports, taking advantage of the abundant flow of external financing. The idea persisted in various circles that the storm clouds hanging over the international economy were only transitory, and that it would soon be possible to resume the upward trend which, as already noted, had characterized the evolution of the majority of the Latin American economies in previous decades. In short, it was confidently forecast that the 1980s would witness positive economic evolution without any serious upsets.

As from 1981, however, it was seen that the prevailing development style suffered from great vulnerability, especially *vis-à-vis* external factors, and that some of the problems which it had been assumed were in the course of solution

had not only not disappeared but had even got worse. The new situation highlighted both old and new difficulties and clearly revealed that they were now much greater than in any other period since the war.

a) 1945-1965

In Latin America, the period immediately following the war was characterized by the attempts to formulate an economic and social policy capable of structuring and orienting the partial measures arising from the reactions to internal and external phenomena. The international conflicts and crises which upset the Latin American economies up to the Second World War and the gradual transformation of predominantly rural societies into urban ones stand out among the causes giving rise to these domestic policies.

Outstanding among the internal changes—sooner in some cases and later in others—is the beginning of a strong trend to industrialization. Not everything can be linked to the appearance or strengthening of the industrial sector, however: at the same time that urbanization was taking place, a domestic market whose expansion was to replace international markets to a substantial extent as the motive force for economic development was being formed, new groups which would change social stratification began to arise, and in the political field, responses designed to channel the aspirations of the emerging groups arose. This set of phenomena is grouped together under the title of “inward-oriented development”, which seeks in this way to give a graphic idea of the profound change in the pattern of development.

The deliberate projects for change and the political régimes which promoted them assumed very diverse concrete forms responding largely to the historical and structural differences of the countries. The terms ‘reformism’, ‘populism’ and ‘developmentalism’ which have been used to de-

scribe them usually reflect, in their ambiguity, the difficulty of reducing that diversity to an overall picture. There were, however, common denominators which, in principle, referred both to certain circumstances repeatedly found in different cases and to the predominance of certain basic values. Outstanding among the latter are economic, social and political modernization, nationalism and Statism, or the assignment of a leading role to the State.

Modernization was directed towards the idea of building up urban industrial societies which broadly followed the model of the developed countries, although in order to arrive at that stage it was necessary to follow a different path. This idea covered economic change, spearheaded by deliberately promoted industrialization and by the improvement of the living conditions of the population as a result of increased income, expanded consumption and the opening up of access to social services, while the political structure was to be modified in order to integrate and transfer some power to social groups which had previously been subordinated or underprivileged.

Nationalism expressed itself in two main senses. First of all, as a form of assertion *vis-à-vis* the developed centres from which most of the countries of Latin America depended to an extreme degree during the period of outward-oriented development. Secondly, as the integration of societies and economies which still needed to decant their national identity. Statism, for its part, consisted mainly of assigning to the State a decisive role in the formulation and execution of national projects of change.

With natural differences of tone and emphasis, these values penetrated and became generalized in all the political movements and régimes arising from the crises of traditional governments in the 1930s.

In the economic field, substitution industrialization played a central role. Initially, it was more the result of the countries' reaction to an external crisis than the fruit of a long-studied decision. Afterwards, the world war drastically reduced the availability of foreign exchange, bringing about as a more or less spontaneous reaction of the economic policies the need to administer the scarce foreign exchange available. Little by little, these policies were rationalized

and incorporated longer-term objectives and instruments, until the idea of deliberate industrialization took shape.

Exchange and tariff policies to protect the expansion of the branches producing non-durable consumer goods and some intermediate inputs gained importance. The State transferred resources to industry in order to facilitate the accumulation of capital, frequently through the appropriation of the surpluses from agriculture and the most profitable export lines. The public sector itself transformed the physical and educational infrastructure, and in many countries it created basic branches of the industrial infrastructure through government enterprises.

A fairly widespread feature was that industrial development was linked to the domestic market (or the subregional market, in the case of the incipient economic integration processes), without being combined with the winning of external markets or with a systematic search for domestic competitiveness. This feature, understandable in the beginning because of the way the process sprang up in Latin America and the prevailing international conditions, and subsequently because of the tardiness in adapting the industrialization policy to the new conditions and possibilities of the world market, helped to accentuate the balance-of-payments problems of many countries.

If we look at the economic process in greater detail we see that there were two ways of changing and growing, largely originating in the external economic relations. The first of these was adopted by the countries which had already made significant steps towards industrialization in the 1930s or after the Second World War. These were the relatively larger countries and those whose main commodity export or exports had come to have some influence in world markets. These were the countries which suffered the greatest restrictions on their import capacity and had to make different kinds of efforts to intensify their industrialization strategies. The Southern Cone countries, which had been the most advanced in previous stages, showed little dynamism, and none of them exceeded an annual growth rate of 4%. Colombia, for its part, attained an annual rate of 4.7% and Brazil and Mexico were close to 6%. In all cases, however, there was a gradual drop in the ratio between

imports and the product. As the process speeded up, the resulting restriction on imports caused several countries to push ahead the substitution process to extents which frequently affected the level of efficiency of production, since there was no basic concern with raising domestic productivity and competitiveness, nor with systematically promoting technological change. Growth was centered on the manufacturing sector, but its progress increasingly demanded the use of capital goods and intermediate inputs provided by branches of industry which were more difficult to develop. At the end of the period under examination (1965), the ratio between imports and the product in Brazil, Mexico and Argentina was less than 10%: a substantially lower ratio than that registered at the beginning of the 1950s.

In the second group of countries—medium-sized and small nations—substitution industrialization started from relatively incipient levels of manufacturing development, so they were able to progress without running into the external restrictions suffered by the first group. The annual growth rates of the product were higher in these countries, nearing or exceeding 6% in several cases. In this group of countries, those of Central America began to embark on a fruitful stage of subregional integration towards the end of this period.

In the social field, urbanization and economic development finally consolidated a set of social groups which served as the political support for the style of development followed in this period. The State sought to orient the changes in production, while the industrial entrepreneurs, middle and working class sectors, and at least part of the peasantry, struggled to get away from their role as passive agents of development and become actual actors.

An important feature of the evolution of the process of development in this period was the coexistence of traditional and new groups. The latter favoured the changes tending to emulate the industrialized societies, which served as their point of reference. However, they were up against both the resistance of the traditional groups and the natural difficulty of combining in a common project the different interests which mobilized them. Furthermore, differences sometimes arose within the new groups themselves.

Naturally, the central values guiding the process of change were interpreted differently by the different social groups which supported the process. Certain common elements are to be identified, however, such as the expansion of access to education and other social services and to consumption. Furthermore, there was a general acceptance of the ideas of rationalization of the economy, transformation of the structure of production, increased efficiency, and the extension and intensification of the political, economic and social participation of the new social groups. There was also agreement on the need to encourage certain forms of social organization (trade unions, business organizations, political parties) which would make society more pluralistic and participative.

Industrialization meant that the State would have to play a leading role in the beginning, while the industrial entrepreneurs were strengthening and modernizing their activities. The changes needed to convert the private sector into a dynamic agent of change did not always take place. Industrialization was partly centered on the processing of primary commodities, where traditional interests and patterns of behaviour were maintained. Thus, while being an agent of change, the industrial entrepreneurs were themselves structurally limited from having a type of behaviour which was clearly consistent with a modernizing industrial project.

The middle sectors were strengthened both in numerical and political and social terms. Generally speaking, during the period of rise in the social scale these sectors showed a propensity to seek their support in the popular sectors; they played an important role in the expansion of consumption, the attainment of greater social and political participation, the establishment of greater social mobility, and support for industrialization and economic change. In many cases, however, this alliance proved to be only transitory.

Broad popular movements also arose in the period under review. In a number of countries they gained political importance, improved access to higher levels of consumption, and managed to secure the adoption of protective social legislation.

Migration brought about a radical change in the urban situation in general and that of the

working class in particular. The problems of incorporation into urban life predominated over those connected with industrial life, and the solution of the former was outside the possibilities of action of the trade unions, since it depended much more on overall government policies. This fact was not overlooked by the régimes of the time, and in many cases relationships of dependency of the trade union movement *vis-à-vis* the State were created.

The agrarian problem was one of the sources of greatest concern, both because of its incidence in terms of the market for domestic industrial expansion and because of its role as a generator of foreign exchange and basic consumer goods, which were key elements in supporting urban and industrial growth. In most cases, the latter function predominated and the peasantry remained on the sidelines of the main channels of economic and social development.

In the final analysis, the State played a leading role in economic and social change, although with some limitations.

The shaping of an inward-oriented growth model under the leadership of the State and the existence of a favourable international climate basically account for the longest period of prosperity which Latin America has enjoyed since its independence. However, difficulties arose in this long process, and the problems which were later to emerge with some violence when the international economic crisis took place at the end of the 1970s were building up unnoticed all this time.

The expansion of industrial development gradually began to run into obstacles of market size and access to external technology and capital; in response, proposals were put forward for economic integration and export promotion, rationalization of protection, and structural reforms, among them those concerning agriculture and taxes.

On another level, the groups which had acquired some power were struggling to gain access to the fruits of growth, thus quite frequently creating serious political tensions. As the State's share in the product grew larger, it began to encounter limitations on its capacity to propel economic and social change and to reduce, by means of transfers to the less favoured groups, the acute disparities in income distribution which

accompanied an intensive process of capital formation.

The main restriction which the action of the State ran into, however, was to arise later, as a result of the process of integration into the world economy at a time of recession in the latter and upsets in the international financial markets.

b) 1965-1973

As a result of the domestic economic and political difficulties described earlier, changes in the style of economic development which had prevailed up to that time began to take place in the mid-1960s in many countries of the region. This first attempt at change reached its culmination when the crisis that broke in 1973 and the important variations that took place on the international scene as from 1974 made it necessary to introduce qualitative changes in the styles of development.

In this change, some countries gradually altered their economic policies in an effort to take advantage of the dynamism of external trade and the appearance of new centres of international demand. Governments attached more importance to the promotion of exports, and at the same time, as current income and the balance-of-payments situation improved, they explored the possibility of liberalizing their imports and tended to unify their exchange rates.

In many cases, reforms were also made in the policies and legislation affecting foreign capital, sometimes with the aim of regulating its role, but basically in order to encourage its entry.

Industrialization continued to be a fundamental pillar of development, but it was oriented not only at the domestic market but also at the subregional, regional and world markets. A bigger impulse was given to the processing of natural resources and the incorporation of new branches producing consumer durables, intermediate inputs and capital goods. Agriculture was modernized so that technical progress could reach it more effectively, and in some countries greater emphasis was placed on diversifying exports of agricultural commodities.

The functions of the State also tended to change. In some cases, an important role was assigned to public enterprises. In others, growing support was given to national private groups.

Governments advanced in the planning of their activities; although the planning was not always as effective as had been hoped, in a number of countries public action was gradually making progress as regards the coherence and clarity of its objectives, and at the same time the handling of economic policy instruments was improved, both in the sphere of external trade and exchange policy and in that of fiscal and monetary policy. Control of inflation was a growing concern of many governments. Finally, domestic financial markets were encouraged and a growing linkage with the exterior was permitted.

As already noted, up to 1973 the region registered quite dynamic economic growth and made changes which were by no means insignificant. Such an overall picture, however, conceals a wide range of results.

Thus, obstacles to the subsequent advance of subregional integration processes arose and difficulties in the application of domestic reforms, particularly agrarian reform, became increasingly evident. At the same time, the role of some social groups in the political régimes was changing. In some cases, the armed forces and technocrats came to play more important roles. In others, an attempt was made to expand the popular base of political régimes by incorporating broad urban and rural groups.

Changes on the political level were in many cases a reflection of the social difficulties encountered in trying to absorb a sufficient proportion of the growth in the urban labour force and to satisfy the consumption aspirations of the middle classes. There were undoubtedly difficulties in making room for the aspirations of certain groups. Thus, for example, in the case of the younger sectors there was an increase in the gap between their aspirations and their effective access to participation.

In some cases, the reaction went to the other extreme, giving way to neoconservative-type economic approaches; sometimes the possibility of applying these new formulas was made easier by the existence of authoritarian political régimes.

c) 1973-1980

As from 1973, various phenomena in the international field—especially the increase in oil

prices—brought about important changes in the economic picture in Latin America. For the countries which exported this product there was a substantial improvement in their terms of trade and a sharp increase in their foreign exchange income. For the importing countries, however, there was the opposite effect, in that their terms of trade deteriorated and there was greater pressure on the balance of payments, not only because of the increase in oil prices but also because of the increases in the prices of imported manufactures due to simultaneous inflationary pressures in the developed countries.

The increase in oil prices and a series of structural factors also altered the functioning of the international economy. There was a notable expansion in the role of the commercial banking system; the supply of financial resources for the developing countries significantly increased; world inflation speeded up, and a little later interest rates rose also.

The Latin American governments gained very easy access to this abundant international financing. External indebtedness with private sources grew sharply, and the banking system assumed an increasingly outstanding role both with regard to the balance-of-payments and the external debt and in the financing of the domestic economy.

Loss of income by the population, inflation, and sometimes erosion of the legitimacy of governments were the effects of the first international crises (in the areas of monetary matters, oil and basic foods) in the 1970s, which culminated in the profound world recession of 1974-1976.

However, the evolution of external trade and external financing during the period 1976-1980 served to back up in some countries the conviction that the recessive phase of the international cycle had been overcome and that the world was returning to normality. During this period, exports grew in both volume and value at the fastest rates registered since the war. Imports also increased, in certain years at surprisingly rapid rates (in the Southern Cone countries and some net oil-exporting countries). At the same time, however, in most cases and years the trade deficit on goods and services was maintained. In general, the expansion of trade after the crisis was rapid but left a deficit. In this latter connec-

tion, the relationship between the production and financial sectors was redefined, and in some cases the first of these lost part of its relative importance *vis-à-vis* the second.

In these circumstances, it was usual to find exceptionally large deficits on the balance-of-payments accounts covering transactions of goods and services. These deficits were made possible, if not justified, by the availability of external financing which, as already noted, was offered in abundance to almost all the countries, initially at low real interest rates.

In short, three factors common to the majority of the countries arose simultaneously in the evolution of external trade and financing: trade dynamism, a deficit on the goods and services account, and abundant net external financing. Thus, to the extent that it was possible to foresee a situation of rapid growth in the value of exports and low interest rates, it appeared perfectly feasible to increase external indebtedness without running excessive risks as regards external payments capacity, while at the same time expanding the reserves. There was an appreciable degree of freedom in the area of economic policy and in the actual political measures of the governments. In fact, in many cases the exchange, credit, fiscal and international reserve policies helped to stimulate domestic spending, thus giving rise to a boom which stimulated imports and made necessary new external financing.

As from 1981, the facts gave the lie to the optimistic assumptions of the policies aimed at new forms of external economic and financial relations. In most cases, the balance-of-payments situation and the debt burden deteriorated to such a point that they provoked a profound growth crisis, one of whose most immediate manifestations was the increase in unemployment.

The mirage of finding ways to circumvent the need for readjustments in the international economy had been based on two beliefs which later turned out to be false. On the one hand, it had been believed that the heavy external indebtedness would not give rise to subsequent restrictions, this view being based on optimistic assumptions regarding the evolution of international trade and inflation and of the domestic public finances. On the other, it had been thought that the obvious political and social costs of the 1974-1976 recession could be paid for

through the economic growth which would derive from a new and simple form of insertion into the international economy.

Hence, when the external situation changed, the crisis in the style of development which had been incubating in previous years became obvious. The dependence and vulnerability, although changing considerably in their form, got worse, and in many cases neither the State nor society at large were in a position to face up to them adequately.

2. Shortcomings and lags in the prevailing style of development

The crisis which took place in the 1980s involved both long-term structural aspects and other short-term factors, some of which have just been mentioned. The evolution of the Latin American economies during the long period following the war displayed important shortcomings, contradictions and lags. Outstanding among these were the gradual exhaustion of the dynamic impulse derived from the changes registered in the structure of production during the 1950s and 1960s; the inequitable distribution of the fruits of growth among the various segments of the population and among the various regions within each country, and the increasing loss of economic autonomy of the countries *vis-à-vis* the international economy.

The challenges posed by the great changes which have taken place since the end of the war up to the present time have been magnified, likewise, by the vigorous population growth of Latin America and the Caribbean. The region's population more than doubled in these three decades. This rapid growth was accompanied by an even faster expansion in the urban population and an important spatial redistribution of inhabitants within the countries. Thus, in almost all of them the urban population now predominates, and in many it represents over two-thirds of the total population. Since the middle of the 1960s, however, a slackening in the population growth rate has been observed as declines in fertility became more general and the decline in mortality slowed down. At all events, it is impossible to overlook the effects that these dynamic processes of population growth, redistribution

and urbanization have had on the magnitude of the efforts that governments have had to make in order to generate employment and provide basic services (health, education and infrastructure) for a growing and youthful population, and to subsidize some essential goods and services, notably food and transport.

a) *Changes in the structure of production*

The traditional institutions, conduct and technologies of production were partially reformed or replaced by others. Industrialization and agricultural modernization, urbanization and the action of the State disseminated technical progress, changed the structure of production and employment and modified the social structure, with the emergence of middle-level and working class urban groups. These changes did not eliminate the distributive heterogeneity, however, nor did they always lead to democratic modernization.

The change in the structure of production was correlative with institutional change. From a situation where the traditional hacienda, family enterprises and craft workshops predominated, there was a transition to another where a large part of production was organized around modern enterprises—public and private—which in some cases achieved an appreciable size and were increasingly linked with international markets. Foreign direct investments, previously concentrated in infrastructural activities and the exploitation and marketing of natural resources, gradually moved into industrial development and modern agricultural production.

In the 1970s, moreover, national financial markets developed within a vast process of liberalization and integration with world financial centres. In some countries the external credit flows fed the national financial systems, while in others the international banking system made up for the weakness of domestic financial institutions and circuits.

Public action became more effective, with industrialization and agricultural modernization policies, the creation of infrastructure, and improvements in the handling of economic policies (tax and tariff reforms, more intensive use of exchange policies). Government enterprises

played a role of the greatest importance in changing the structure of production of many countries, without this fact involving any limitation of public support to the entrepreneurial sector.

Industry grew, diversified and generally became more efficient; its share in the total product rose from 17% to 24% between 1950 and 1980. Import substitution made possible economic growth even in periods of recession in external trade. The expansion of the industrial sector was accompanied by a gradual change in its structure. The production of non-durable consumer goods was followed by the development of branches producing intermediate inputs, consumer durables and capital goods, especially in the larger countries. In this way, domestic production came to satisfy almost the entire demand for consumer goods and a significant and growing part of the demand for basic intermediate goods and capital goods.

This process also showed deficiencies, however. Excessive protection or the absence of stimuli for domestic competition created a class of industrial entrepreneurs who were to some extent divorced from the pressures of technological change and efficiency of production, while they were highly dependent in their investment decisions on government expenditure and policy trends. A strong technological dependency thus grew up, combined with scanty creative capacity; the articulation of the different branches remained limited; the development of the capital goods sector lagged behind; and a strong imbalance in the external trade in manufactures persisted.

Agriculture was changed with the introduction of new production techniques and progress in organization and in the marketing of products. Modern agriculture was capitalized and benefited from the public investments in irrigation and transport infrastructure, new technologies were incorporated on a massive scale, linkages were established with urban and external markets, and important agro-industrial activities were developed. At the same time, however, peasant agriculture (on which a high proportion of the rural population depends) continued to exist almost without any improvements in productivity, and it was still only capable of providing low levels of living, in most

cases below the critical poverty line. Moreover, the relative share of the region's agriculture in world trade tended to decline, while it did not prove possible to consolidate to the full the intra-regional exchange of agricultural products.

b) *Equity and participation*

As regards the satisfaction of the objective of economic equity, recent Latin American history shows a complex picture of achievements, setbacks and limitations.

In the area of income distribution, no clear improvements in the overall measurement coefficients were observed, nor were any to be noted in connection with the least favoured groups. It is particularly disappointing that even in the periods following booms in the capital formation process there is no evidence of any substantial improvement, nor has it been possible to share on an equitable basis the costs of the present economic contraction.

The overall considerations, however, conceal big differences between social groups. In urban areas, the middle level sectors appropriated appreciable percentages of the income and participated actively in the political life of the countries. At the same time, in the great metropolises significant groups of the population still live in conditions of extreme poverty. The 5% of the population with the highest income, for its part, has managed to maintain if not to increase its share of total income.

No less significant, in many countries, was the evolution in rural areas. The incorporation of the modern entrepreneurial sector and the dissemination of technological advances in agricultural production is modifying the structure and functioning of rural society and increasing its integration with the rest of the system, while at the same time increasing the differentiation between business agriculture and traditional or peasant agriculture.

With regard to employment and unemployment, various facts are to be noted. The labour force has increased rapidly as a consequence of the high population growth rate and greater participation in the labour market. Moreover, the heavy rural-urban migration, together with the prevailing pattern of development, has prevented modern urban activities —although they

have absorbed large contingents of labour— from being able to generate sufficient productive jobs to match the great supply of labour. This relative insufficiency explains the growth of informal activities, where urban underemployment is concentrated.

Towards the beginning of the 1970s, about 40% of the population was living in conditions of critical poverty, and it does not seem that there have been any substantial improvements since then.

The great changes characteristic of development processes —among them urbanization and the introduction of technical progress— normally cause great disparities and social imbalances. The emergence of new developments in contrast with the traditional situation is not a phenomenon which is exclusive to Latin America and the Caribbean. The special features of the distributive and social heterogeneity of the region are its intensity and persistence, even at times when the dynamism of economic change raised hopes that it might be reduced. In Latin America, partly because of the demonstration effect of the standards prevailing in the industrialized centres and the growing demands for capitalization of the modern sectors of the economy, the differences separating the modern strata from those which are still sunk in traditional structures tends to persist or even become more evident. Here, the dissemination of the fruits of technical progress tends to run into new obstacles which are later crystallized into very inequitable social structures.

Nevertheless, education (in which great advances have been made) has become a way whereby people can become integrated into national society and it has also become a channel for social mobility. In many countries, almost all children are now in school, and university education has become a mass phenomenon. Illiteracy tends to be residual in a number of countries; in spite of this, however, there are still high proportions of illiterates in the rural population (and especially the indigenous rural population) of a fair number of countries. Nor has it been possible to give the entire population a complete cycle of basic schooling. Higher education has been expanded in some countries to levels comparable with those of European nations, although there are clear deficiencies in academic quality. Basic education

has provided opportunities for broad sectors which were previously marginated, but it has not been given sufficient priority or, of course, resources to enable the entire population to be provided with a minimum of necessary knowledge and balance the various educational cycles, including higher education.

Economic growth, industrialization, agricultural modernization, technological and cultural change and urbanization have brought about great changes in the stratification of the Latin American societies. Great sectors of society have taken part in the process of social mobilization by passing from rural to urban status. These changes, as well as representing tangible advantages for the rising social classes, have also enabled them to cross symbolic and historical barriers of social separation.

As the structures of production tend to become stabilized, their impact on social stratification becomes slower and such stratification comes to depend more on the distribution of income, culture and power.

c) *The degree of autonomy in external economic relations*

In the years immediately after the war it was hoped that changes in production would make it possible to increase both the autonomy of the countries in their external decisions, and their technological and productive self-sufficiency.

By 1980, primary exports had been diversified and other exports of semimanufactured and manufactured goods had been incorporated. At the same time, there was a tendency to the elimination of imports of consumer goods, and many inputs and capital goods were substituted with national products. Exports still show a high proportion of primary commodities, however, and the supply of technology and of products which incorporate more advanced technology has depended very much on outside sources.

The expansion of the field of action of the transnational corporations added a new and less visible element to the external dependency of the Latin American production process.

The most notable change in the form of external relations took place during the 1970s in the financial field. Faced with domestic problems

and an ample supply of external financing, governments liberalized their international economic relations, although to very different degrees. Private banking and commercial sources channelled big flows of financing to the region. Loans from abroad came to play an active role in both investment and everyday activity; they greatly exceeded direct foreign investment in amount; they replaced or supplemented long-term loans from multinational financial institutions intended for big investments in physical and industrial infrastructure, which had now to be carried out with medium- and short-term loans; and they provided the external savings needed to close the balance-of-payments deficit.

Thus, the transnational banking system penetrated deeply into the economy of the Latin American countries. In many cases, governments lost control of the external financial flows as the degree of vulnerability of their economies increased. There was a noticeable increase in the asymmetrical nature of financial relations. The fixing of interest rates and decisions on the availability of funds moved increasingly out of the range of action of the Latin American countries' policies.

In short, although industrialization sometimes increased the autonomy of decision-making, generally there was no substantial change in the degree of technological dependence or in the asymmetrical nature of external trade and financial relations. The restrictions in these aspects became obvious at a higher level of development, however.

d) *The persistent heterogeneity*

The intensive changes typical of development processes, such as urbanization and the introduction of technical progress, normally generate great imbalances. In these circumstances, it is normal to expect great initial differences in productivity between the new and traditional activities and the emergence of social strata which are appreciably different from the traditional ones.

In the following sections, some factors which seem to be specially important in the generation and maintenance of the heterogeneity of the Latin American and Caribbean countries will be highlighted. This list, which does not pretend to

be exhaustive, in no sense gainsays the differences existing between the countries of the region or the consequent diversity as regards the relative weight and form of incidence of the factors in question in each case.

In the first place, the process of economic and social change comes within the framework of the centre-periphery relation, whereby the centre transfers to the periphery its habits of consumption and technology. In the periphery, the habits of consumption are adopted by many social groups, especially those of middle and high income, even though their per capita income is much less than that of the central countries. This transfer—stimulated by the advances in mass communication at the international level—is extremely dynamic and has meant a tremendous challenge for the peripheral countries. It presents great demands for imports and capital and creates difficulties for carrying out production on competitive conditions, because of the small scales involved. This means that industrial development based on this pattern is limited by the external bottleneck, by the shortage of savings, and by the difficulty in winning external markets, which would demand suitable competitive capacity.

Secondly, the capacity of the system to absorb the available labour depends on the magnitude and nature of the accumulation process, as well as on the growth and composition of the labour force. As already noted, the peripheral countries, through their imports of capital goods, absorbed the same type of technology prevailing in the centres, albeit with some delay and in a distorted and incomplete manner. The use of a common type of technology, based on automation, however, calls for a much greater effort of domestic saving in relation to income on the periphery than in the centre. This difficulty, of itself, militates against the reduction of heterogeneity on the periphery.

Thirdly, the industrialization process has not always been directed with a long-term view. On the contrary, it has tended to satisfy quite rapidly a level of consumption which has been depressed by external trade crises or else a slightly higher level whose consolidation in the medium term

depends on economic policy measures. The obstacle to the satisfaction of this type of consumption, increasingly inspired by that of the centres, lay in balance-of-payments problems or in the relative stagnation of the income and demand of the high and middle-income groups which guaranteed the profitability of industries producing consumer durables. This limited the capacity of the industrialization process to influence the employment structure with a sustained process of accumulation aimed at the intermediate and capital goods branches. Furthermore, the persistence of underemployment or even open unemployment reduced the possibility of a continued increase in income for working class groups. Thus, the changes in production have ultimately been guided by the established form of distribution of income and economic power, and groups which represent only a small percentage of the population have controlled the bulk of the increases in demand.

Furthermore, heterogeneity has been manifested not only in the division between modernizing and traditional social forces, but also frequently within the first-named of these; thus, in most cases the renovatory régimes have included traditional and modern elements, both in the social forces which served as their support and in their principles of orientation and action. This heterogeneity—aggravated by the number of social groups making them up—prevented these régimes from following a clear path; they always seemed to be overwhelmed by the need to solve short-term problems, satisfy pressing demands and reconcile opposing interests. This latter factor is clearly reflected in their industrialization policy, which, although constituting the backbone of their economic programme, never attained the impetus, permanence or time horizon necessary for definitively overcoming the old régime.

In short, there have been functional links between economic and social change, the dynamism of this, and heterogeneity.

Thus, incorporation and marginality, modernization and heterogeneity tend to be reproduced, and their coexistence becomes a permanent characteristic of the functioning of this style of development.

3. *The economic crisis from 1981 to 1984*

a) *Scope*

Between 1981 and 1984, Latin America suffered (and continues to suffer) from the severest and most prolonged recession since the great crisis of the 1930s. This situation was all the more spectacular because it occurred after four years in which the economic growth rate of the region had reached an average of 5.5%. As already noted, the fact is that this growth had had shortcomings, especially as regards income distribution, employment and the relative degree of autonomy *vis-à-vis* the exterior. Nevertheless, the region had managed to emerge from the oil crisis after 1973 with only a partial reduction in its growth (unlike the OECD countries, whose production actually declined).

Beginning in 1981, the real per capita income fell for three consecutive years, and finally bottomed out in 1984 at a level 8% below that of 1980 and only equivalent to that already reached in 1977. Although there were substantial differences between countries, there was a general decline in per capita income which affected 17 of the 19 countries of the region for which statistics are available. The crisis affected all types of countries: large and small, oil exporters and non-oil exporters, countries whose economies were relatively more centrally directed or which were oriented rather towards the market, countries with export-oriented development strategies or strategies mainly directed towards the domestic market.

When the period of profound recession began, the contraction in the gross domestic product was accompanied by serious financial imbalances which were reflected in the balance-of-payments current account, fiscal deficits and inflationary tensions. As from 1983, the external imbalances eased to some extent: the deficit on current account went down from nearly US\$ 40 billion in 1981 (i.e., over 40% of exports) to only US\$ 2 billion in 1984, and the trade balance, which showed a deficit of US\$ 2 billion in 1981, recovered to show a surplus of US\$ 38 billion in 1984. Although this result was heavily influenced by the performance of two countries —Mexico and Brazil— it nevertheless reflects the trends prevailing in most of the countries. The counter-

part to the improvement in the trade balance, however, was not only the above-mentioned recession —with its accompanying increase in open unemployment and underemployment— but also the trebling of the rate of inflation, which averaged almost 180% in 1984. As was to be expected, the economic recession, accompanied by unprecedented inflation, caused a sharp decline in real wages in most countries.

b) *Origins*

In the unleashing of the crisis, a part was played both by the long-term structural factors described above and the short-term ones associated with the external imbalance. The event that triggered off the crisis was the effort made to correct this external imbalance in too short a time. It was the region's inability to gain access to significant capital flows which prevented it from gaining time in order to promote an efficient adjustment based on a change in the structure of production instead of its limitation or reduction.

In order to understand why Latin America (with substantial differences from country to country) became so heavily indebted and consequently had so little room for manoeuvre it is necessary to look at the less immediate origins of the crisis. As already noted, the adjustment to the increased oil prices in 1973 and the subsequent world recession were gradual processes and were consequently expansive rather than sudden and recessive, and they were financed largely through the recycling of petrodollars. In some countries, the adjustment (although gradual) was complete; in others it was only partial or was even postponed. Two opposing orientations in economic policy carried special weight, in different countries or different periods, in the generation of the crisis: excessively expansive spending policies and monetarist-type policies based on extensive opening-up to the exterior. The prolonged application of these two orientations had a common element: excessive dependence of growth on external indebtedness. At all events, as the indebtedness had already been used to reduce the effects of external changes, the debt/export ratio was already dangerously high in 1979, when the second oil crisis took place.

Furthermore, the world recession was pre-

cipitated by the attempts of the industrialized countries to abruptly contain the resurgence of inflation to which the unexpected doubling of oil prices had contributed. There was thus a decline in the imports of the central countries and hence a weakening of the demand for the exports of the periphery, with a sharp fall in the latter's terms of trade. Moreover, as the stabilization of prices in all the OECD countries was centered on a very restrictive monetary policy, national and hence international interest rates rose.

Political pressures, or the belief that world growth would be maintained (1981) or that the recovery would soon begin (1982), led many countries to continue to increase their indebtedness or draw down their reserves in an attempt to prevent the adjustment from being entirely recessive, as had been successfully achieved in 1974. Even the oil-exporting countries, which did not face serious restrictions in their external relations, resorted to the expedient of increasing their indebtedness in order to achieve higher rates of economic expansion. Consequently, between 1980 and 1982 the region's debt grew by almost US\$ 100 billion (i.e., by nearly 50%). This indebtedness was frequently encouraged by the liberal supply of funds made available by the international banking system.

The abundance of external financing also made it possible to use exchange rates in order to control inflation instead of maintaining an external balance, or else to use them to finance unsustainable levels of fiscal expenditure. In general, the slowness of most of the countries of the region in adjusting their domestic economic policy to the changing circumstances of the international economy magnified the financial imbalances. Among many other consequences of the lag in the implementation of new policies was a considerable flight of capital, further encouraged by factors of non-economic origin in some countries. Furthermore, the loans obtained were not always well invested; indeed, in some cases they were not invested at all but were spent on imports of non-essential consumer goods and military equipment or else simply went back abroad to swell the private accounts maintained in international financial centres.

However, these phenomena are merely the superficial expression of deeper changes which have been gaining ground in the international

economy. The integration of markets, the remodelling of comparative advantages, or the emergence of new spearhead sectors, also at the worldwide level, are inevitably reflected in tensions and changes which have a disproportionately great effect on the developing countries.

Likewise, many of the economies of the region, apart from having exhausted the margins of manoeuvre available for the defence of domestic development in the face of extraordinary rearrangements of the international economy which took place in the 1970s, also faced long-standing problems due to the exhaustion of their old development patterns.

Consequently, the unexpectedly long duration of the recession in the central countries checked the growth of export volumes and reduced export prices to such an extent that by 1982 the debt/export ratio had reached three to one. Taking into account this decline in payment capacity, which was accentuated by the unexpected increase in the interest rates on international loans, the proportion between interest payments and exports doubled in only two years and came to nearly 40% in 1982. In some countries, this phenomenon coincided with unsustainable lags in the handling of exchange and financial policy, reflected in a chain of abrupt devaluations which increased the burden of servicing the external debt in local currency terms. In 1982, the temporary interruption in the servicing of the Mexican external debt, together with other factors, suddenly dried up the availability of outside financial resources.

As from 1982, Latin America abruptly became a net exporter of resources. This negative transfer was very heavy—of the order of 25% of the value of exports in the period 1982-1984—after having been positive at the rate of about 13% in the three previous years. It is difficult to exaggerate the unfavourable repercussions of this procyclical change which, to make matters worse, coincided with an average annual drop of 5% in the terms of trade.

c) *Reactions in the area of economic policy*

In the face of such a marked external imbalance, and in view of the impossibility of spreading the adjustment over a longer time be-

cause of the contraction in external financing, most of the countries of the region were obliged to save foreign exchange rapidly. Emphasis was placed on restricting global demand by applying traditional policies—reduction of public spending, restrictive credit policies, reduction of real wages—and greater priority was given to exchange adjustments and export incentives. In almost all cases, the governments applied both sets of policies together, and in a few countries changes were also promoted in the structure of investment in order to substitute imports and increase exports. Most of the adjustment programmes were worked out and put into practice under the auspices of agreements signed with the IMF.

Through the adjustment programmes and the renegotiation of debts the external imbalance was indeed reduced, but at the cost of a severe contraction in the level of economic activity. The current account deficit was practically eliminated in two years, and a substantial surplus was generated on the trade account (US\$ 40 billion in only three years). Obviously, however, an improvement of this magnitude in such a short time was more the result of a policy of reduction of imports (which caused a contraction in production)

than of a policy aimed at structural transformation favourable to development. In these two years, the volume of imports went down by 40%, which affected not only imports of luxury goods, but also the purchase of essential machinery and intermediate inputs.

Consequently, the reduction of the external imbalance has been unsatisfactory, since it was not accompanied by a substantial increase in the production of tradeable goods, either in order to increase exports or to substitute imports.

As already noted, the countries of the region acted in this way because they had already used up all the types of freedom of action at their disposal and because the interruption of the flows of finance prevented them from carrying out the rearrangement process more gradually. While it is true that the various rounds of debt renegotiations between 1982 and 1984 prevented an international financial crisis of disastrous proportions, they did not have the scope needed to facilitate the essential restructuring of the Latin American economies. Consequently, the advantages of the adjustment programmes largely benefited the centre, whereas the negative effects fell above all on the debtor nations.

II

Present constraints and future conditioning factors

1. *The external context*

The foreseeable evolution of the international economy during the coming years would appear to offer fewer opportunities to the Latin American and Caribbean countries than during the period following the war, while in contrast it will bring with it serious restrictions. The intensification of technological change, alterations in the magnitude and structure of international trade and changes in the rules governing that trade have made the old international division of labour obsolete, without yet clearly indicating how the Latin American and Caribbean countries can be incorporated into the new scheme. Furthermore, it is to be expected that there will

be substantial restrictions on the availability of public and private financial resources. In short, it would be unrealistic to expect that the external context will offer sufficient dynamic stimuli to the region to attain growth rates comparable with those of the past; indeed, even taking advantage of the opportunities that this new environment may offer will call for great efforts on the part of the countries to adapt themselves to the changing circumstances of the international economy.

a) *The growth and economic policies of the developed countries*

Estimates by various institutions coincide in forecasting that the growth rates of the in-

dustrialized countries up to the end of the present decade will continue to be rather below the historical levels; that the rates of inflation in those countries will go down compared with those registered in recent years, and that the nominal interest rates in international financial markets could show a slight reduction. They also coincide in forecasting that the trade restrictions in the industrial countries will not undergo any significant relief in the years to come and may even get worse in certain branches of activity, such as steel, where several of those countries have been losing their capacity to compete. It can also be assumed that oil prices will not change much in real terms and that the terms of trade of the developing countries will in the best of cases show a slight improvement in 1984-1985 and afterwards remain constant up to the end of the decade.

It is estimated that the financing needs of the United States and other industrial countries will absorb a considerable part of the resources available on world financial markets. These resources, which may be smaller than those of the 1970s because of the change in the structure of the current account surplus between the various countries in the world, will only permit a very slight increase in the net financing supplied by the private sector to developing countries, in comparison with past experience. It is also estimated that official development aid will not grow in real terms, or will grow only very slightly and then only for certain countries of the region.

There appear to be important differences as regards the flexibility of each developed economy to adapt itself to the changes which are taking place in the international economy; this flexibility influences the capacity to compete and the dynamism of production and exports.

Today, the United States and Japan seem to be the countries with the best possibilities of modernizing and adapting their productive systems to the changes in the structure of demand and carrying out changes in the spheres of technology and production. In contrast, some European countries seem to show greater resistance to such changes, so that the modernization will be slower, with negative consequences for their capacity to compete.

In short, it seems reasonable to expect a moderate and less steady recovery of the developed

economies, with greater unemployment and with more accentuated protectionist tendencies than in the decades following the Second World War. For Latin America, this could mean an incomplete recovery of demand for its exports, accompanied by instability and uncertainty.

As regards the availability of international financial resources, it may be assumed that the amounts available will be considerably less than in past eras and that it will also be necessary to compete with the demand of developed countries and a probable predisposition to give preference to certain Asian countries whose levels of indebtedness are lower than those of Latin America.

b) *Changes in technology and production in the developed countries: alterations in historical comparative advantages*

A second phenomenon which is taking place in the developed countries and has important repercussions for Latin America is the rapid introduction of new technologies for the production of goods and services, with decided government support. This is taking place, for example, in such fields as microelectronics; robotization; computer control of production processes; data processing; long-distance transmission of information; biotechnology and genetic engineering; techniques, processes and equipment which make it possible to save energy or replace fossil fuels; and new light and strong materials.

These new technologies favour the production processes of the developed countries; the levels of their costs; the management and accounting of enterprises; the quality of the goods produced, and also the centralized management and control of branch enterprises, thus permitting greater expansion of enterprises into the markets of other countries and industrial integration on a worldwide scale.

In the long term, these same technologies reduce the advantages of countries which have abundant labour and natural resources, make it possible to bring lower-quality resources into production, and increase the precision and quality of manufactures.

The other important aspect of the changes which are taking place in the economies of the developed countries is the growth of services.

These include some connected with the so-called information technology, which help to raise productivity in both goods-producing activities and engineering services, banking, financial institutions and insurance. There is also rapid growth in some services connected with tourism and recreation. In contrast, some traditional services are tending to lose relative importance, especially retail trade in specialized lines, as a result of the competition of big integrated stores.

The developed countries show active interest in penetrating the markets of the developing countries with their service activities. The most notable case is that of the United States, which has taken a very firm position over the liberalization of international flows of services, calling for these to be incorporated in the GATT rules as a way of preventing the application of protection and promotion policies at the national level.

Although it is not yet possible to appraise exactly the impact of the new technologies on the competitiveness of Latin America and other developing areas, it is all too obvious that these technologies could reduce the comparative advantages of Latin America which served as the basis for the old international division of labour in production processes making intensive use of labour or natural resources. These considerations make it necessary to reassert the importance of the efforts that should be made at the national and regional levels in the coming decade in the area of technological development.

c) *Changes in the institutionality of international trade*

The third important aspect concerns the institutional changes in world trade. The problems of the recession, unemployment and the balance of payments favour some *de facto* changes in the rules governing world trade. They reduce the effectiveness of the application of the most-favoured-nation clause which is the basis of GATT (in the case of many goods which are of interest for Latin America, this clause tends to become the exception rather than the rule). Multilateralism and free trade are gradually being partly replaced by bilateral arrangements and managed trade (as has been sanctioned to some extent by GATT with the adoption of the Multifibres Agree-

ment). There is also an increase in the number of important negotiations and decisions connected with trade which are carried out outside the ambit of GATT, with the limited participation of specific groups of countries.

Protectionism is becoming a phenomenon with moveable limits: it does not cover just a fixed list of sectors, but keeps on incorporating others where the impact of the exports of the developing countries introduces unwanted competition into the markets of the developed economies. In addition to the immediate negative effects on Latin American exports, this phenomenon creates an atmosphere of great uncertainty as regards the policies of the Latin American countries covering production and specialization for external trade. In addition, there are the promotional measures which the developed exporting countries apply in branches which compete with Latin American products, and the application of the principle of graduation, whereby a number of countries of the region are receiving less favourable treatment than other developing countries.

d) *The transnationalization of the international economy*

Fourthly, the transnationalization of the world economy must be highlighted. In this respect, many important decisions are at least partially beyond the control of national governments. This phenomenon has various aspects: the great economic power acquired by the transnational corporations and their capacity to shift production activities from one country to another; the growth in linkages between countries which subject each of them to greater external influences and condition their possibilities of applying autonomous economic policies; the growing dispersion of industrial production, which has been split up among various countries through subcontracting; the formation of international financial markets, such as the Eurodollar market; and the leading role played by the great international banks, which considerably reduces the regulatory capacity of governments over a broad spectrum of financial operations.

The repercussions of the transnationalization of the economies of the developing countries

are complex. They will have to learn to operate in a less orderly world, with vaguer rules, than that governed by the Bretton Woods Agreement, with new risks—and opportunities—and greater uncertainty as regards the future. The transnational corporations are important agents for the transfer of technology to the Latin American and Caribbean countries and for giving them access to external markets, but at the same time they raise the problem of the articulation of their forms of action and operations with national development policies.

e) *Trends in the world power system*

In the last forty years there has been a diversification of the actors and of the levels at which international economic activity is carried on. The European countries, and even more so Japan, have become important economic competitors for the United States in merchandise trade, financial intermediation, technology, direct investment and services connected with production. The transnational corporations have acquired the capacity to take actions and decisions which are largely beyond the control of the economic policy of any individual country. In recent years, the competition of the newly industrialized countries of Asia and Latin America has become important in international manufactures markets.

National societies are becoming more diversified and pursuing an increasingly broad variety of objectives, many of which depend on what goes on in the outside world. The list of issues of international concern has become less clearly ordered and more complex. The State is losing part of its effectiveness in the handling of external relations, and new agents are beginning to intervene, bringing into play non-traditional power resources. The atmosphere of co-operation which inspired international relations in the 1960s has now faded away.

The trends at the various levels on which the world power system is analysed—economic, cultural, political and military—are acquiring new and more complex forms of mutual linkage, and they are affected by the projects put into effect by the large and medium-sized powers in order to increase their relative weight. The impression that steady progress was being made

towards a multipolar world has been subject to limitations on various planes, and situations have been observed in which the reassertion of multipolarity is accompanied by events which would seem to suggest a return to the previous bipolarity.

2. *The burden of the external debt*

The main immediate constraint on their economic reactivation which the Latin American countries have to face is the overwhelming burden of the external debt. The high debt/export ratio is one of the main features giving the Latin American economic crisis special characteristics compared with those of other developing countries.

The balance of the disbursed external debt of the countries of the region grew rapidly from US\$ 150 billion in 1978 to over US\$ 360 billion in 1984. Within it, financing from private banks on commercial conditions as regards repayment terms and interest rates has been assuming increasing relative importance. Due to the combined effects of the increased indebtedness, the deterioration in its structure and the evolution of interest rates, since 1982 the region has had to devote between 35% and 40% of the foreign exchange generated by its exports of goods and services to the payment of interest (in some countries, this proportion has even been over 50%). In view of the magnitude of the problem, most of the countries had to embark on negotiations in order to reschedule their commitments, thus deferring in time—but not eliminating—the heavy burden of debt servicing.

The adverse influence of this situation on economic reactivation is obvious. Even the countries which have achieved the most favourable conditions in their renegotiations have to devote a very significant proportion of the foreign exchange generated by their exports—sometimes nearly 50%—to the servicing of the external debt. Secondly, as long as this problem persists—and it must be expected that it will continue for many years—the possibility of gaining access to new financing is severely restricted. Thirdly, this has strongly conditioned the management of economic policy in most of the countries, even causing reactivation to be subordinated to the need to generate trade surpluses

in order to meet the debt commitments. Furthermore, this topic occupies a predominant place in the attention of those formulating economic policy, sometimes at the expense of other aspects which are closer to the subject of development itself. Finally, the debt problem introduces great uncertainty into the immediate and medium-term prospects, because of the different paths that the renegotiations could take or the different possible answers to the query on how to relieve the effects of the lack of outside financing.

In short, as long as the majority of the countries of the region continue to be obliged to devote a high proportion of their foreign exchange to debt servicing, any attempt at reactivation and development will run into formidable obstacles. Although there is a possibility that the problem may be somewhat relieved—at least in relative terms—in proportion as exports increase, there are no grounds (as already noted) for expecting a favourable external environment which would permit all the countries of the region to raise their exports at sufficiently rapid rates to bring about an appreciable reduction in the incidence of debt servicing.

3. The domestic situation

As well as the constraints of external origin described above, there are others of domestic origin. Prominent among these are a group of structural shortcomings (lack of articulation of production activities, inefficiency, technological backwardness, weakness of management, inadequate training of labour, unsuitable forms of insertion into international markets, etc.) which reduce the capacity of the Latin American economies to adapt to the crisis and find suitable responses to it. As a result, the crisis continues to grow deeper and to bring about a series of unfavourable effects, some of the most important of which (with natural differences from one country to another) are the erosion of real income and deficiencies in the supply of the most basic consumer goods to the population; the deterioration of levels of saving and accumulation; the repressed demand for imported inputs, and the narrowing of the freedom of manoeuvre of economic policy itself.

As regards the erosion of real income, it has already been noted that in the region as a whole the per capita gross domestic product went down for three years running (1981-1983) and virtually stagnated in 1984, so that it returned to the levels already registered in 1977. For many countries, the situation was even more dramatic: over half of them continued to register negative per capita growth rates in 1984, while in others the real per capita income sank to levels comparable to those of the early 1970s or even before. Other manifestations of the marked decline in material well-being are to be found in the evolution of urban unemployment, which, in most of the countries with statistical registers, doubled between 1978 and 1984 on top of the sharp fall in real wages, which in many cases amounted to over 30% during the last two years.

The deterioration in the standard of living of the Latin American and Caribbean population has economic, political and social repercussions. Even if a certain dynamism in the growth rate of the economies were recovered for a relatively long period, this would only make possible the gradual recovery of previous levels, rather than any significant increase in them.

Future trends in demographic dynamics, as regards population growth, structure and spatial distribution, are conditioning factors which cannot be left out of the reckoning when evaluating these possibilities. This is because of the inertia of demographic processes and because some aspects of these dynamics are already predetermined.

A second limiting factor for future development lies in the reduction in the flows of savings and investment, and even in the stock of capital. The regional investment coefficient went down from 25% in 1975 to 17% in 1984: a figure comparable to that registered in the 1950s.

Consequently, it is necessary to emphasize the vital importance, for the future development of the countries of the region, of restoring saving and investment to levels in keeping with the revitalization and adaptation of regional production capacity. Although it is true that in a first stage some reactivation could be promoted by using the existing production capacity to the full—while another potential asset is the deposits and investments abroad which are the counterpart of the flight of capital—the countries of the

region can hardly modernize and articulate their productive sectors without increasing the capacity for mobilizing savings and investing them in real priority activities. This is a difficult task in view of the unfavourable prospects for procuring significant amounts of external savings, while the mobilization of domestic savings will run up against the lags in consumption already referred to in previous paragraphs.

Furthermore, as a result of the contraction in the levels of consumption and investment, and possibly also of a deliberate import substitution effort, in recent years the region has managed to significantly compress its import coefficients. In some cases, especially in the large countries, these coefficients have dropped to minimal levels, so that it may be expected that any attempt at economic reactivation will be accompanied by a vigorous upsurge in import needs, thus once again creating restrictions on the growth capacity, unless at the same time there is an expansion in exports or an increase in external financing.

Finally, the above-mentioned limitations of internal and external origin have been reflected in a systematic narrowing of the room for manoeuvre in the handling of economic policy. Thus, the drop in the international monetary reserves, the burden of the external debt, and austerity in public spending have tended to weaken the leading role of the State and accentuate the vulnerability of the economies.

4. Social tensions and the movement towards democracy

Among the factors conditioning Latin American development, mention must also be made of the political context. Here, there are two diametrically opposed situations: in some countries (the majority), and in contrast to what happened

during the depression of the 1930s, the economic crisis coincided with or opened the way to a process of democratization reflected in the return to power of constitutionally elected civil governments. In others (especially in some Central American countries), the economic crisis coincided and was interrelated with a serious political and social crisis.

This latter phenomenon becomes a restriction, in the final analysis, since the recovery of certain norms of social coexistence is a requisite for restoring minimum levels of saving and investment, checking the flight of capital and even of human resources, and establishing the basic conditions to facilitate economic reactivation.

With the movement towards democracy, one of the longest-postponed aspirations for the modernization of the Latin American societies has been fulfilled. However, this has taken place at a time when it has not been possible to satisfy other objectives, such as growth, equitable distribution of income, and correction of external vulnerability. The recent democratization, which is the result of a complex set of interrelated factors of national and international origin, must be viewed as a development which is favourable from every point of view, which transcends the academic debate on the possible trade-offs between the individual objectives of development, and which also transcends the even more theoretical discussion on the most suitable type of political régime for the promotion of development. Consequently, another challenge which will have to be faced in the years to come is that of converting the process of democratization into a functional element of reactivation and development and seeking in these latter factors the support needed to consolidate and intensify the building of democracy.

III

Bases and strategy options for reorienting development

1. Development objectives in the new conditions

Economic growth, rather than a final goal for human effort, is a means of increasing well-being and facilitating the achievement of objectives of

personal and social development. It not only implies that the supply of goods and services should be increased, but also that the whole population should have effective access to these goods and that their right to obtain them should be institutionalized.

The development objectives commonly accepted are: a) the transformation of the economic structure and the achievement of dynamic growth; b) an advance towards more equitable societies; c) the enlargement of the degree of autonomy conducive to a more symmetrical system of external economic relations; and d) the increase and channelling of the economic and social participation of all the sectors of the population and the consolidation of democracy.

These objectives are often fostered by reciprocal support, since progress towards the achievement of some of them facilitates the prosecution of others. In specific national situations, however, it may be necessary to select priorities, and in such cases it is essential to reconcile goals and graduate the intensity of the pursuit of each. Thus, for example, the improvement of the conditions of the lowest-income strata and the overcoming of problems of social heterogeneity in which demographic dynamics plays an important part have to be reconciled with the capital formation needed to ensure dynamic growth and a sustained rise in future standards of welfare; the immediate redistribution of assets or income may, in certain circumstances, militate against current accumulation or, in others, be a requisite for the mobilization of resources and energies which would amplify this process and increase the efficacy of investment. Again, the content of investment and production must be such as to ensure the full use of resources in the long term and the satisfaction of the basic needs of the population. At the same time, autonomy and greater symmetry in external relations are facilitated if certain transformations are made in the style of living, the patterns of demand and the productive structure, and if creative elements are explicitly incorporated into the national cultures and into the handling of economic and social development decisions; but these processes should incorporate the exigencies of modernization and the emerging demands of increasing popular participation. The prosecution and consolidation of economic and social development, in view of its different aspects, must necessarily comply with a series of requisites if the process is to be stable and sustained.

The experience of countries which have carried out modernization processes in order to nar-

row the gap separating them from nations which had outstripped them over time suggests the adoption of social mechanisms which permit the incorporation of values, behaviour patterns and knowledge deriving from more advanced countries. An essential factor in the success of these processes is the incorporation of elements of national creation in carrying them out, bearing in mind the problems, characteristics, resources, traditions and cultural values of the societies undergoing modernization. Neither institutions nor life styles can be transplanted without adaptation, that is, without a local capacity to remodel its own development and technology.

Moreover, the achievement of a sound process of self-sustained development implies an increasingly inward-directed integration and articulation, both economic and social, in each country. Historically, in the currently developed countries, the dynamics of development was based on the creation of reciprocal demands, intersectoral and intra-sectoral, and has generated more homogeneous productivity levels throughout the whole productive machinery.

The stability of societies is not wholly dependent on economic development; there must also be progress in the correlative transformation of the social structures and in the procedures of political participation. If the pattern of growth excludes major sectors of the population, modernization becomes superficial and uncertain, and would fail to incorporate a decisive part of the energies of the population in favour of development.

At the same time, the harmonization of development objectives and the formation of criteria of social priorities require institutionalized mechanisms for ranking the demands of the different social groups. The Latin American societies cannot, overnight, solve all the problems of underdevelopment or establish the consumer patterns of more advantaged nations. Hence, it is vital to find ways of ranking demands, adapting their content and meeting them adequately so that they do not become a source of conflict which would disrupt the very process of development itself.

The harmonization of the objectives indicated entails the elimination of enormous conceptual and practical difficulties in fixing priorities. The way in which the various objectives are

combined will certainly vary from country to country, but a careful reading of the diagnosis of the previous chapter suggests as a common feature of all the Latin American and Caribbean countries the need to widen the very narrow national margins for manoeuvre in reorienting development. This basic imperative would imply giving special attention to measures which increase the degree of self-determination in national economic policies.

Nevertheless, the achievement of autonomy should not be pursued to the detriment of other development objectives. The aim should be to seek the integrated fulfillment of the goals of growth, improving income distribution, stimulating transformations, fomenting participative development and improving the national capacity for self-determination. The strengthening of control over the destiny of the countries of the region has obvious repercussions on the method of organizing the content and scope of economic policy and the mechanisms for reactivating the economies (growth), meeting the basic needs of the majorities (distribution), and consolidating the process of democratization.

The aim of reducing external vulnerability should by no means be identified with autarky. It means rather a dynamic, selective and diversified insertion in the international economy—not an indiscriminate “opening-up”—which will make the countries less dependent on the export of a limited number of products or on a small number of markets. The aim of increasing the margin for manoeuvre at national level is functionally linked with the socio-political objectives of improving income distribution and advancing towards more pluralist and participative societies. Nowadays States are not only prevented from using public expenditure as a mechanism of persuasion *vis-à-vis* the productive agents, but they face social demands increased by the overall loss of income, attributable to the economic depression. Thus one of the few ways open is to seek new social consensuses which imply an improvement of economic autonomy through the concertation of interests with different groups, incorporating them into the process of the formulation and taking of decisions. In the same order of ideas mechanisms will have to be set up which will promote equity both in the sharing of the burden of the economic recession and in the

distribution of the benefits of the future reactivation. The viability and capacity of concerting interests varies with the political régimes, the traditions and the institutional structure of each country, but in all cases there is a real possibility of achieving advances where the traditional measures merely lead to conflict and social fragmentation.

In brief, in order to combine the objectives of sustained growth in conditions of productive efficiency, full employment of resources, a more equitable distribution of the fruits of growth and the maintenance of an acceptable degree of autonomy in the international system, criteria of social efficiency must be applied in a dynamic context which takes sufficient account of the maturation periods of creativity and of resources, as well as of their interdependence. This cannot be regarded as the formulation of a technical problem—which would be difficult to solve—but as the stylizing of a political quest for social efficiency in the adverse conditions of the crisis facing Latin America and in a context of profound transformations.

2. Programme and criteria for reorienting economic development

Bearing in mind the restrictions associated with the external sector and with the availability of resources for investment, together with the aim of improving national autonomy, it is of interest to underline certain central aspects which should form part of the development strategies, without excluding consideration of other topics or prejudging specific solutions in each country.

a) External resources

The external crisis confers special importance on the procurement and availability of foreign exchange. It is probable, however, that adjustment through the indiscriminate contraction of imports will continue to hamper growth. Even so, if import restriction is made selective, apart from reducing the external bottleneck it might reorient development towards a less imitative pattern of demand and one less vulnerable to external influence. The sustained improvement in the trade balance should be based, therefore, on the selective promotion of exports and

the efficient substitution of imports, both aimed at achieving an adequate capacity for international competition.

b) *Productive transformation*

Throughout this note emphasis will be laid on the necessity of transforming the directly productive activities, both in primary and secondary sectors. Thus, agricultural development re-oriented towards food security in conditions which gradually approach international competitiveness offers a wide field for economic growth with equity and the reduction of external vulnerability. In this case, it is probable that conditions will arise for a considerable expansion of the domestic markets in many countries of the region, both through the diversification of the linkages between agriculture and industry and by the substitution of imported foods and the development of the potential market through the satisfaction of the basic food and nutritional needs of the lower-income groups of the population.

The overcoming of the bottlenecks of the current industrialization pattern implies that Latin American industry must become internationally competitive, whether it directs its production to the domestic market or to export, since in both directions the capacity for competition will optimize the balance-of-payments, growth and well-being.

This would highlight the false alternative of opposing import substitution to export promotion. Historically, the substitution of imports has been a requisite for achieving industrial capacity to export. In the world today the newly developing economies can only consolidate the indispensable industrial capacity in so far as they proceed to establish —within a framework of specialization— articulated chains of activities (primary, industrial, technological and educational) which will strengthen the productive creativity of the community. Without this capacity import substitution ends by weakening the industrialization process, and competitive exportation becomes impracticable in the long term.

The promotion of industrial exports and the simultaneous protection of strategic activities for the creation of dynamic comparative advantages

should be related in a coherent industrial development strategy. Protection should be maintained and graduated in terms of the progressive increase of the capacity for competition in each activity. But it should also be an inducement for the improvement of the latter. Export promotion should have levels and modes which prevent the system of relative prices from discriminating against the competitiveness of industrial exports. From another standpoint, promotion should be differentiated, seeking to give priority to the activities which have a greater development potential and to create long-term incentives and programmes which will really tend to create comparative advantages and specializations to the benefit of foreign trade and domestic industrialization.

c) *Accumulation and resource allocation*

Resuming the path of growth and at the same time reorienting the style of development with the external restrictions foreseeable requires an increase in the efficacy of investment and of capital stocks. The contribution of external financing that can be expected in the coming years is slight, and in many cases net outflows will be produced in respect of interest payments on the debt. Hence domestic saving must play a leading part, although the depression itself makes it difficult to recover even the 1970 levels. A first endeavour would need to consist in reducing the consumption of the public sector and of the medium and high-income population strata, with a view not only to strengthening the flow of resources for investment but also to eliminating non-essential imports. At the same time the internal mechanisms for procuring funds would have to be improved and instruments designed to compete with those used in the exterior.

Another measure of prime importance would be to reduce the waste which frequently accompanies investment processes both public and private. Here there is no sense in copying specifications suited to more advanced societies or in embarking on non-essential undertakings or; for reasons of imitation, accentuating unnecessarily the capital intensity of works and projects. Similarly, a more intense and systematic exploitation of installed capacity and the promotion of technologies more adapted to the local

resource endowment should be a constant concern in the task of overcoming the present scarcity of resources.

There is also an evident need to increase tax revenues and to reorient public expenditure in order to cope with the burden of external debt contracted or taken over by the State, to promote development through strategic investments in infrastructure, to finance promotion programmes for the development of strategic activities, resources and technological capacities, and to meet the expenditure required by a necessary redistribution of well-being which does not occur through market mechanisms and which can only be slow and partial through the raising of the real wage.

At the same time it is imperative to strengthen the saving capacity of the private sector and, above all, the productivity of its investment. In this connection, the countries face the problem of maintaining adequate levels of interest rates in real terms, so that they reflect the relative scarcity of capital, and of promoting productive investment in activities which are crucial for development. It would be difficult to solve this problem without some degree of regulation of the domestic financial system and of the mechanisms which link it with the international financial market.

The limitation of investment funds and the scarcity of foreign exchange are of critical importance in resource allocation. This tends to favour: i) investment in labour-intensive activities which make use of the different specialities available in each country; ii) the development of small and medium-sized enterprises, which represent an important source of employment and of mobilization of organizational resources; iii) a better use of natural resources and ecosystems and of the existing infrastructure, with complementary or marginal investments which improve their overall effectiveness, and iv) the allocation of funds to productive activities and to support activities relating to the strengthening of interindustrial relations, technological promotion or new specialization for foreign trade.

Large projects, which may be indispensable in certain cases, must be considered with a selective criterion since they entail long periods of gestation. There is all the more reason to graduate or discourage, according to circumstances, investments directed to the non-essential con-

sumption of the higher-income strata. If the processes of productive modernization operate in a context of imitation, without corrections based on a broad concept of social efficiency, the disparities in the primary distribution of income—which result from the structure of ownership and the functioning of the productive system—will continue to create inequalities.

d) *The quest for equity*

The quest for equity in a process of growth which harbours marked elements of social differentiation always involves difficulties, particularly in market economies. In the past attempts have been made to achieve it through policies aimed at changing the conditions which determine wage distribution or consumption distribution, or through transfers of income to correct the forces of the market.

If in times of boom these policies were, strictly speaking, insufficient, it must be admitted that at present they are still more difficult to attain, especially when the initial task consists in trying to prevent the costs of the crisis from worsening the situation of the low-income groups of the population. Even so, within the limitations imposed by the crisis, there are measures which might be taken to improve the distributive effect of reactivation, particularly those designed to support the modernization both of peasant farming units and of small and medium-sized urban enterprises.

As regards the labour force, the object would be to train it and reorient it in the direction of the special skills required by the productive apparatus, including the provision of public services. Investment in education is the key to technological development and to sustained increases in productivity. It is also one of the means of changing income distribution in the long term, provided that the aim is to meet the educational needs of an employment structure adapted to local potentialities.

Respecting policy on wages, it would be expedient to put an end to the erosion of their purchasing power beyond that imposed by the reduction of the national income caused by the economic crisis.

In general, redistributive measures are made easier and less costly when they relate to the

sharing of income increases throughout the process of growth rather than to the redistribution—always traumatic—of property. This is valid in the case of land, although admittedly there is a need to reform the agrarian systems in order to achieve the optimum utilization of resources.

In the case of the distribution of private consumption, for reasons of equity and to generate investment surpluses it would be well to discourage ostentatious consumption and to move towards patterns of greater austerity.

Even so, in view of the marked elements of social differentiation contained in the pattern of foreseeable growth and given the magnitude of the social deficiencies accumulated, the road towards reasonable equity will call for corrective measures by the State which would be adapted from time to time in accordance with the evolution of the basic social consensus.

These measures range from the subsidized or free provision of essential goods to selected groups (or their provision by way of the State), covering the innumerable possible systems of technical and financial assistance directed to mobilizing communities towards self-help in construction and the provision of community services or the co-operative production of essential goods, and including unemployment insurance, subsidies and means for retraining and minimum employment programmes with communal aims, to the strengthening and expansion of basic and collective public services, which will enable them to be effectively extended to the whole of the population, substituting through public services items such as, for example, transport, the private provision of which excludes broad groups of the population because of the high unitary social cost.

3. *Short-term economic policy and transformation policy*

The external adjustment of the period 1981-1984 was severe and costly and is far from having been consolidated. As already observed, the substantial reduction in the external imbalance which took place between 1981 and 1984 was mainly due to the enormous and abrupt contraction of imports. It was not surprising that it was accompanied by a persistent decline in economic

activity up to 1983 and by its partial and insufficient recovery in 1984. What is more, this process has been aggravated by unusual inflation rates. Consequently Latin America is faced today with its greatest challenge since the Great Depression of the 1930s. In fact, to begin to overcome the structural deficiencies of the prevailing style of development and the negative impact of the crisis on the levels of employment, consumption and investment it will be indispensable not only to reactivate the economy and re-initiate the process of growth, but also to modify the pattern of development. Nevertheless, these objectives must be achieved while maintaining the precarious external balance attained in 1984 and reducing inflation.

This three-fold task eliminates to some extent the traditional distinction between the economic policy of the short and the medium-term; in fact, if a real solution to the immediate problems is to be reached, the application of radical structural reforms cannot be postponed. It must be borne in mind that for the reasons indicated in other parts of this paper, the rates of future economic growth will probably be lower than those observed in the early decades of the postwar period. Hence there should be no indulging in false hopes. Henceforward, the problems will have to be solved with the limited means at hand and with an acceptance of the costs and maturation periods required by the structural modernization of the economy and society.

a) *External adjustment with growth*

All in all, however arduous and complex the task, it is still feasible. Precisely because the adjustment to the external imbalance was recessive and favoured the financial sphere at the cost of the real, there is at present ample productive capacity for initiating reactivation. In other words, it is today not only necessary but also possible to replace the recessive adjustment, based on the contraction of imports, by an expansive adjustment founded on the increase of exports and the efficient substitution of imports.

Naturally, the viability and cost of this process will depend in no small measure on the external situation and especially on the extent to

which this enables Latin America to increase its exports and procure financial resources. But the possibility of an expansive adjustment will likewise depend on the degree in which, through renegotiation processes different from those conducted hitherto, the countries of the region succeed in sharing the costs of adjustment more equitably between themselves and the banks, and on the degree in which the structure of their production changes in favour of internationally tradeable goods (exports and import substitutes) and the composition of domestic expenditure changes in favour of non-tradeable goods.

b) *The exchange rate, tariffs and export promotion policies*

A basic element of economic policy is the maintenance of realistic and slightly undervalued exchange rates. This would mean raising the price of tradeable goods (both exports and import substitutes) in relation to non-tradeable goods, stimulating their production and discouraging domestic expenditure on these goods. Thus, in contrast to tariffs or export incentives, which stimulate the production of one group of tradeable goods as against another, devaluation favours all equally.

Most of the countries of the region have already carried out exchange-rate adjustments. Their effects depend on the stability and maintenance of the policy, since structural changes in production (from non-tradeable to tradeable goods and from domestic to external markets) are costly and inevitably slow.

Consequently, the main modifications made in the exchange rate should be reserved for reducing external deficits caused by permanent changes in the terms of trade or in the capital account or to correct obvious cases of overvaluation. Conversely, it would be preferable for the deficits caused by cyclical changes in external conditions to be compensated by temporary corrections of the tariff levels and of export incentives, which do not affect the differences in the necessary selectivity of the policies of protection and promotion of the various activities.

Again, it would be useful to ensure that the cost of saving foreign exchange through the substitution of imports fomented by tariffs was equal to the cost of generating foreign exchange

through the promotion of exports induced by the incentives. The fact that the adjustment in the period 1982-1984 was based much more on the reduction of imports than on the expansion of exports suggests that if the incentives for exports had been applied more decidedly a large part of the productive capacity which now remains idle through lack of imported inputs and a restrictive demand policy might be activated and oriented in part towards the export markets. Not only could idle capacity be mobilized but also its impact on supply increased by the introduction of a second or third shift in the factories with only marginal increments in investment.

c) *Price and subsidy policies*

In order to establish the recovery and transformation of tradeable production it seems advisable to change the relative prices in favour of exportable production and likewise the composition of domestic expenditure in order to increase the volume of the output available for external sales and to reduce the demand for imports. A major contribution can be made in this respect by correcting the price and subsidy policies.

This general type of orientation should be combined with the distributive measures indicated in the previous section, especially in the short term. Thus, for example, as the consumption of food products in the poor strata of the population is proportionally higher than their consumption of energy, it might well be decided to eliminate the subsidies to energy rather than those assigned to food.

At all events, the distributive measures should increasingly abandon global subsidies (or support for prices) which benefit all groups, rich or poor, and incline towards income transfers more directly oriented to the less favoured groups.

d) *Investment and public expenditure policies*

In the short term it is desirable that the increase in tradeable goods should be based on the fullest possible use of existing capital stock. Even so, there are limits to the output of non-tradeable goods that can be transferred to tradeable, or to the output of tradeable goods previously des-

tined for the domestic markets which can be shifted to exports. In the medium term, the increase in exports and in the substitution of imports, and consequently in the share of tradeable goods in the GDP, entails: i) changes in the structure and orientation of investment; ii) increase in domestic savings to an extent compatible with the minimum growth of consumption, and iii) a better allocation of investment.

The diversity of national situations is so broad that it is only possible to indicate some general guidelines. In the first place, it is essential that investment, whether in construction, infrastructure or equipment, should concentrate in preference on increasing exports and on import substitution. In the second place, investment which has less need of imported components (for example, hydroelectric dams as against thermal power stations) and greater density of labour should be given priority. In general, and especially in the short term, this suggests a change of orientation in the traditional adjustment programmes, since these, in order to reduce the fiscal deficits, tend to cut back investment rather than current expenditure. Thus investments in public works and housing figure among the first to be reduced, despite the fact that construction generally has a low import component, is labour-intensive and has a low opportunity cost because the real resources it liberates cannot be readily transferred to the production of tradeable goods.

Of course, not every type of construction is socially or economically desirable. For investment in construction not only to serve employment but also to contribute to structural adjustment and transformation, it is necessary to give decided preference to projects which facilitate exports or the substitution of imports (for example, irrigation projects, hydroelectric dams, expansion of ports, construction of access roads to land rich in agricultural possibilities or natural resources) as compared with those which merely improve the quality of life of particular urban zones (for example, underground railways, highways, urban infrastructure).

In the third place, it would be preferable to assign priority to investments with short gestation periods and to those where external credit can be more easily obtained. In fact, as long as capital inflows remain constrained and while re-

strictive monetary policies continue to be applied, the domestic interest rates will inevitably be high, which signifies a fall in the social profitability of investment projects with long gestation periods.

In the same way, as long as the scarcity of foreign exchange persists it will be necessary to give priority to those projects for which it will be easier to obtain external credit.

e) *Stabilization*

In the context of high and persistent inflation, where almost all the values —wages, rents, taxes, interest rates, exchange rates, debts— are indexed formally (through contracts) or informally (through market forces) in relation to inflationary expectations, the main rigidity to overcome, in order to reduce a recession to the minimum, is precisely that of the aforesaid expectations.

The issue is one of great complexity which, in many cases, has to be tackled with priority if the countries of the region are to reactivate their economies. Above all, it must be pointed out that no stabilization policy can be based solely on a restrictive monetary and fiscal policy, because the variables that are not controlled will certainly depart from the norm and produce an unnecessarily severe recession. It would be better to impose a policy of decelerated indexation by virtue of which the nominal values of all the key variables of the economy (not only of some) —wages, exchange rates, interest rates and prices— would be adjusted in accordance with the programmed inflation implicit in the monetary and fiscal policy adopted. In this way, in contrast with the traditional anti-inflationary programmes, prices would be controlled or what is known as an incomes policy would be applied during this initial period of stabilization, to prevent the free fluctuation of prices in response to uncontrolled inflationary expectations.

Nevertheless, in contrast to the traditional programmes of price control, decelerated indexation would tend not to restrict inflation through the fixing of artificially low prices, but rather to bring prices more quickly to their rate of equilibrium. In further contrast with the traditional price controls, these directives would concentrate on price control in sectors where the producers avail themselves of larger margins in

order to incorporate their inflationary expectations in the prices (there would be control of oligopolies, the industrial sectors that fix prices, but not so much of agricultural producers, who tend to live in competition).

Finally, from a logical standpoint, inflation is not determined merely by inertia, but it is necessary to correct some key relative prices which have a disproportionate effect on other variables, such as the fiscal deficit, the balance of payments, and the distribution of income. Hence some of these basic prices may have to be corrected in order to make the stabilization programme effective without upsetting other macro-economic equilibria. But since the adjustment of these prices is almost always upwards there is a risk of provoking inflationary expectations (when the private agents interpret the correction as an indication of coming inflation rates rather than as a once-for-all change in relative prices); hence the corrections must be limited in number and magnitude to the indispensable minimum. Again, the success of any stabilization programme depends also on the recovery of confidence in government policies. This goes beyond technical considerations and enters the field of socio-politics and concertation, which will be discussed later on.

4. *Articulation of the structure of production*

a) *General considerations*

We present here some thoughts on a structure of production that will help to overcome external constraints (and thereby recover the capacity for sustained growth) and to develop creative potential, both individual and in specific activities. To this end we shall concentrate on two aspects of the internal content of the industrial sector and four areas of its external relations. The former relate to the motor-vehicle and capital goods sectors; the latter to the linkage of industry with agriculture, the energy sector, mining and services. It is considered that through these aspects a summary can be made of the main characteristics of the industrial pattern outlined here, together with the insufficiencies, omissions and distortions of the previous industrial scheme. This does not imply a disregard for the importance of other industrial branches; it is

thought, however, that these areas may act as focal points for the consideration and definition of the concept of efficiency, 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 here as the main branch of non-durable consumption. In its turn, the motor-vehicle industry is raised to the category of main branch of durable consumption and an analysis is also given of 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 original industrial pattern of the advanced countries.

Consequently, action on these aspects identified as strategic has, in the first place, an important influence on the capacity to overcome the external bottleneck. In the second place, the aim would be to develop the capacity of adapting products and processes to local conditions, in addition to converting them into a source of training of skilled manpower in the industrial sector as a whole.

For example, a basic feature of the urban/motor-vehicle industrial pattern has been precisely the rapid and unplanned growth of urban conglomerates, together with the ensuing speculation in real estate. Among the multiple consequences of this phenomenon there are two that directly affect the possibilities of advancing towards a new industrialization: first, the high profits obtained from these activities, which discourage the channelling of private investment resources into productive activities, and second, the marked deterioration of the quality of life of the urban population in general in respect of housing, environmental hygiene and transport. 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 for infant industries, we are coming very close to that protectionism which, instead of concentrating on

domestic learning, led merely to reconciling inefficiency with high rates of profitability.

These aspects present a major obstacle to the advance towards a new industrialization and are clearly linked with the need to find formulas which will lead to an allocation of resources in accordance with the national strategy options.

b) *Special considerations in the case of small countries*

In the case of the smaller countries, the concepts of industrialization should begin with the recognition of the presence of a larger proportion of rural population, an incipient industrial infrastructure and a heavier concentration on a smaller number of traditional export products.

The modernization of agriculture should be a major fulcrum both for the raising of rural living standards and for the quest for relative food self-sufficiency and the generation of foreign exchange. Not only should promotion be given to the traditional export lines, but also, as far as possible, to dairy products, meat, fruit and vegetables and the range 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 complexity. This implies the articulation of a range of technological support services for agricultural industrialization with the different branches of application of chemistry to agriculture and with the activity of the metalworking sector.

The other sectors associated with the integral industrialization of natural resources are forestry, mining and fishing, which, in addition to exploiting natural resources, should be able to take advantage of the potential of the international markets. In the three cases this would signify advancing both forward (final products with increasing degrees of processing) and backwards, promoting the metalworking support sector. The specificity of this new industrialization of natural resources might be justified by the conviction, amply corroborated by international experience, that what makes the exploitation of natural resources important and permanent is precisely the local capacity to make advances in industrial activities connected with them. An extreme example of this potential is found in those

countries which, lacking natural resources, compete in the international markets solely because of their creative contribution in the different phases of their processing.

Agro-industry and construction could be articulated in a growing and selective degree with the metalworking sector. This last industry, in addition to the components already mentioned (implements, equipment and installations for agro-industry, 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. Taken together, the production of these simple capital goods represents the output of the metalworking sector and would be complemented by the production of durable consumer goods destined for mass consumption. The magnitude and importance of the metalworking sector could be rapidly increased in terms of its contribution to the training of manpower and the selective substitution of imports.

The main function of agro-industry (including the traditional crops of the region) would be to generate surpluses and 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 of the increased level of domestic activity. Both—together with the incipient electronics sector, if it exists—would be the basis for raising productivity in the medium term.

c) *Linkage between the industrial and services sectors*

There has been some diffusion of the notion, proper to the developed economies, of a historical transition—not without upheavals—from an era governed by the industrial sector to a future in which this role would correspond to the services, thus completing the sequence agriculture-industry-services. On the basis of this simplistic idea policy recommendations have been formulated in Latin American countries which, in the event, have favoured the dismantling of industrial plant to accelerate the arrival of the new era. Various comments can be made in this connection which, taken together, change the lineal

image of a chronological sequence from agriculture through industry to services. From the arguments advanced it will be clear that, far from being faced with a rigid relationship between increase in income and demand for services, we are witnessing an economic and social transformation which simultaneously modifies the industrial sector and a wide range of services associated with it.

To the extent that the industrialization of low-productivity services continues to receive increasing support from information processing, the contribution of these activities to the growth of employment will tend to decline. The services with high and growing productivity (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. If one had to identify the sector with greatest drive, one would find it at the intersection of those industrial sectors that produce the equipment for information technologies (microelectronics, computation, telecommunication) 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 an increasingly symbiotic combination of equipment production and of activities linked with its programming.

This makes it necessary to incorporate into the medium- and long-term analysis of the new industrialization the changes that are taking place in the industrial sector, the growing complementarity between this and the services sector, the trend towards the industrialization of activities previously classified as tertiary, the emergence of the leadership of the information system, articulated around the axis of communications, and the resulting importance of the capacity for competition of the manufacturing sector in determining Latin America's insertion in the international economy.

d) *The environment and natural resources*

In Latin America and the Caribbean in

general insufficient attention has been given to the problems relating to the management and use of natural resources and to the appropriate handling of the problems of the environment. This has led to the emergence and aggravation of phenomena such as deforestation; erosion, salinization and loss of soils; sedimentation and pollution of inland and coastal waters; desertification; loss of species of flora and fauna, especially tropical and marine; contamination and lack of basic services in the cities. All this has adverse effects on living standards and the productivity of resources and investments.

The pattern of development in force during the postwar period frequently leads to an abusive use of natural resources and, at the same time, the neglect of potential resources. This implies in certain cases the depletion and deterioration of natural resources; the need to make imports which might be reduced or avoided; and the loss of export possibilities.

Energy is a case in point. When the prices of energy products were low their excessive use was encouraged, which not only posed a problem for the energy sector but also for external equilibrium and dependence and the general pattern of life, which fosters consumption and technology highly intensive in capital goods and imported forms of energy. With the rise in energy prices some modifications in its use have been introduced but, notwithstanding the growing use of fuel alcohol, there has not been sufficient correction of the patterns of energy demand incorporated in the structure of supply.

One of the chief means of integrating natural resources into economic exploitation has been the execution of great infrastructure projects. These will continue, although probably to a lesser extent than in the past. In a period of scarcity of means of investment and of balance-of-payments problems it is important to give careful attention to the utilization of investments and to the efficient administration of the projects implemented and of the resources already incorporated. A region as extensive and as varied in its geography as Latin America has a great wealth and diversity of ecosystems. It is necessary to take account of their peculiar characteristics and apply a pattern of development and administration of the resources and ecosystems which will be adapted to the special features of each case. This implies the

incorporation of creative elements, since the attributes of the Latin American ecosystems are often different from those of the industrialized and developed countries where the known technologies are created.

It would be a case of improving the utilization and management of the ecosystems not only to exploit the traditional resources of water, land, climate and others, but also to take into account the interaction between all their elements—flora, fauna, human presence, and the rest—and their capacity to reproduce and maintain themselves. This calls for an innovative policy of scientific, technological and environmental research which will consider the ecosystem as a complete and integrated unit.

e) *Agriculture*

There are two great and pre-eminent goals in agricultural development. The first is the eradication of rural poverty, which forms part of the general problem of poverty and is associated with problems of unemployment and also with regional development. The second is the significant reduction of external vulnerability in lines of demand for agricultural products, as in the case of foods.

It may be said that both objectives form part of another and greater goal; namely, food security. This calls for the establishment of national food systems which would incorporate the following main requirements:

i) to be sufficient, in the sense of generating domestic supply, in conditions of efficiency, which in volume and composition will satisfy basic needs (which does not mean that there must be autarky in each country);

ii) to be stable, in the sense of possessing mechanisms which will neutralize pronounced cyclical fluctuations;

iii) to be autonomous, in the sense of reducing to a minimum external vulnerability in the attainment of sufficiency and stability in the domestic supply;

iv) to be sustainable in the long term, in the sense that the said objectives must not be achieved at the expense of an overexploitation of natural resources and the deterioration of the environment, and

v) to be equitable, which means that they

must be capable of meeting the demands of all the economic and social sectors and, in particular, those of the lowest-income strata.

With regard to future agricultural development, it would be necessary in the first place to intensify the reduction of productive heterogeneity through the reinforcement of the peasant economy. To do this the peasantry must be given preferential access to productive resources (land, water, inputs and implements) in magnitudes and conditions which will meet the needs of the production and marketing processes of the peasant economy itself.

Secondly, there should be a process of selective reorientation of the transfer of surpluses. This implies not only the retention of the surpluses generated in agriculture, but also the transfer of surpluses from non-agricultural sectors and from the modern agricultural sector to that of peasant agriculture.

Thirdly, it would be necessary to stimulate the industrialization of agriculture and a revaluation of rural space, by setting up in agricultural areas and in rural zones a series of complementary activities linked with the processing of agricultural products and with the production of agricultural inputs, thus helping to solve the problem of unemployment.

Fourthly, there should be an attempt at a progressive reduction of the asymmetry in Latin America's international insertion so that agricultural products could be exported for which international demand is more elastic in the world markets and which are capable of incorporating a greater value-added.

Fifthly, it is also necessary to diminish technological dependence by means of a greater adaptation of technologies in order to make them consistent with the local resource endowments and with the needs of national development itself. In this connection the role of the State is highly important. Instead of importing integral technological packages and of using technologies which require the acquisition of imported inputs and means of production which may not correspond to local conditions, there would be an attempt to make a more selective incorporation. At the same time, it would have to be adapted to the local medium, placing the accent on those aspects which respond better to the special needs of each country. For example, if

there is a plentiful supply of labour, scarcity of capital and a certain tendency to shortage of land, preference should be given to technologies which increase the yield per hectare and at the same time make less intensive use of capital. This applies to those technologies which have to do with genetic procedures and improved seeds, with the application of pesticides and fertilizers which help to increase the yield per hectare and with farming processes which improve the same yield.

Sixthly, measures should be taken to promote the recuperation of natural resources and curb their deterioration. Peasant agriculture is concentrated in marginal regions of low productivity. This leads to the deterioration of the natural resources, a process which must be halted and reversed. The rapid natural growth of the rural population is a factor contributing, through the subdivision of the farms, to an increase in the demographic pressure on the land.

In all these outlined projects the extension of action to the whole of Latin America would enable the requisites put forward for achieving a complete food system to be more easily and efficiently fulfilled. Latin American co-operation in all the phases of the food chain is possible and desirable.

5. Industrialization and technological development

a) Challenges and structural change

In the coming years the countries of Latin America and the Caribbean will have to face, among other problems, two challenges in which industrialization is directly involved. The first is to correct the disequilibria in the domestic structure of production, along with the social needs built up and postponed during the previous period of rapid growth; this task—which is one of medium term—has to be reconciled with the urgent need to defend the productive capacity threatened by the recession of recent years. The second is the need to adjust to the current industrial and technological restructuring in the advanced countries, which might notably reduce in some sectors the capacity for international competition of the production of the various Latin American and Caribbean countries.

b) The technological and industrial restructuring of the advanced countries: implications for Latin America and the Caribbean

It is vital for Latin America and the Caribbean to realize the speed and efficacy with which the industrialized countries have adapted themselves to the new conditions of energy supply, which is an important but partial manifestation of a more complex and radical process of technological and industrial restructuring currently in process. The political will to adapt to a challenge of this magnitude, together with the flexibility to modify social behaviour and make technological innovations, reveals the superiority of situations where endogenous creative capacity prevails over uncritical imitations.

Independently of institutional mechanisms and the differences of emphasis placed on State intervention, it is empirically observed that the public sector of the industrialized countries is making a systematic and wide-ranging effort to stimulate, in close articulation with the private sector, the development and incorporation of the most advanced technologies in national productive activity. It is agreed that the comparative advantages in international trade in the decades to come will be achieved precisely through measures undertaken at national level and, in the case of Europe, complemented by regional action in specific areas.

These current processes can have numerous implications for the Latin American countries; the following will suffice as examples.

i) As stated above, the advanced countries are preparing and supporting a process of transition towards a new technological and industrial pattern with a view to creating a new cycle of growth. This implies that Latin America and the Caribbean will presumably be faced with a international situation which, in the short and medium term, offers little potential for dynamism, and yet the Latin American economies need to make exceptional efforts to achieve technological adaptation, since otherwise they could be left behind in the new international organization of labour;

ii) Some of the sectors in which the most important projects of certain countries of the region are found coincide with those in which technological transformations may occur at in-

ternational level. This applies to the motor-vehicle industry, petrochemistry and capital goods;

iii) The foregoing shows the decisive importance of regional co-operation initiatives which will enable a forecast of technological change to be systematically incorporated into international negotiations. Otherwise the industrialized centres might simply shift to the developing countries manufacturing technologies and equipment already outdated by technological change;

iv) Some of the sectors in which the countries of the region have made a concentrated effort in respect of industrial exports make intensive use of labour. Here, as a result of developing automation, profound transformations may take place which will have a radical effect on the capacity to compete of the national products. This might apply to the textile and clothing sectors and to the varied range of assembly industries. Again, the systematic effort of the developed countries to increase efficiency in the use of energy and, in general, of imported raw materials might reduce Latin American exports in lines which imply intensive use of natural resources, and

v) In the areas of spearhead technology it is evident that the Latin American and Caribbean countries must make a supreme effort for which subregional co-operation is indispensable.

c) *Efficiency, growth and creative capacity: the concept of the endogenous technological dynamization nucleus*

One of the predominant features of industrialization in Latin America and the Caribbean has been its rapid growth since the Second World War. This growth has been accompanied by a relative lack of creation, although this does not mean that there have not been certain areas of excellence in most of the countries. The combination of growth and scant creation explains the dearth of labour opportunities and the growing external constraints characteristics of the regional pattern of industrialization.

Creation is a complex process which involves a wide range of agents and motivations, including entrepreneurs, workers, researchers, industrial plants, technological institutes, basic sci-

ence institutes, organizations for training personnel at different levels, mass communication media and the ministries and institutions which define policies and norms. It is in the interaction of these agents and motivations that creation takes place.

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, there arises what will henceforth be described as the endogenous technological dynamization nucleus. Part of this concept is the positive value placed by those exercising leadership on the national significance of satisfying domestic needs and of favouring a sound insertion into a world economy characterized by increasing transparency and intercommunication; a method of functioning characterized by smooth communication and articulation between the different agents and economic and social sectors taking part in production, on the basis of environmental resources and a widespread social appreciation of creative activity and of the entrepreneurial function, irrespective of the forms of ownership.

The value assigned to creation implies an open attitude towards events in the rest of the world, both as regards the process of learning and assimilation of knowledge and as regards the identification of those activities in which the country can achieve levels of excellence which will enable it to meet external and domestic needs.

After all, the special feature of creativity is that it reinforces the historical patrimony, the aptitudes, forms of organization and knowledge associated with unique local conditions. This process of modernization facilitates insertion in the international markets because it adds value, originality and efficacy to the designs, processes, techniques and forms of organization of production. A modernization which ignores the local heritage and favours the mere transplanting of forms of production achieves at most the ephemeral duplication of those forms, at a cost in foreign exchange which is difficult to finance, and without intrinsic potential for competition.

Finally, creativity implies a constant concern for training the population (through formal methods, through specialized institutions and

the mass communication media) and detailed study of local potential, both in terms of natural resources and of the possibility of modernizing traditional forms of organization and techniques.

In the characterization of the endogenous technological dynamization nucleus no emphasis has been placed on the size of the markets or on the volume of the endowment 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 side and size of market or natural resource endowment on the other. This does not deny the importance of economies of scale in certain activities, but it seeks to underline the decisive importance of the pattern of productive activity as a reflection of domestic creative effort. It is in this sense that reference is made to the endogenous aspect.

The need to be competitive, coupled with the limited size of the domestic market and the requisite process of learning, must necessarily be reflected in more specialized types of production than those existing in the advanced economies. Some research and development activities, and even training in certain specialized fields, require minimum scales which exceed the possibilities of some countries of the region. In these cases, the endogenous nucleus can only be established through regional co-operation. The same is true of certain activities in the fields of natural resource prospecting, communications infrastructure and international marketing. Hence regional co-operation is a factor which goes far beyond the limited concept of intra-regional trade.

Support for small and medium-sized enterprise might be another element in the quest for domestic articulation and international competitiveness. The selective and integrated development of small and medium-sized enterprise is important not only because it may achieve high levels of international competitiveness, but also because, in certain sectors, it tends to create more employment and a greater value-added per unit of investment than large-scale enterprise.

Support for small and medium-sized enterprise should include three elements which are mutually complementary: purchasing power, deriving basically from large productions or dis-

tribution enterprises; technical assistance and financial aid.

d) *The false dilemma: import substitution strategies as opposed to export-oriented strategies*

To say that in Latin America and the Caribbean import substitution strategies have failed and that the phase of export-oriented strategies is now dawning is to oversimplify this issue and the real economic situation. In the first place, it is a basic fact that the so-called export-oriented strategies are markedly industrial in character, a feature which is reflected both in the high rates of growth of manufacturing output and in the speed of the changes in the structure of production achieved and promoted by the industrial sector. In Japan, Korea and Taiwan, average annual industrial growth rates during the 1950s and 1960s were approximately 15%, i.e., double those of the most dynamic countries of our region, Brazil and Mexico. The intense industrial expansion in the export-oriented countries, associated with the domestic learning process, led to a 'virtuous circle' of growth, increase in productivity and technical progress, and growing participation in the world market for manufactured goods. It must be stressed that the penetration into the international markets could not be understood without the industrial dynamism and technical progress achieved.

Secondly, there is sometimes a tendency to oversimplify in using the expressions 'import substitution' and 'orientation towards the domestic market' (which gives the impression that the dynamic effect of the expansion of the domestic market is determined by the intensification of import substitution). This leads to the conclusion that if the possibilities of increasing import substitution appear limited, the international market becomes the only option for growth. Nevertheless the domestic market can be a dynamizing factor in production even if import substitution is not intensified or even if it is reduced.

The foregoing, apart from establishing the importance of a careful use of the expressions 'import substitution' and 'domestic market', and evidencing their different contribution to the dynamism of production, suggests a third aspect

relating to the existence of a chronological link between import substitution and orientation towards exports which contradicts the view that they are exclusive options. The recent increase in Brazil's industrial exports, for example, would be incomprehensible without the previous effort to construct a really sound industrial base.

A fourth aspect worthy of consideration is the level of aggregation at which the analysis is conducted. In fact, since import substitution is measured, for analytical purposes, by means of the variation in the import coefficients, it may happen that an import substitution process appears positive at one aggregation level and negative at another, which is explained by the variations in the composition of domestic demand. But more important than this 'optical illusion' is the significance for policy interpretation and design of the analysis of the modifications in the structure of production, where as much importance should be given to the sectoral as to the global level of analysis of import substitution and export promotion.

To illustrate the combined effect of the different aspects mentioned, the case of Korea may be quoted. Taking the period 1955-1973 as a whole, the increase in exports appears to be the engine of growth in local production, accompanied, in the second place, by the expansion of domestic demand and then by the contribution of import substitution, marginal but positive. When the analysis is broken down into three subperiods a closer approximation to reality is obtained with different indications for interpretation purposes: in the period 1955-1963 the growth of the domestic market, strengthened by the dynamic effect of import substitution, accounted for close on 90% of the growth of the industrial output; in the period 1963-1970 the domestic market remained in the lead, now followed by the increase in exports, and the import substitution process was found to be negative; it was only in the final period (1970-1973), the culmination of the preceding process, when the rise in exports became the engine of growth, followed by the domestic market and by import substitution which was negative for the economy as a whole. If the sectoral dimension is added to this chronological breakdown a new approximation to reality is obtained. Thus, even though in the period 1966-1970 import substitution

appears as negative in the economy as a whole, in 14 of the 25 productive branches the substitution of imports was intensified. Even more significant is the fact that the main effort of import substitution was concentrated in branches which are strategic from the standpoint of the transformation of production in Korea: petrochemistry, iron and steel and transport equipment. In the two last, the contribution of import substitution to the growth of industrial production was higher than that of exports in the respective branches. In the following period (1970-1975) import substitution declined in the petrochemical and iron and steel industries, and increased in the branches of non-metallic minerals and metal products, while a great effort was initiated in the substitution of imports of capital goods.

If the findings which emerge from the aggregated analysis are contrasted with those of the chronological and sectorally disaggregated analysis, it will be seen to what extent methodological simplifications can create distortions in the resulting recommendations. The situation is aggravated when the subject to be investigated serves as the basis of argument for designing a model supposedly for universal application. In countries in which the endowment of particular natural resources was generous, the achievement of excellence, even in the case of small domestic markets, signified an intellectual contribution which improved both the manufacturing techniques and the equipment employed, and was accompanied by the development of multiple uses and new designs associated with the processing of these natural resources. This is the case with the Scandinavian countries which have a large share of international trade in manufactures associated with their natural resource endowment.

At a given stage in the industrial development of a country, the accent will have to be placed on a number of branches directed to the domestic market, if nascent productions are involved and the countries have relatively large national markets. In activities which are already at more advanced stages of development, the emphasis can be transferred to exports destined for regional or international markets. There will also be cases in which sectoral development will have to be conducted from the outset in a combination of domestic and international markets,

as in the manufacture of some metallurgical or chemical goods based on natural resources. Small countries will probably have to place more reliance from the outset on international markets and particularly subregional markets, to avoid inefficiency in production.

In conclusion, the protection and promotion of the exports of a given sector need to be interrelated as regards the levels and forms of application. Protection is necessary at the inception of the development of each activity, to be subsequently reduced as competitive capacity increases. In their turn, the incentives to foreign trade should be at a level which does not discriminate against exports. The degree of protection and promotion must also be influenced by the international situation. Today most of the countries of the world apply considerable tariff and especially non-tariff restrictions which in many cases are increasing. Hence the policy of a country could not be determined on the assumption of a world of perfect competition and free movement of goods and information.

A common trait in the achievement of international competitiveness by societies that are very different in many respects is the fact that, by different routes and with different institutional systems, they have advanced in the gradual attainment of consensuses; they have consolidated and legitimized domestic leadership; they have established minimum norms of equity and solidarity and have achieved a clear articulation between State and society; in this context they have created and strengthened what was defined above as an endogenous technological dynamization nucleus which ensures the continuity of the process of assimilation, learning, adaptation and innovation in terms of the satisfaction of needs and the utilization of potential, combining selectively, sectorally and chronologically the substitution of imports and the generation of sound export flows based on a genuinely internalized technological patrimony.

From this it can be deduced that the assignment of strategic priority to export development and to the rationalization of the inherited structure of production—a requisite for the achievement of the aforesaid objective (on which there is agreement)—should be carried to its extreme consequences. It must be understood that the task undertaken is one of national dimensions,

transcending by far the sphere of trade policy and even that of the economy. It is a question of adopting a new style of development which will favour both inward-directed articulation and the increase of capacity to compete abroad. International experience suggests that it is not a question of antagonistic options, but of requisites which strengthen and reinforce each other.

e) *Elements of technological policy design*

The experience of the advanced countries and more recently of the countries of Southeast Asia shows that the dynamism and soundness of the industrialization process is indissolubly linked with the development of scientific and technological capacity. The instability of Latin American industrialization reflects and at the same time is explained in part by the technological backwardness which, with varied intensity, is present in all the countries of the region.

The spreading of a sense of vocation and of interest in technological activities is a more complex task than the physical expansion of production. In the postwar period Latin America's headlong industrialization and technological backwardness fully corroborate this statement.

At this point it is of interest to consider the subject on various overlapping planes. The first relates to the group of spearhead technologies around which the future technological and industrial pattern will be articulated at the international level. The second embraces areas in which some Latin American countries have succeeded in setting up groups with an adequate critical mass, integrated with productive activity and with a certain capacity for international competition. Finally, there are several sectors in which there is a manifest lag both in scientific and technological infrastructure and in its incorporation into production.

The spearhead technologies are the basis of the future comparative advantages in the international market; on this account alone, the Latin American countries should not fail to study them, since the new scientific and technological base will not only have projections in international trade but, what is more important, in the forms of organization of society and the satisfaction of its basic needs.

Various considerations suggest, as a strategic

option complementary to the capacity to compete in international markets, the articulation of the spearhead technologies and the basic social services through which the development of the scientific, technological, technical and manufacturing base might be produced around a dynamic nucleus of national private, mixed and public enterprises. It would be largely a question of articulating a vigorous development of genetic engineering with the national health and nutritional needs, and of intensifying the use of the mass communication media in education, from the standpoint both of methodology and content. For this reason it is extremely important to link education with the communication media and with science and technology.

The consolidation of technologies in Latin America is conditioned by the capacity to absorb the impact of the technologies being developed in the world centres. The consolidated technologies include some agronomic specialities and certain disciplines linked with the energy sector and with civil engineering. Here there exists a critical mass of knowledge and personnel teams, an acceptable degree of integration with production and localized expressions of a capacity for international competition. In these areas it would be appropriate, in the first place, to strengthen the existing nuclei, favouring the use of the present technological base by the productive machinery. The linkage between research and production in the agricultural sector seems to require a decided effort of articulation in which an important role can be played by the regional and national development banks.

In these three fields —agronomy, civil engineering and energy— it would also be necessary to undertake systematic international promotion activities which take into account both external policy and the economic and trade relations of the countries of the region.

Finally, a part of Latin America's technological backwardness is concentrated in the industrial sector. Here it would be expedient to direct attention to certain areas where there is a very wide gap between the physical capacity for production and the technological support infrastructure. Outstanding among these areas are the food, chemical and capital goods industries.

In relation to the activities and instruments of technological policy, it would be advisable to

rely on the experience built up in Latin America in the last decade with its combination of achievements and frustrations, together with that of other countries, especially the advanced countries and those of Southeast Asia. Solely by way of illustration, some priority fields are mentioned below:

1) The strengthening of scientific infrastructure (research and post-graduate training) and technology (establishment of norms, metrology, quality control, information systems, technological training and research). The scarcity of foreign exchange and public funds has limited the resources destined for these activities, despite the fact that they tend to promote the articulation of the demands of the productive system with the technological infrastructure. This very fact may incite the various agents who are encountering technological obstacles to have recourse to solutions available in the region at much lower cost.

2) The substantive and institutional integration of technological policy instruments into the sphere of industrial policy, with the promotion of the direct presence of the entrepreneurial sector, both public and private. In particular, there should be an abandonment of the practice, frequent in Latin America, of isolating the institutions and ministries responsible for the sectors producing goods and services from the functions of co-ordination of science and technology.

3) Reform of the educational systems and the mass communication media with a view to setting a higher social value on domestic technological innovation, at the same time amplifying and disseminating information on world scientific and technological advances. The quest for functional solutions to local needs and potential should become 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 for consolidating the usefulness and prestige of Latin American integration.

4) The reduction of the costs of technological activities through credit instruments and fiscal incentives which will include both the research and marketing phases.

5) The reduction of the risks inherent in technological activities through the creation of risk capital, the selective protection of the domes-

tic market and support for the placing of locally developed designs, processes and manufacturing techniques on the international markets.

Finally, measures should be adopted with a view to reducing the emigration of scientific and technical personnel.

6. *The financing of development*

The crisis of the international economy and the crisis of Latin American indebtedness have completely changed the basic conditions in which the major problem of the financing of development was handled during the postwar period.

In effect, from the end of the 1940s, with the creation of the multinational institutions of the United Nations and the Truman doctrine concerning bilateral relations, financial aid for development was consecrated as a basic principle of international co-operation. In this connection, the Alliance for Progress, the creation of regional banks and of systems of (financial) evaluation of national plans, introduced at the beginning of the 1960s, did no more than reaffirm a pattern already established in international relations.

The aims of these and other financial mechanisms were not only to foster the development of the backward zones, but also to create a necessary climate of stability in the monetary system and in the international exchange-rate policies. Credit flowed towards the periphery, but it was always limited and subject to strict rules, in which the aims of development were subordinated to the exigencies of the equilibrium of the financial and monetary markets.

All this regulated arrangement began to change with the establishment of the floating parities which were to replace the Bretton Woods system, after the United States government abandoned the fixed ratio between the dollar and the price of gold. As a matter of fact, the weakening of the old financial order took place earlier and it would be true to say that one of its first institutional manifestations was precisely the emergence of the Eurodollar market. In its origin, this market signified a way of escape from national regulations and a decisive step towards the integration of the financial markets outside the normal standards imposed by governments individually or through multilateral agreements.

To say nothing of the non-fulfilment of the development goals of the first and second decade as regards financing, the 1970s were characterized by the industrialized governments' abdication in favour of the international private banks of their responsibilities in providing foreign exchange for the developing countries. The new role of the commercial bankers provided a ready solution to the complex problem of the recycling of the petrodollars, and Latin America welcomed a mechanism which freed the authorities from the red tape, supervision and conditionalities of the previous credit systems, in a decade in which there was a marked fluctuation in the currents of international trade and in which the changes and floating interest rates confused the exigencies of external development financing.

Nonetheless, the flows from the commercial banks soon succumbed to the pressures of the international recession caused by the second rise in oil prices (1979). The crisis of indebtedness came to a peak in 1982. This was the culmination of a cycle in which the Latin American countries had access in the first instance to bilateral and multilateral financial aid and, later, to the liberal contributions of the transnational banks. It may be that the flows of direct investment are increasing, though they will hardly be able to replace in character and volume the other sources of net funds. In the 1980s Latin America faces a total, or almost total, retraction of the contribution to its development of external saving, as a result of a radical change in the conditions of the international economy. It would be illusory to expect these circumstances to change in the short and medium term. The determining factors are of a structural nature and will take time to produce the adjustments needed at world level for a return to a régime similar to that previously in force. Hence the most probable development—and the Latin American governments should be forearmed—is that the balances on the balance-of-payments capital account, instead of providing a relief, will be an additional charge on the efforts at capital formation in the region.

Hence it seems inescapable to restate the whole policy of future financing for the Latin American economies. The main bases will have to be found in the mobilization of domestic saving and in the introduction of investment pat-

terms much more austere and much more closely related to national priorities. It must be admitted that from abroad the most that can be expected will be a modest mobilization of net funds from official sources, coupled with the possibility of improving the conditions of the renegotiation of the debt and of repeating again and again the rounds of negotiations.

This is not the occasion to describe the reorientation of financial strategies. Suffice it to go more deeply into some proposals of a general nature. In the first place, the mechanisms for obtaining domestic savings must be modernized. This would involve not only the creation of incentives for the formation of surpluses—among which the fixing of passive interest rates at positive levels is a first requisite—but also the completion of the domestic financial circuits, that is, the improvement of the institutions and instruments of financial intermediation. The mobilization of savings implies, on the one hand, an increase in the proportion of those which are collected and redistributed by the modern financial sector and, on the other, a strengthening of the habits of insurance and saving. From this standpoint, it would be useful to improve the banking and extra-banking mechanisms which assist the savers and the treasuries of enterprises in the handling of their liquid funds. Again, the actual instruments of collection would have to be modernized with a view to guaranteeing the purchasing power of the savings and of making them competitive with those offered in the international financial markets. This would be a step towards the reconstruction of the financial circuits which formerly were completed with the intervention of the foreign banks. It would also help to retain in the countries of the region the resources which escape owing to the enormous facilities for flight created by the integration of the money and capital markets, and perhaps also to repatriate part of that previously sent abroad. As regards the task of transforming the national systems of financial intermediation, just as support was given in the past to industrial development, now priority would have to be assigned to the changing of those systems. Naturally this would not only have a national dimension, but might also have effects at the regional and sub-regional level. It is not difficult to conceive the formation of integrated credit networks favour-

ing interzonal trade or promoting investment based on the Latin American manufacture of capital goods. The linkage of the stock markets, the organization of credits in consortiums, the issue of regional savings bonds, or the creation of zonal systems of insurance and guarantees are other possibilities that should be systematically explored.

Even so, it is highly probable that the financial bottlenecks will be one of the most serious obstacles to development in the immediate future. This gives rise to the other requisite which should be met in the designing of a realistic financing strategy: rigorousness in allocation and austerity in the use of investment funds. In this field there are several criteria that should not be ignored. One calls for reduction of the waste that frequently accompanies both public and private investment projects. The building of cities of monstrous size and the opulent installations of social security, the construction of administrative offices and residential areas which sometimes exceed in luxury those of the industrialized countries, are obvious examples of the magnitude of the waste. Similarly an effort would have to be made, with a discipline perhaps unknown before, to establish a stricter order of priorities in the distribution of funds for the new investment, mainly that of a public nature. Here there is no longer room for manoeuvre. The crisis compels the choice of that which will most readily reactivate the economies and restrain inflation. The projects would have to be well assessed, and integrated in groups which would facilitate labour absorption and the rapid growth of supply. The care and protection of infrastructure and capital goods already installed would also have to be a primary concern, along with the greatest possible use of the installations available. The specifications in construction and in the building of works of infrastructure should be based on local standards, those of countries short of capital, instead of adopting the norms of rich nations. Technological effort in respect of capital goods should be directed to the manufacture of equipment in which for the first time the deliberate aim would be its adaptation to the domestic factor endowment. In short, Latin America will have to learn to do more with less, and to make better use of the surpluses of the economic systems which always arise from current social sacrifice.

7. Intra-regional co-operation

Intra-regional co-operation and the deepening of subregional integration may play an important part in enlarging the margins of manoeuvre in the conduct of economic policy and in the transformation of Latin America's productive capacity on the bases of greater efficiency and competitive power.

In the present situation, integration and co-operation may help to overcome the crisis through instruments which will make greater use of installed capacity and human resources, reducing to a minimum the use of the scarce convertible foreign currency in the region. The increase of regional trade, without diminishing exports to third countries, and import substitution on a regional scale are two of the basic mechanisms for restoring the economic activity levels lost in the crisis.

In the medium and long term, integration and co-operation may help to generate conditions for a more autonomous, stable and rapid development through the creation of an economic space more extensive than the national space of each country. Thus, for example, joint initiatives may be undertaken to eliminate the sectoral disparities caused by an incomplete process of industrialization, and to improve the articulation between productive sectors. Again, support may be given to the development of branches and activities which have lagged behind, such as that of capital goods. In the same way it will be possible to give real substance to co-operation in the field of food and energy security if there is a community view of the need to overcome the risks produced by dependency in those sectors, and of the urgency of this task.

Furthermore, through co-operative effort at regional and subregional level Latin America and the Caribbean will be in a better position to cope with the adverse factors deriving from the international economy and to take advantage of the opportunities that this will continue to offer. Thus, for example, there are obvious advantages in continuing the interchange of information and in increasing consultation regarding the restructuring of each country's external debt, or the concertation of negotiating positions *vis-à-vis* the industrialized countries in respect of adjustments to the standards regulating trade and the

international financing and monetary flows. Intra-regional co-operation can also facilitate the development of new export lines to third countries, not only through the efficiency gained by virtue of the economies of scale of the enlarged markets created by integration commitments, but also as a result of associated multinational efforts in support of the production and marketing of tradeable goods.

It should be noted that it would not be a question of restoring conceptual schemes from the past which favoured a gradual and progressive integration of several economies ending in the formation, within predetermined periods, of a single regional economy. The idea is to promote joint action to solve common problems, which offers a wide and fertile field for putting intra-regional co-operation at the service of reactivation and development. The task would be simplified if an impulse were given, first, to the relatively homogeneous groups of countries which have already shown a certain will towards integration—the Central American Common Market, the Andean Group, the Caribbean Community, and the large countries associated with ALADI—and, then, to the strengthening of links among the groups or units of integration.

Co-operation should not be limited to the industrial sector. In agriculture, mining and natural resources there are likewise co-operation possibilities which cover the production, processing and marketing of goods. Similarly, in technology and in the more advanced sectors, such as information processing and others, there are increasing opportunities for joining forces in the solution of some basic problems. Lastly, as has been indicated above, there are also possibilities of stimulating co-operation in the financial sphere.

Among the mechanisms or procedures designed to promote subregional integration the following may be mentioned: tariff preferences, which under ALADI have been negotiated and fixed at a low level and which can be employed on a wider scale; the elimination or limitation of non-tariff restrictions; the channelling of a proportion of State purchases towards the region; the improvement and interlinking of systems of compensatory payments and reciprocal credits, and in general of the financial mechanisms associated with intra-zonal trade; the promotion

of partial agreements and, when applicable, of compensated trade, and the strengthening of the subregional and regional institutions which, in one way or another, give support to integration.

Finally, it should be noted that, if integration is conceived as a process in which all the social, political and economic agents play an active part, the existence of democratic systems of government becomes an important element in the deepening of intra-regional co-operation.

8. *The State, planning and democracy*

a) *ECLAC's conception of the role of the State*

In face of the economic, social and political challenges of the present crisis, the demands on the State by civil society appear to be multiplying. From the start, ECLAC saw the State as one of the leading actors in the development process. There were many areas of the economy in which it considered State orientation and intervention necessary, particularly in the following: first, in the conception of a global and long-term view which would be systematically reflected in the plans destined to transform the existing structures for the formation of a modern industrial economy; second, in the orientation of action in decisive areas of this transformation plan, such as the promotion and support of capital accumulation, the protection and development of industrialization, the reduction of external vulnerability, the creation of infrastructure, or the stimulus and orientation of technological change, and third, in close relation to the two preceding areas, the prevention and control of the economic imbalances which inevitably accompany structural change.

The aim of this conception was to find a balance between the public and the private sector, between the State and the market, which would take advantage of the positive aspects of each, facilitate their complementation and avoid the negative consequences of the excessive predominance of one over the other and the impression of conflict between their respective roles. This balance was conceived as the expression of an institutional framework which would combine the fundamental principles of a market economy with the indispensable action of the State. In this particular combination, the State's

action tended rather to complement and sustain the market than to transform it radically.

In brief, ECLAC advocated a planning State which, guided by a development plan and using monetary, fiscal, exchange and tariff instruments, would urge all the economic agents to satisfy determined aims. The final result of the creative interaction between the activity of private agents and the action of the State should be the strengthening of the economy as a whole.

b) *Considerations on State action*

Recent decades have provided rich and varied experience on the virtues and defects of the economic action of the State and of the market, and have led to the widespread view that neither one nor the other, by themselves alone, can ensure efficient and equitable economic development. The unilateral programmes, which derive from the predominance of one or the other, do not appear to find viable solutions. Hence the problem remains of finding new and agreed equilibria between the public and the private sector.

During most of the 1960s and 1970s it was assumed that in Latin America the State was in a position to fulfil the role assigned to it by the development strategy. However, the opposite was frequently the case. In fact, the position of the State from an institutional, administrative and socio-political standpoint was not always in line with its assumed capacity to guide the process of development.

These assumptions were submitted to severe criticisms, both from a theoretical and practical point of view. For example, it was pointed out that the State apparatus had not the internal unity and coherence that had been assumed and that it was rather a complex structure in which, in the midst of a task of increasing magnitude, multiple agents tried to promote their particular interests. Moreover, the orientation of State action was often not the result of the autonomous and imperative application of a certain technical rationale but the consequence of complicated processes of decision-taking affected by the interaction of power groups with different lines of reasoning. Again, the technical and administrative efficiency of the State could not be merely assumed, but had to be regarded as a problem of

difficult solution. Lastly, State control of economic relations with the exterior became increasingly limited in the context of an international economy which was becoming rapidly transnationalized. In these circumstances, the State was frequently unable to undertake all the tasks which had been assigned to it or to fulfil them efficiently. Intense criticisms arose, some sufficiently sound to make a profound impact on the conventional form of criticism applied to political questions in general and to the State in particular. When these issues are reformulated from the standpoint of current needs, the decisive question seems to be how to formulate and carry out strategies aimed at development, autonomy, equity and democracy without the support of ideal States, the existence of which was previously taken for granted.

Paradoxically, at the same time as a more realistic view was being adopted of its capacity, the State was expanding and diversifying its structure to assume ever wider functions which were imposed on it by the economic, social and political circumstances, along with the weaknesses and deficiencies of the other economic agents.

Some of the chief causes of the expansion of the Latin American State in the economic and industrializing process originate in the underdeveloped and peripheral character of the societies of the region. The local private agents are weak in comparison with the power of their counterparts abroad. The relative weakness of some and the strength of others, in the framework of growing economic, financial and technological demands, impose ever increasing functions on the State. In some of these cases, the State has tried to attract or control foreign agents while favouring the development of the national private sector. In fact, it has frequently fostered the activity of the latter by offering it opportunities for investment, credit, protection against external competition and certain internal risks, as well as ensuring it a stable demand (through the State purchasing power), granting it access to low-priced inputs, guaranteeing it profitability, etc.

At the same time, State action in the social field originates in part from the fact that Latin American economic growth has manifested tendencies towards social and regional con-

centration of power, income and wealth. These trends result in disequilibria which, in some cases, have been aggravated by social and political activities and aspirations directed towards mobilization and democratization. In other cases, the State has had to settle difficult social conflicts arising from the growth and expectations of the population itself, as well as from the demands coming from the groups that emerge with economic progress.

Finally, as regards the political process, the State has also had to face opposing trends. Besides the functions relating to its internal and external consolidation, the State has on the one hand had to guarantee the maintenance of an institutional order whose dynamism accentuates the growing concentration of economic power. On the other hand, it has had not only to represent a régime of global rationality binding together individual interests, but also to create a flexible institutional ambience which will incorporate all the social forces activated by the development.

These are, in brief, some of the main reasons why the State has expanded its action in the economic, social and political fields. The concrete forms which this expansion has assumed have been very diverse, as also have been the priorities established in each concrete case.

The functions of the State have varied over time and in recent years as a result of the economic crisis and the processes of democratization. The dilemma consists, not in clarifying whether the State should or should not act, because obviously it will do so, but in perceiving what should be the characteristics of this action in present-day Latin America and in view of the set of objectives directed towards democracy, autonomy, growth and equity.

The State is faced with new challenges made more pressing by the crisis. This reduces the degrees of liberty, limits internal and external resources, and slows down the growth rate, which makes it more difficult to settle conflicts and take up options which will reduce the differences between the social strata. To meet these challenges a vigorous —but not overgrown— State is required which can gradually increase its technical and administrative efficiency, its political capacity and its economic and financial solidity.

The increase of the technical and administrative efficiency of the State apparatus is an objective which could be universally accepted, always provided that it is not placed above the other objectives which should guide State action. In effect, Latin America has reached the point where it is evident that efficiency should be subordinated to the social efficacy of the global action of the State, an efficacy deriving from the coherence of State action with the various objectives which should guide it.

The State's political capacity basically relates to its willingness to exercise its authority over all the social groups. Nonetheless, a strong or effective State of this nature cannot be based solely or primarily on the use of the coercive power characteristic of an authoritarian political organization, but must rely on the principles which give legitimacy to its mandate. Within the political culture prevailing, this legitimacy can only be attained through the revalidation of democratic political principles. In other words, in principle and apart from other requisites, legitimacy will be accorded to the authority which emanates from a democratic State. This is the only way to attain the level of responsibility and individual and collective discipline which will serve as a firm foundation for a State political capacity that is vigorous and stable.

The economic and financial power of the State is closely allied to its political capacity, since the two attributes support each other. This power is expressed and exercised in various ways, but its central nucleus is built upon two main aspects: on the one hand, the capacity for leadership and concertation, which enables the State to unite people's wills behind collective economic aims; and, on the other hand, the capacity to control and guide the process of capital accumulation. It is difficult to decide on the most suitable procedures for consolidating this latter capacity, but the most familiar are the good use of economic policy instruments, direct investment of a productive type and the control of financial mechanisms both public and private. Only concrete circumstances can indicate which combination of these is the most appropriate.

c) *Planning and crisis*

To increase the capacity of the State in most of the Latin American countries there is no need

for an enlargement of its functions and attributes but merely for the adequate exercise of those which it already has. Here once again planning plays an important role as an instrument of rationalizing State action. It is not necessary to repeat the familiar theoretic elements which are the bases of planning, but it is indeed of interest to point out certain problems which have not been solved, at least in practice, such as the compatibility of aims and policies in the medium and long term or the combination of goals of growth and equity.

Again, the articulation of the management of the principal State entities, such as the central administration, the public enterprises and provincial administrations, is also a matter of special importance. In many Latin American countries, above all in those where inflation is intense, public investment comes to have an importance which it could scarcely have acquired in earlier conditions. In some countries over 50% of investment is public and it continues to be the basic source of the infrastructure needed for development, which justifies in itself the need for long-term planning.

d) *Democratization*

The main political aim of a development strategy should be the establishment and consolidation of democratic forms of social organization. This objective is justified for three main reasons: for the intrinsic value of democratic principles; for the role that democratic mechanisms of articulation of interests can play in the stabilization and institutionalization of the political process, by permitting the participation of all the social groups; and for the relation between the existence of both the above elements with the objectives of social equity. These aspects, summarized in terms of participation, liberty and equity, form a delicate balance, which should exist if one is to be able to speak of a genuine democratization.

Democratic forms are manifested institutionally in three main mechanisms. The first consists of instruments proper to liberal democracy, based on the aggregative and representative functioning, freely exercised, of the political parties, through parliamentary elections and institutions, and on the civil and political

rights on which these instruments are founded. Some of the obstacles in the way of the full application of these instruments in many Latin American countries, and the regressions that have taken place in a number 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.

Secondly, there are important nuclei of economic power whose articulation, indispensable for stabilizing and orienting the political and economic processes, is not fully achieved by the traditional democratic mechanisms. Outstanding among these nuclei are the entrepreneurial associations 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 procedures of social concertation among these groups and with them, which frequently succeed in becoming institutionalized as economic and social councils. Although they have had a precarious existence in Latin America they represent a promising path for the establishment of forms of harmonization and concertation of interests. They should by no means replace the traditional democratic mechanisms, but they can certainly help to achieve a greater coherence between the political parties that they represent.

In the third place, liberal-democratic mechanisms and procedures of concertation do not exhaust the process of democratization, since the growing concentration of State and private economic power entails a search for ways of diffusing and controlling this power. It is a question here of deepening the democratization of the public and private enterprises, which constitute the current supreme examples of concentration of economic power. This deepening can assume various forms, implying different degrees and modes of participation, such as the participation of employees in the capital, or even in the management, of enterprises; the self-government and strengthening of co-operatives, etc. In several Latin American countries co-operatives are being reinforced. Experiments in participation in private and State enterprises should be encouraged and improved, since they seek to overcome the dilemma presented by the

present co-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 reciprocally influenced. Mechanisms are empty forms if they have no social base to legitimate them, but this social base must necessarily reach some degree of agreement conducive to the democratic discipline which is an essential component of a State having sufficient authority to carry out decisions reached democratically. Indeed, democratic régimes have to be firm in exercising their authority, since the existence of democracy must not be confused with the absence of authority. The same firmness that they apply in the defence of democratic procedures and the taking of decisions should be used to insist on the observance of the latter. The recent history of developing countries has many examples of the negative implications for democracy itself of an unwillingness to exercise the power possessed by the democratic régimes; they should reconcile economic reality with arbitration between the key forces of society, in order to achieve a sufficiently wide combination of support to guarantee the survival of the régime itself and certain advances in general well-being. Their viability depends on the structural changes they introduce into society and the economy, on the evolution of the external sector and on the receptivity and flexibility of the forces capable of making themselves heard. This last factor is undoubtedly one of the most important for the future of these régimes; that is, to achieve the support of the different political parties and of the social groups and classes or their representative organizations, which should try to express themselves through their parties in the existing organs of power. This support requires of the different sectors of society that they should formulate realistic responses to the options before them and help to put these options into practice, displaying a sufficient capacity for overcoming undetermined issues and for combining the vigorous defence of their own interests with the patience and ability to arrive at an agreement.

Statement delivered at the Expert Meeting on Crisis and Development in Latin America and the Caribbean

*Enrique V. Iglesias**

It goes without saying that it is a source of great pleasure and emotion to be back here in what I continue to regard as my home, beside my dear friend Norberto González, in whose capable hands the institution now rests, and Dr. Raúl Prebisch, to whom I owe so much and whose opinion I value so highly. I am also very pleased and moved to be at this meeting for which we all worked so hard, which we were preparing so hopefully throughout the past year, and which is now a reality through the generous presence of all those attending.

We have long felt in ECLAC that there was a need for an integrating effort, an exercise of collective reflection on the times we are living through in Latin America. Two events were responsible, however, for precipitating our decision to hold a meeting for this purpose. One was the collapse in recent years of the neo-liberal options which seduced so many circles of opinion in so many countries in the 1970s. The neo-liberal solutions came to our countries together with important changes in economic outlook, and they were imposed through "social engineering" formulas which were linked in many cases with authoritarian political régimes. Those were difficult years for the work of ECLAC, when the specious lure of such formulae dangled over many of ECLAC's member governments. The collapse of these neo-liberal solutions was a warning shock for the region and of course for ECLAC too.

The second event was the crisis of external indebtedness—as it has been called—caused by the build-up of external debt and by a kind of treacherous turnaround in the international cycle marked by extravagant interest rates, the resurgence of protectionism, and violent contractions in the inflow of private capital.

*Minister of Foreign Affairs of the Oriental Republic of Uruguay and former Executive Secretary of the Economic Commission for Latin America and the Caribbean.

It then appeared that the time had come to make a proper appraisal of the many experiences patiently analysed here in ECLAC from the conjunctural and medium- and long-term perspectives, which the region had followed from day to day and had intimately experienced at the intellectual and political levels. ECLAC decided at that point to promote a debate aimed fundamentally at weighing these experiences, reconsidering the many signals coming from the world economy, and setting afoot an exercise in collective reflection by technicians and politicians. I mention these two groups of persons because it is essential that this reflection should not be confined exclusively to the technical level if we really want to give renewed thought to the world in which we shall have to live after this crisis, which will be novel in many respects because of its profound asymmetry and complexity and which leaves us with every day that passes farther away from a theoretical basis for analysis and from any clear answers to the problems facing us.

Raúl Prebisch referred a little while ago to the crisis of the capitalist world,¹ which has undoubtedly been shrinking the room left to us to foresee and anticipate developments. We now feel that we are on shaky ground as regards the possible bases of an international economy in which we could have real confidence. On the other hand, the capitalist system has shown an unexpectedly great capacity for coping with the challenges facing it: during the years I was associated with ECLAC I witnessed a number of seemingly final crises of capitalism in succession, such as the monetary crisis, the gold crisis, the energy crisis, and now the debt crisis, which, it must be acknowledged, has seemed to be breaking up in the last few months.

¹See the article by Raúl Prebisch in this issue of the *Review*.

I said earlier that the present crisis is very asymmetrical, for without a doubt it would seem laughable to assert that the United States or Japan were in crisis today. The forecasts, too, are very varied. Some observers say that the system is on the way to catastrophe, while others maintain that we are on the eve of a spectacular rebirth of the world economy thanks to the new technological advances which will imbue the world economy with vibrant dynamism. There is no doubt that we are living in a novel world, which has no precedents in the history of capitalism, and which is far beyond the compass of past experience and even the intellectual categories themselves. One thing which is clear, however, is that this crisis is accompanied by a new type of international relationship which corresponds much more closely to a return to the Schumpeterian model than to that of Keynes. In other words, those who have worked for so many years in the United Nations on a search for the fundamental elements of universal regulation, inspired directly or indirectly by the thinking of Keynes, must now acknowledge that we seem to be moving in the direction of a world without global regulators: a world ruled exclusively by the principle of struggle and competition.

The same crisis also seems to be visible in some respects in the socialist world, where the quest for efficiency and for the incorporation of new technology and institutional reforms has found such novel expression as what is now happening in the People's Republic of China.

In the developing world, too, the crisis has asymmetrical features. The flexibility shown in recent times by South-East Asia has meant that in many countries of that region the situation is substantially different from that existing in Latin America. On the other hand, the tragic conditions prevailing in Africa are also far removed from the crisis affecting us.

This has caused us to come to the conclusion that we really must speak of the special case of Latin America, even though there may well be some European and African countries in similar situations. Our crisis is part of a confused and perplexing world; there seem to be no clear theoretical bases to go on as there were in the 1950s, and the crisis is taking place within a set of parameters and conjunctions which make it very difficult to look ahead. It is this crisis that we

must tackle theoretically and politically in order to cope with challenges which present themselves in many different terms and on many levels.

The dimensions of the Latin American crisis oblige us, first of all, to consider the great heterogeneity of the region. It is increasingly difficult to speak of it as a whole and to give global pictures which have any meaning. Think, for example, of the difficulty of making a synthesis which includes both continent-sized Brazil and the mini-economies of the Caribbean. Even so, however, I would say that there are still four or five aspects of the Latin American crisis which are worth briefly recalling here.

Firstly, there can be no doubt that even in the 1970s the collapse of certain Latin American growth models could be foreseen. Nobody can deny that Latin America has changed considerably, often for the better, and a great deal has been done. It is sufficient to glance over some social and even economic indicators to realize that the Latin America of today is very different from that of the past, but nevertheless the fact remains that in the 1970s important contradictions were developing between the modern and the traditional sectors, between social demands and the capacity to sustain them, and between the modernization coming from outside under the impulse of international trade relations and the internal articulation which would be capable of giving us a self-sustaining growth model.

The external debt worked like an anesthetic, and the region was able to avoid facing up to many of the effects of these imbalances until the end of the 1970s, aided by a degree of financial indulgence unprecedented in the economic history of Latin America. All this filled us with doubts about many things and even gave rise to many false paradigms. It must be acknowledged that we were bedazzled and perplexed and that somehow, almost miraculously, many of the adverse effects were for the time being, warded off.

An important aspect of the present crisis in Latin America and the Caribbean was the financial indulgence to which I have just referred and which had a beguiling influence on all the models, whether orthodox or heterodox. In some cases it was motivated by a legitimate desire to increase investment, in others by the irrespon-

sible determination to adopt extravagant kinds of openness to international trade flows.

The fact is that widespread opening-up took place, and the consequence of this was an external situation which has become increasingly acute in the 1980s. At the end of the 1970s, Latin America's external debt of US\$ 200 billion, in a situation in which the growth rate of foreign trade was considerably higher than that of the product, seemed manageable; but in the 1980s, interest rates of up to 20%, the drop in the terms of trade and all the implications of the contraction of financial flows changed the prevailing climate so suddenly that the debt grew from those US\$ 200 billion to US\$ 350 billion, purely as a result of the interest which was accumulating. Thus, the situation became literally unmanageable and, in many respects, unforeseeable.

Another aspect of the crisis is represented by external relations. Nowadays the world is suffering from a sort of liberal shock which leads us to take an in-depth look at North-South relations, not just because these relations are marked by such phenomena as interest rates but also because there can be no doubt that this liberal shock which the world is now experiencing means that it would be utopian to suppose that in the next few years we can expect a repetition of the extraordinary capital inflows or the booming terms of trade of the 1970s. On the contrary, I believe that Latin America, as a continent of intermediate development, is going to be abruptly involved in the rules of the game deriving from the liberal shock and will be increasingly exposed to concepts of competition, to the necessity of paying more than the odds for the privilege of entering markets, and to situations in which its position will have to be fiercely competitive and set within a context of reciprocity as a formula for international trade. Hence, when we call for "solidarity" in face of the crisis, we are forgetting that the world climate has changed, that the time of the Alliance for Progress is past, and that this is not the heyday of international co-operation of which we have so often dreamt in the United Nations. Such international co-operation is being increasingly directed towards cases of natural disasters, famines and other emergency situations, because the climate of international relations today is not the same: it is much crueller and

much more subject to the play of power relations; and this is an objective reality with which we have to live.

Another aspect of the crisis is that it is what I would call a crisis of highly ideologized macroeconomics. Thus, in Latin America we have witnessed the failure of ideologies that sponsored ingenuous formulas of economic populism in which social efficiency was betrayed in next to no time by economic inefficiency, and we have also witnessed doctrines of economic efficiency, devoid of popular support and of social efficiency, which have likewise blown to pieces. With regard to this reality, so important to economies such as ours, which need to command a grasp of certain structural aspects of macroeconomics to enable them to manage economic and social projects, the past has but imperfect guidance to offer. We must recognize that there have been no clear responses of any kind in this respect and that we are heavily in arrears with the structurally-oriented handling of macroeconomics in Latin America.

Yet another dimension of the crisis is that it is a crisis of ideas, not only in the developing but above all in the industrialized countries. I should find it hard to suppose that the neo-Keynesian equilibria which prevailed up to the beginning of the 1980s can be replaced merely by a return, pure and simple, to the economic rules in effect prior to the 1930s. Perhaps history will prove us wrong, but it is hard to believe that the world can operate in the presence of these financial imbalances, these fluctuations in exchange rates and these financial flows which transfer resources from one part of our continent to the other. It is hard to imagine that this can provide a firm foundation for sustained growth.

Development theory has gone out of fashion in the industrial countries; today it is no longer represented among the best-sellers in the bookshops. There has even been some deterioration in development theory as we knew it in the 1950s and the 1960s when it was predicated by such eminent thinkers as Raúl Prebisch, who is here with us today. There has even been erosion in some models (such as that of Tanzania) of which we who work in the United Nations had high hopes, while others viewed as egalitarian archetypes, such as that of China, are changing their traditional bases. We have seen a series of

approaches fall by the wayside, such as the basic-needs approach, the critical poverty approach and many others which claimed to be an answer and now seem to be fading out of the intellectual scene. ECLAC, however, as a centre of thinking which wishes to remain autonomous, owes a large debt to all these models, and it would be interesting to go further into the matter.

The changes which are taking place in the theory and practice of socialism itself are attracting our attention every day. We must understand why they are occurring. We must also understand why many of our economic models have not been capable of assimilating the changes taking place in the social structure; why many socio-economic models have been unable to influence the political concepts underlying present-day Latin American societies; and why we have this divorce between social, political and economic models instead of building them into a composite whole which would be at once social, political and economic. For the tendency to isolate solutions is not only doomed to failure but will do a serious disservice to the history of Latin America.

This meeting therefore has the basic task of progressing in the diagnosis of the crisis, suggesting ways of bringing it under control, reflecting on the process of structural change that we must face up to in dealing with the liberal shock, and making those structural changes which will bring us to a dynamic and just society.

I should like to say a few words on the matter of bringing the crisis under control. In these past few years we have all lived in the grip of what has been the most violent crisis of the past fifty years, involving the destruction of capital and unimaginable social costs. Perhaps because I come from one of those countries in the region that have been installed which are increasingly limited by the loss of autonomy of our internal reached in Latin America.

In every country adjustment mechanisms have been installed which are increasingly limited by the loss of autonomy of our internal policies due, *inter alia*, to the external debt and inflationary pressures.

The basic problem in bringing the crisis under control has to do with how to manage the external debt. The worst thing that could happen to the developed as well as the developing world

is to think that the problem of the external debt has been or is being settled. This message must be loud and clear. The debt problem has *not* been settled, notwithstanding the species of international complacency with which it is nowadays regarded. Not only is there no basic solution to the problem, but in some cases it is getting worse. And we have to say this with sober impartiality and a grave sense of responsibility.

I believe it is important to state clearly that the problem has gradually been managed to some extent and deferred, but in the present international environment and in the conditions which now prevail and those which threaten to prevail in the future, it would be a serious mistake to think that a solution for it is being found. This is why the countries of Latin America demand a political dialogue: not to politicize the debt, as has been claimed, or to deny the inevitable relationship between debtors and creditors or the individuality of each country as regards the debt question, but because the problem is of such magnitude and puts such constraints on our capacity for development that for us it is a highly political matter; so it is, however, for the industrialized countries, for if Latin America's economic problems get out of control, that will be a political problem for the whole world.

The second issue to which I attribute fundamental importance as regards bringing the current crisis under control is inflation.

In the 1950s and 1960s, there was only one country in Latin America with inflation over 50%; last year, however, there were seven, in three of which the rate of inflation was over 100%, while in some others it was close to or even more than 1 000% per annum. The average rate of inflation for the region in 1984 was 160%.

Inflation is an extremely serious matter because it is not only an economic but also a social and political problem. Certainly, we do not value stability above all else, as the orthodox approaches do, but neither are we so naive as to suppose that growth can still take place with these rates of inflation. What we are saying is that we are dealing with a long-standing problem which now, however, has very different characteristics from before. In the 1950s, we experienced inflation which was ascribable to the structural changes entailed by industrialization, urbanization and the problems facing the new society that

was taking shape in the region. In the 1970s, we had so-called "imported" inflation. The inflation of today is different; it is closely related to the debt issue and has unaccustomed characteristics connected with its long duration, our having got used to it, and its penetration into the "biology" of society. It is linked to such difficult problems as that of invalidation of the so-called "inflationary tax" by the tightness of the money supply, that of systematic indexing, etc.

I feel sure that in many Latin American countries—I do not say all—we are using categories and formulas to deal with this problem which are not in keeping with the different nature of the inflation we are experiencing. I say this with total conviction because I believe that the present type of inflation calls for more than merely economic solutions, since, in addition to conditioning the entire outlook for economic growth, it also has an impact on the prospects of social and political stability. Clearly, this subject is of enormous importance in the Latin America of today, and in respect of it not only the orthodox but also the heterodox schools of thought are in arrears. No clear-cut solutions have yet been put forward, and I am afraid that we are deluding ourselves with many of the adjustments that are now being promoted in the region. In all honesty, we cannot say that we are on the right track yet in this connection, because the inflation of today is structurally different from any of the types of inflation that we have seen in the past. What is even more important, however, is that it has become a basic political issue, and without a broad-based internal consensus there is no way to eliminate inflation of this type. That is why I can say, with legitimate pride, that in my own small country, where this problem is on a much more modest scale, our attempt at concerted political effort, whatever its defects, constitutes a real step towards solving the problem.

I should now like to discuss the question of a qualitatively different type of development. I think it is dangerous to place too much emphasis on this term "qualitatively different". What is involved here, and I believe that in saying this I am interpreting the documents presented by the Secretariat, is to take up once again the long-standing tradition of ECLAC, i.e., to return to an analysis of the actual situation we are dealing with, to learn what is really taking place in the

world, and to reflect upon the new challenges being faced, on the basis of that mixture of ideas and praxis which has been the great legacy of this organization throughout the nearly 40 years of its existence. In a sense, this would be a return to the experience of ECLAC in the 1950s, i.e., a return to the close examination of international events in order to slowly build up a line of interpretation based on ideas and practice; but we cannot put forward broad paradigms which no-one is now in a position to offer, either in the region or in the world.

A great task of economic, social and political modernization of Latin America lies before us. Modernization must start off from the basis, first of all, of the Latin America that exists today, which is a different and extremely complex Latin America. Without a doubt, the first step is to understand what it is really like. The second is to understand the world, because the relationship between the centre and the periphery—a concept which this Commission contributed to economic thought—is and will continue to be a fundamental relationship. It is necessary to understand our problems in the light of the changes that have taken place in this centre-periphery relationship, and, in trying to modernize Latin America, to give due thought to the domestic effort, to the effort to establish regional integration and to possible new forms of insertion in the world setting. This is what we have called modernization supported by its true pillars: modernization which, as stated in the documents, is both endogenous and selective, so that internal linkages may be created within the economy and so that it may be protected from fluctuations in international trade, prices or finance.

This surely involves reviving—in a world that is entering upon a third industrial revolution—the high-priority problem of technological innovation: an area in which the region must unremittingly reflect and work. It also implies institutional modernization, which is why the Secretariat documents refer so often to the subject of the State. The modernization of the State is perhaps one of the most difficult and most political of the challenges that the region will have to face in coming years. In so far as social modernization is concerned, it seems to me that even the very techniques of social policy are being called in question. Perhaps, with this crisis,

conventional social policy has been left behind and other ways should be sought of reaching the lowest-income sectors of society: that 10% or 20% which never receives anything and which is now the victim of some of the most underprivileged situations in history. With respect to political modernization, Aníbal Pinto pointed out, with his customary brilliance, how the old mesocratic alliances that formed the political base on which the Latin America of the 1950s, 1960s and 1970s was built have been breaking down. For many reasons, including the autocratic and dictatorial political régimes that have sprung up on occasion in Latin America, these alliances have been disrupted. I believe that political modernization involves the rebuilding of mesocratic alliances as well as broad internal alliances within the countries, within the public sector, between the public and private sectors, and in all areas of society. If we are unable to adopt a modern approach to politics with a sense of commitment in relation to the demands before us, we shall have some very difficult times ahead. Meanwhile, the world goes on, and just as entire areas have lagged behind in the past, the region might well have to pay that

price if we do not make a great internal effort to exert social and political pressure for the advancement of modernization.

This is the task which lies before us; it entails a return to the realities of Latin America and the world, the reaffirmation of broad objectives of growth, equity, autonomy and integration and, especially, recognition of the imperatives of the world into which we are becoming integrated and the vital need for creativity in dealing with these problems, the last-named being an important facet of this organization's work.

In speaking about the elements behind such an important meeting as this, I have attempted to put across my perception of the vital importance of this exercise in reflection, which will mark the beginning of an ongoing process, and to make it clear how important it is that the results of this meeting should constitute a true working mandate for ECLAC, reflecting the contribution of all the governments. The intellectual debt which Latin America owes to ECLAC will surely grow still greater as the region, in the words of Norberto González, prepares itself to meet, not the past, but the future.

The Latin American periphery in the global crisis of capitalism

*Raúl Prebisch**

Capitalism is in the throes of a profound crisis deriving from the social changes accompanying the evolution of technology and its contradictions. These changes find expression in dynamic disequilibria which affect the internal economies of both the central and the peripheral countries, as well as centre-periphery relations. An analysis of these disequilibria constitutes the nucleus of the article (sections II and III), which then puts forward considerations relating to the crisis of conventional economic ideas (section IV) and ends by outlining a policy to grapple with the current crisis.

From the standpoint of the periphery, correction of the external disequilibrium calls for wariness towards recommendations that encourage trade and financial "openness", and for paramount emphasis on import substitution at the subregional and regional levels and on the establishment of a new overall framework for renegotiation of the external debt, involving a considerable extension of maturity periods and reduction of interest rates.

The internal disequilibrium, in its turn, cannot be overcome unless the appropriation, accumulation and distribution of income are radically transformed by means of macroeconomic regulation of the global surplus through a democratic process in which all social groups take part, in particular those which have been left without a share in the fruits of development. This is a problem that both in theory and above all in practice is extremely hard to solve. But there is no other way of facing up to the crisis, since the play of market laws and a purely monetary policy have shown themselves impotent to tackle the dilemmas of today with lasting success.

*Director, *CEPAL Review*.

I

A global view of the crisis

1. *The vigour of capitalism and the weakening of its dynamic force*

We are living through a worldwide crisis of capitalism. The evolution of technology and its effects on the structure of society, along with its contradictions, have brought with them new and complex phenomena which had never before occurred in the development of the system and now go beyond the bounds of the theories formulated in the second half of the nineteenth century. The capitalism of today is in fact very different from that of the past, both in the centres and in the periphery, which are integral parts of one and the same system. This crisis in the Latin American sphere can only be understood within the global context of the system.

After rates of development so high as to be unprecedented in the history of capitalism, the reversal of the trend is a matter of grave concern. It seems unlikely that these rates will return in what remains of this decade or even beyond it. Unemployment obstinately persists, despite certain improvements, and there has unavoidably been a regression in social services and at best a postponement of the hope of raising the real income of broad strata of the population.

What is happening in capitalism? Is it that, after enormous capital accumulation, especially in the centres, the notable capacity for expansion which prevailed until a short time ago has been lost? Far from it; I believe that this crisis is rather a consequence of the vigour of capitalism, of its ceaseless technological innovations, of its proved ability to extend material well-being to great masses of people.

The mutations in the structure of society and in power relations which accompany the evolution of technology, coupled with the contradictions arising from its ambivalence, are driving present-day capitalism into disequilibria unknown in those earlier times.

In this paper we shall mention two basic disequilibria which jeopardize the economic surplus and consequently the accumulation of reproductive capital, and end by plunging the system into crisis: the internal disequilibrium with its adverse effect on the rate of accumulation,

detrimentally to the multiplication of employment, productivity and income (whence stems the internal vulnerability of the process), and the imbalance in relations between the centres and the periphery, which the latter tries to correct through the export of manufactures, thus in turn giving rise to external vulnerability of the economic surplus.

To this must be added a phenomenon of great importance: the elimination of the gold standard which characterized capitalism in the past. This standard, with all its faults, imposed a monetary discipline, which does not exist in contemporary capitalism, subject as it is to all the ups-and-downs of the dollar in its double role of national and international currency.

I am far from claiming that my explanation of the crisis is exhaustive. I merely stress the influence of technology and its contradictions. This is a presentation which, being schematic, omits special cases and circumstantial factors.

2. *The internal vulnerability of the surplus*

I have referred in the first place to the accumulation of reproductive capital. This process is based on the capacity of certain higher groups in the social structure to appropriate and retain a major part of the fruits of the technical progress reflected in the steady increase of productivity. This is the meaning of the economic surplus. A meaning eminently dynamic, since the surplus has always been and still is the primary source of reproductive accumulation.

It is a matter not only of the appropriation of a lion's share of the fruits of technical progress but also of its persistent retention in these higher groups. The development of capitalism has not been characterized by the social diffusion of these fruits through a fall in prices correlative with the rise in productivity; in the interplay of the market only a partial distribution to the labour force takes place. This has had highly important internal consequences for the dynamics of capitalism, one of which is the present crisis, since the surplus has become vulnerable to the detriment of the system's capacity to expand.

In the system's past, the surplus seemed invulnerable. And now we see that this was only a phase in the development of the system or, so to

speak, of a historical category. The labour force was passive and entirely subject to the rule of market laws; it did not dispute the power of the advantaged groups to appropriate a large share of the fruits of technical progress. Nor was the State moved by considerations of redistribution; as far as the free play of market forces was concerned, it was a *laissez-faire* State.

The progressive strengthening of the redistributive power of the labour force and of the State is an expression of the changes which occur in the social structure and power relations as technology evolves and penetrates that structure, and democratization gains momentum.

Thus there develops a distribution struggle which ends by weakening the growth rate of the surplus and with the passage of time leads to the crisis of the system. But this is not all: the evolution of technology brings with it great contradictions too. Among these are, on the one hand, the technological innovations which increase the actual quantity of goods and services themselves, and, on the other, those which diversify them more and more, creating new designs or new types of goods and services. And all this is fostered by the mass communication and social propaganda techniques.

Thus to the weakening of the growth rate of the surplus by the distribution struggle we must add the persistent incentive to consume at the expense of the dynamics of the system. Hence arises a growing tendency to disequilibrium between the rate of expenditure (including non-reproductive investment) and the rate of reproductive capital accumulation. And this has an adverse effect on the growth rate of employment, income and productivity.

The dynamics of the system depends, then, on the growth of the surplus and this, in its turn, is based on social inequality. And when the evolution of the system tries to correct this inequality, the end result is internal vulnerability of the surplus and a decline in the rate of reproductive accumulation, with serious dynamic consequences. Obviously, if technical progress increases production, its purpose is to increase consumption. It is not there that the root of the problem lies, but in the tendency of consumption to grow faster than accumulation.

3. *The external vulnerability of the surplus*

The surplus used to be invulnerable thanks also to the passivity of the primary-producer countries. Because of the very dynamics of the system these countries had not yet achieved industrialization. This was the origin of the periphery in the global system of capitalism.

With the fragmentation of the periphery, which had no dynamics of its own, large masses of its population were left on the sidelines of development. But the periphery is becoming industrialized and has succeeded in exporting manufactures based on relatively less advanced techniques, which compete with those of the centres, mainly thanks to lower prices. This creates an incipient external vulnerability of the surplus which, although not yet a major factor, aggravate the effects of the internal vulnerability.

Faced with this external vulnerability, which is only just emerging, the centres resort to imposing restrictions, in one way or another, on imports from the periphery. And they deprive this latter of the resources needed to satisfy its growing demand for imports of diversified and technically advanced goods which it cannot yet produce owing to the time-lag in its industrialization or to the lack of natural resources for the inputs of such goods. In this way the trend towards external dynamic disequilibrium is superimposed on the effects of the internal disequilibrium of the periphery, thus reducing the speed of its development.

The fact is that with a productivity lower than that of the centres, the periphery tends to imitate their patterns of consumption, especially in respect of technically advanced goods. The Latin American countries are anything but austere, so that the trend towards internal imbalance is more pronounced than it was in the centres at a similar stage of their development. The two disequilibria are closely linked.

4. *The waste of productive resources*

Neither the centres, nor much less the periphery, have found a solution to the internal dynamic disequilibrium, which ultimately culminates in a new type of inflation that did not arise in the capitalism of the past and which cannot be handled now with the monetary instrument. The

monetary instrument is an anachronism: it provokes or accentuates unemployment without correcting the basic factors of disequilibrium. So it is not surprising to come across the peculiar argument that an appreciable unemployment coefficient must be maintained in order to lessen the distribution struggle; in other words, to revert to those times when the labour force was passive and the State unconcerned. Could this be called optimum use of productive resources?

Again, the external defence of the surplus by the centres, by the application of all sorts of restrictions on imports from the periphery, is another counterproductive method of tackling this problem, since it deprives centres and peripheral countries alike of the acknowledged advantage of international trade.

It is not just the crisis of the global system of capitalism that is in question. It is also a crisis of ideas and forms of action which have manifestly been overtaken by events.

5. *The macroeconomic regulation of the system*

It is not possible to retrace our steps and return to a passive labour force and a *laissez-faire* State in order to restore the invulnerability of the surplus. Nor yet to diffuse the surplus in such a way that the fruits of technical progress are socially distributed through a fall in prices. Capitalism has never functioned like that. There has always been a surplus; the praxis of the system has not accorded with conventional theories, however much their validity may have been asserted.

To solve the problem the primary requisite is that the surplus perform as effectively as possible its dynamic role, which is to step up the rate of accumulation and employ with increasing productivity and ever-rising incomes the increment of the labour force as well as the manpower which has been relegated with lower productivity to the bottom of the social structure. Social use of the economic surplus is essential.

This calls for macroeconomic regulation of the rate of expenditure and the rate of accumulation; in other words, we must not assign to present consumption the grain which should be set aside as seed for the expansion of production.

Is the surplus to be raised so as to increase its accumulation by the social groups at present

favoured under the system? Or should accumulation be concentrated in the hands of the State? Or are we to allow the labour force a share in the process, thereby fomenting the social diffusion of capital? These are questions of fundamental importance for the transformation of the system if dynamic efficacy and distributive equity are to be fully achieved.

6. *The primordial role of the market*

It is imperative to raise productivity if this transformation is to be economically and socially successful. But it is not enough to strengthen the rate of reproductive accumulation. It is equally essential to take full advantage of the productive potential of capital and labour, both through entrepreneurial initiative, and through the increasing skills of the labour force, whose contribution to production is also indispensable. Of primary importance in all this is the role of economic incentive in every participant in this process.

If the transformation of the system is to be tackled with vigour there must be a rational combination of the social use of the surplus and the positive elements of the market, simultaneously correcting the negative factors stemming from the contradictions of technology and promoting entrepreneurial competition.

This crisis of capitalism is a crisis of accumulation and not of the market, despite the negative elements and flaws in its operation.

7. *Crisis of capitalism and crisis of socialism in practice*

Capitalism is centripetal in the play of market forces. Its dynamics is based on the concentration in private hands of a large part of the fruits of technical progress in the form of surplus. But the mutations of the social structure help to give impetus to democratization and to the progressive evolution of individual liberties, among them entrepreneurial freedom and the role of incentive, which have such a marked influence on the steady stepping-up of productivity.

This process and the dynamics of the system itself bring about likewise a centrifugal trend towards diffusion of the fruits in question which ends by jeopardizing the growth of the surplus. This is the source of the crisis of accumulation

and distribution. Democratization requires, therefore, that this process be transformed.

In socialism in practice the surplus is appropriated by the State and retained in its hands, a situation which invests those who dominate the system with invincible economic and political power. By virtue of this concentration, decisions on what is to be produced and what consumed are taken at the summit of the system, detrimentally—as its leaders increasingly recognize—to freedom of initiative on the part of enterprises and to productivity incentives, with the result that the dynamic role of the surplus is affected. The crisis of socialism in practice is, then, a crisis of productivity.

Accordingly, a question of vital importance comes to the fore. To what extent would a democratization process which, apart from its intrinsic significance, boosts entrepreneurial freedom and the play of incentives, be compatible with this concentration of power at the summit of the system?

8. *The vicissitudes of the dollar and the crisis*

The tendencies towards disequilibrium arising from the evolution of the system are aggravated by the fiscal and monetary indiscipline of the leading dynamic centre of capitalism. The international consequences of all this are closely linked with the double role of the dollar as national and international currency. We cannot conclude this preliminary overview of the crisis without referring to so vital an aspect of the subject.

It is hard to produce gold. Herein lay the relatively stabilizing virtue of the gold standard, notwithstanding its flaws. The liquidation of the gold standard helped to give the dollar its present role as international currency. The dollar is produced with no difficulty at all, which implies conferring on the producer country the privilege of creating it, and at the same time the responsibility for doing so correctly.

The internal inflation resulting first from the dynamic disequilibrium in the leading centre of capitalism and aggravated subsequently by the rise in oil prices, prevented the regulation of the creation of the dollar as international currency. The internal inflation has spilled over into the

rest of the world, spreading the bonanza during those long years which ended halfway through the 1970s.

And now we are witnessing the opposite phenomenon: that of *the flow of dollars* towards the country in question, attracted above all by the high rates of interest deriving from its type of anti-inflationary policy. This has produced the economic crisis of the rest of the world, accentuating domestic factors which help to provoke recession.

All this has serious implications for international trade. First, the inflationary euphoria liberalized the centres' trade; and now the recession and the suction of dollars from the whole of the capitalist world are seriously disturbing this

trade, encouraging protectionism and upsetting the functioning of the multilateral régime.

But this is not all. The international abundance of this currency in that first phase of bonanza created the Eurodollar market; and this, in the absence of any regulation, has provoked the phenomena whose serious consequences are now manifest. To the fiscal and monetary indiscipline of the United States has been added international financial indiscipline, with very adverse effects on all countries, especially on the Latin American periphery.

The reform of the international monetary system poses, then, a problem much more profound than the reconditioning of a mechanism. It is a problem of power relations on the international plane.

II

The trend towards internal dynamic disequilibrium and the inflationary process

1. *The structural origin of the surplus*

The appropriation of the economic surplus is a structural phenomenon, since it is in view of the heterogeneous structure of society that the possession of the means of production enables their owners to appropriate a large part of the productivity increment resulting from technical progress. The successive innovations in which this progress manifests itself do not spread simultaneously throughout the economy; new technical layers with higher productivity are superimposed on earlier technical layers with lower productivity, and tend to eliminate the latter. This is the dynamic process in which capital accumulation plays a fundamental role (in respect both of physical goods and of manpower training).

In the play of market laws, enterprises require personnel to cope with the higher-productivity technical innovations incorporated by new capital investment. This demand mainly favours those groups which possess the increasing skills required by technology (including those

concerned with the more and more complex organization of the production processes). The supply is naturally limited in these groups and the labour force concerned has the capacity to share spontaneously in the productivity increment. Lower down in the scale of skills, however, the supply of labour becomes relatively abundant. Thus, as this labour force is employed in new technical layers of increasing productivity, the comparatively plentiful supply precludes a corresponding rise in its remuneration.

We have described as economic surplus that part of the productivity increment which, owing to this regressive competition, is transferred to the labour force only partially or not at all, and thus remains in the hands of the owners of the means of production.

Accordingly the generation of the surplus is affected by market laws (manpower supply and demand) and by the heterogeneity of the social structure. It should be noted that the surplus, which ultimately derives from technical progress, comprises profit, interest on capital and land rent.

It must also be stressed that the surplus is augmented by profits which originate not directly in technical progress but in frequent deviations from market laws, such as internal or international restrictions on competition, in addition to inflationary swelling of the surplus. All this helps to exacerbate the distribution struggle.

In this structural heterogeneity the distribution of power is of vital importance. The appropriation of the surplus by the privileged social groups is based on the economic power to do so, conferred by their ownership of the means of production, and the political power to protect the process. This is not to deny the importance of individual aptitudes in the generation of the surplus. Similarly, differences in social power carry considerable weight in the acquisition of the diverse skills required by technical progress in the production of goods and services. And this social power is combined with the aptitudes exhibited by individuals in the vast gamut of activities.

Be that as it may, the intensity of the generation of the surplus depends, on the one hand, on the rate of accumulation of reproductive capital which is invested successively in new technical layers, and on the other, on the labour force which remains in lower-productivity layers and on the growth rate of the labour force.

Such, in very schematic terms, is the nature of the accumulation process based on the economic surplus. The techniques which increasingly raise productivity generate in their turn the accumulation of reproductive capital, which makes it possible to incorporate new techniques and increase productivity: this is the dynamic sequence of the system based on the surplus.

2. The weakening of the growth rate of the surplus and of the efficacy of its use

The dynamics of the surplus tends to weaken in the course of development. In the first place, the penetration of technology goes hand in hand with continuous changes in the structure of society and in the power relations which arise from these. And, secondly, the evolution of technology presents serious contradictions. All this tends to weaken the aforesaid dynamic sequence. The rate of accumulation has an adverse influence on

that of productivity, and vice versa. And thus the rate of multiplication of employment and income likewise declines.

In the earlier days of capitalism the power of the groups obtaining the lion's share of the fruits of technical progress was predominant. However, the structural mutations manifest themselves, *inter alia*, in a change in power relations. Thus, with the advance of democratization in the growing urban conglomerates which are characteristic of capitalism, and in which the structural mutations of employment are most in evidence, the trade-union and political power of the labour force sprouts and develops, although with great disparities, since the labour force is far from being homogeneous, as are also the social groups favoured by the surplus. Be that as it may, this twofold power obstructs the power of appropriation of the surplus which was formerly the undisputed prerogative of the owners of the means of production. In this way the labour force pushes up the rate of its private consumption, along with its social consumption via the State. In other words, the labour force tends to raise its real income above what is due to it in accordance with market laws and the dynamic need to increase the surplus and with it the rate of accumulation.

The same effect occurs when the State, in addition to this and other forms of redistribution in favour of the labour force, expands its functions to the detriment of the growth rate of the surplus, in so far as these do not contribute to the productivity increment. The State plays its part either by increasing the taxes and charges which fall on the labour force and which the latter strives to recoup, or by taxing the surplus. In either case the consequences are much the same.

The changes in power relations have great dynamic importance. In the structural stages in which the power of the higher strata is pre-eminent, there is nothing to hamper the growth of the surplus except cyclical or accidental factors: the labour force lacks redistributive power and the State is unconcerned with redistribution. The surplus is invulnerable. This is not the case when the aforesaid changes in power relations supervene and are intensified.

The significance of these changes cannot be understood without probing into the social sig-

nificance of the surplus. The surplus is a clear expression of a basic distributive inequality. And in the evolution of the system the labour force tries to correct this inequality by raising its wages above what is in keeping with the play of market forces. In its turn the State, impelled by the political power of labour, concedes increasing social advantages and employs manpower which, owing to insufficient accumulation and other factors, cannot find employment in the open market. Thus attempts are made to correct the essential inequality of the system.

A distinction must be drawn, however, between this social objective and the means employed to achieve it: means which sooner or later lead to the crisis of the system.

3. *The contradictions of technology*

This crisis is a manifestation not only of the vulnerability of the surplus but also of the way in which it is used, that is, of the proportion of the surplus and of income in general that is allocated to reproductive accumulation. Here we are up against the contradictions of technology. What are these contradictions? They are of different types.

Let us look first at those which continually stimulate consumption. While there are technical innovations operating to raise the quantity of goods, others supervene which arouse consumer aspirations at a faster rate. These latter are those techniques which in different ways provoke an increase in demand through the incessant diversification of the same goods and services and the creation of new ones. All this is due to the portentous evolution of techniques of propagation of these consumer aspirations and of communication techniques.

The increase in consumption which thus occurs first manifests itself in the upper strata, both in consumer expenditure and in non-reproductive investments of a recreational and ostentatious character, and subsequently in the lower social strata, in proportion to the growth of labour's redistributive power, although naturally with diminished force. Thus these diverse forms of private and social consumption continue to appear one after another, no one type benefiting at the expense of the rest, but at the expense of the rate of accumulation. To this must be added

State expenditure and investment, which, even if in part reproductive, affect the surplus of the enterprises.

In the old days of capitalism the social efficacy of the accumulation process depended basically on the prevailing degree of austerity; that is, on the proportion of the economic surplus which was devoted to reproductive accumulation instead of to consumption. The more intensive the accumulation, the deeper was the penetration of productive technology which raised the productivity and income of all the strata until it reached the lowest groups.

However this may have occurred in those past times, it is certain that today the growth of consumption, stimulated by diversification, is a considerable obstacle to capital accumulation, the consequences of which are manifest in the trend towards dynamic disequilibrium which characterizes contemporary capitalism in general.

In underlining the influence of diversification on the rate of accumulation we cannot omit to mention the Keynesian thesis on the tendency of the system to generate an excess of saving, which is a very different thesis from that of dynamic disequilibrium set forth in these pages. When Keynes began to write his general theory, at a time of worldwide depression, diversification had not attained the dimensions which it later reached. It was therefore conceivable that the relatively slow growth of consumption would create an imbalance between the rate of expenditure and that of reproductive accumulation opposite to that which was to appear later in the system. How is it possible, then, despite Keynes' acute intellectual insight, to suppose that he could anticipate the momentous technological innovations which caused a flood of private and social consumption to the detriment of the system's saving and its own dynamics?

In addition to the contradictions between the techniques which increase the quantity of goods and those which diversify them, there are other contradictions which we shall go on to mention next. I refer in the first place to the evergrowing contradiction resulting from the ambivalence of those techniques which raise productivity but at the same time signify pollution of the environment and irresponsible exploitation of non-renewable natural resources. The effort to cor-

rect this ecological damage generally implies the investment of more capital per unit of production, and the same happens with the results of scientific and technological advances in relation to population growth.

4. *The dynamic disequilibrium in peripheral capitalism*

The dynamics of the system rests, then, on the structural inequality wherein the surplus is generated. And in the course of development this surplus becomes vulnerable, prejudicially to the intensity of reproductive accumulation.

The foregoing explanations concerning the vulnerability of the surplus and of the accumulation process in the course of structural change relate to capitalism in general. It is very important, however, to note the great differences, in relation to the centres, which occur in peripheral capitalism, owing mainly to the time-lag in its development and to its eminently imitative nature.

In contemporary capitalism there is a very pronounced structural heterogeneity in the periphery compared with that of the centres, which has been diminishing in the course of development. Thus, in the periphery, notwithstanding the differences between countries, there is still a very great diversity of technical layers and productivity. And the proportion of the labour force in lower-productivity layers is considerable, as well as population growth. Consequently, as technical layers of high productivity are incorporated, a bigger proportion of the fruits of increased productivity than in the centres is not transferred to the labour force employed in those and is therefore retained in the enterprises in the form of surplus under the sway of market laws.

If the capitalism of the periphery were austere, this larger relative surplus would permit a high rate of reproductive accumulation, giving greater impetus to the dynamics of the system. But this is not the case, and the marked tendency to imitate the centres' advanced patterns of consumption is a serious obstacle to reproductive accumulation. High consumption and investment of a recreational and ostentatious character in the privileged consumer society of the upper strata: this is the dominant feature of the social

structure of the periphery. And as the labour force improves its income, both through market laws and through its redistributive power, it naturally tends to increase its private and social consumption, which is superimposed on the privileged expenditure of the upper strata. This redistributive power manifests itself much earlier than it did in the corresponding stage of structural change in the centres. In other words, the time-lag in development and in the incorporation of technical progress does not signify a lag in imitation of the patterns of consumption: quite the contrary.

With regard to State expenditure, its volume tends to be relatively higher than that of the centres at similar stages of their development. This hypertrophy of the State is a factor in the lower rate of accumulation, although part of the State expenditure and investment contributes in one way or another to a rise in productivity.

This is the reason why the trend towards an internal dynamic imbalance between the rate of expenditure and that of reproductive accumulation, accentuated by the high rate of population growth, appears prematurely in the periphery in comparison with what happened in the centres at similar stages of their structural evolution, and why the social inflation stemming from this phenomenon has also occurred earlier and also acquired much greater dimensions.

5. *The retention of the surplus*

Why does this dynamic disequilibrium manifest itself in a new type of inflation which had never made its appearance before? Put another way: why does this imbalance not manifest itself simply in a slackening of the rate of employment, productivity and income, i.e., in a reduced dynamics of the system without the emergence of inflation? This question cannot be answered satisfactorily without elucidation of another matter of unquestionable importance. We have explained above that the economic surplus stemmed from the heterogeneity of the social structure in which the power of the higher strata, which own the greater part of the means of production, enables them to appropriate a large part of the fruits of the growing productivity of the system. In that case, if the surplus is appropriated in this way, why is there no

tendency for competition among enterprises to be diffused socially through a fall in prices?

This does not happen, however. If this mystery has not been cleared up it is perhaps due to the line of reasoning relating to the individual enterprise. If there is a surplus in an enterprise owing to greater productivity, competition will push up the production of this enterprise or of others and eliminate the surplus: all that would remain would be the remuneration of the entrepreneurs. If this happens in an individual enterprise, why does not the same thing occur in the enterprises as a whole? Why is the argument relating to the microeconomy not transposed to the macroeconomy?

We shall attempt to explain this. To increase output the individual entrepreneur has to raise employment in the course of the production process, and the additional income thus generated filters through the whole economy without perceptibly increasing demand for the goods manufactured by this enterprise.

In contrast, if the enterprises are taken as a whole, the growth of the production in process characteristic of the dynamics of the system generates an increase in income which results in an increase in global market demand. This increase in demand created by the growth of the production of goods in process which will enter the market later on is what permits the absorption of the productivity increment incorporated in the finished goods that constitute current supply. If this were not so, demand would be insufficient to absorb the productivity increment, thus causing a fall in prices.

But in the growth of production time is of great importance. In effect, the incomes which are paid out in the production in process in order to obtain finished goods later on generate an increase in demand as a result of the additional employment and the rise in wages in the play of market forces. This increase in demand does not wait for the subsequent appearance of the respective finished goods, but is directed at the goods finished today, so to speak, without prices being brought down by the corresponding productivity increment. Hence the productivity increment remains in the enterprises in the form of surplus and is added to that which had been generated before.

In fact, the surplus is generated bit by bit in

the different layers of production in process. In this way the global surplus is built up, which is incorporated into global demand together with the income corresponding to the labour force.

Consequently, in the course of the growth of global production in the system there are two variables of prime importance: on the one hand, the increment in demand deriving from the income corresponding to the increase in the production in process of future goods, and, on the other, the productivity increment in the supply of current goods.

6. *Social inflation*

It is obvious that if this increase in demand deriving from income were to exceed the productivity increment in the production in process, prices would tend to rise.

Here the monetary authority plays its part, since it is responsible for the creation of money with which the enterprises have to pay the increase in wages. Such is the regulatory function which is entrusted to it. The evolution of capitalism has in this case also brought about major changes in the fulfilment of this task.

What is it that ensures equivalence between the rise in demand in a determined period and the increase in the supply of goods existing in the same period, augmented by the greater productivity? We cannot answer this question without a brief reference to the cycle, which is the growth pattern of the capitalist economy. In the ascending phase of the cycle the growth of demand tends to exceed that of supply owing to the rise in employment and wages in the play of market forces. Hence prices go up and the surplus increases more than productivity: these are increases of a transitory nature. The central banks, responsible for monetary stability, try to prevent the rise in prices from exceeding moderate limits in order to palliate, if not ward off, internal and external pressures in the system. When these limits are overstepped, the banks will follow a restrictive policy which curbs the ascending phase and provokes a cyclical downturn by reversing the earlier movements.

A descent might also occur through the evolution of the phenomenon itself. Thus when the enterprises, instead of using a part of the surplus in accumulation which is gradually

soaked up in the cyclical process, allocate it to payment of income in the production in process, as a result of which there is no corresponding increase in demand to absorb the productivity increment, a fall in prices occurs.

In my earlier writings on this subject I have referred to another important aspect which I merely mention here in passing so as not to complicate the issue. The increase in income deriving from production in process is not all immediately transformed into demand for final goods, but is diverted towards services. When the cyclical descent occurs, this demand returns to goods and contributes to the reactivation of the economy, which brings about a new upturn.

The monetary authority has a difficult role to play. It has gradually acquired experience in the task of regulation, not without failures as in the Great Depression, which originated in the main dynamic centre of capitalism. The Keynesian innovation is explained by this failure in regulatory action.

Be that as it may, in contemporary capitalism, in which the labour force has considerable trade-union and political power, and the State no longer adopts a *laissez-faire* policy, the monetary authority encounters problems which it had never had to face before.

In the capitalism of the past, when through market forces or incipient trade-union power wages rose beyond the level determined by the market and prices went up, the monetary authority had sufficient power to bring wages down again or even prevent them from rising by means of restriction. Monetary regulation was effective.

But in modern capitalism a veritable confrontation of powers has arisen: on the one hand, the redistributive power of the labour force; on the other, the regulatory power of the monetary authority. If wages rise through trade-union power and the monetary authority is firm in applying its policy of restraint, enterprises will not be able to raise both employment and wages.

They will therefore be forced to sacrifice the former in order to pay the increase in wages. This raises their costs and prices. An inflationary spiral follows, together with unemployment.

The monetary authority has considerable theoretical support for this policy: the support of the conventional theories which consider that trade-union power represents a violation of market laws, just as does exaggerated growth of the State. This theoretical support in its turn coincides in the main with the interests of the dominant groups. And if the monetary authority tenaciously persists in the severity of this policy, a time will come when the volume of unemployment will end by destroying trade-union power.

In previous articles we have enlarged on these topics. The growth of demand can also derive from the abuse of credit directed towards consumption or investment, i.e., patterns of earlier capitalism which are reproduced in current capitalism and increase the inflationary spiral. Similarly, the fiscal deficit tends to soar, as is generally a sign of internal dynamic disequilibrium. Sometimes an attempt is made to tackle it by counterproductive credit restraint, particularly when trade-union power is strong. Here we confine ourselves to a brief account of how the mechanism of retention operates, and how, when it exceeds its bounds to the detriment of the surplus, the monetary authority attempts to correct it at considerable economic and social cost: the cost of the recovery of the surplus through unemployment.

If that were a final solution of the problem of dynamic disequilibrium this cost of a restrictive monetary policy might perhaps be justified. But this is not so. There is a need for other forms of macroeconomic regulation of the system.

Of course the employment of force by the State to defeat trade-union power has also failed to solve this problem, as Latin American experience shows. And its political cost, in addition to its economic and social cost, is enormous.

III

Centre-periphery relations and their trend
towards disequilibrium1. *The time-lag in peripheral development*

In earlier pages we have attributed a decisive influence on the dynamics of development to the fact that the part of the fruits of technical progress which was not transferred to the labour force was not reflected in a fall in prices. This same fact likewise explains the division of the system into centres and periphery.

However these fruits were distributed internally in the centres during those earlier days of capitalism, the growth of global demand has concentrated in them, along with the investment necessary to meet it. And therein also lay the source of the succession of technical innovations which characterized the system.

This, then, is another important consequence of the phenomenon of the surplus. The concept of periphery could hardly find a place in the conventional theories that have omitted this phenomenon.

This is why the primary-producer countries remained on the sidelines of industrialization. The centres had no interest in investing in them, except in the development of exportable primary production and its allied activities.

Why did they not invest, in view of the advantage of cheap labour in the periphery? The economic fragmentation of the latter has had its effect on this. In my view, however, the diversification of demand which is developing in the centres has been the major factor. We have explained this phenomenon and it calls for further emphasis. As technical progress increases the quantity of goods and raises income, particularly in the more privileged social groups, a large part of demand is not directed to these same goods owing to a trend towards saturation, but rather to new forms of goods or different goods resulting from other technological innovations which become more and more important in the course of development. And the capital accumulation deriving from the surplus, as well as the labour force, follows the impetus of this dynamic. Thus

the logic of the system itself was giving the centres a dominant role.

As the periphery was left on the fringe of technical progress, it could not participate in this diversification of production. The diversified goods came to it in accordance with the dominant precept of the international division of labour, i.e., in exchange for primary exports.

It was a case of appendicular development. Thus there was no global expansion of capitalism but only a partial and asymmetrical growth. That alluring image of worldwide capitalist expansion and its progressive social penetration did not materialize. And industrialization did not come spontaneously but at the decision of the periphery itself, taken especially from the time of the great world depression of the 1930s, in order to combat the adverse consequences of the crisis. This new stage was increasingly inspired by imitation of the ways of life in the centres and of their institutions.

Appendicular development has since then been giving way to what we might call the dawn of the integral development of the periphery. Meanwhile, the centres were reinforcing their economic and technological superiority. So the periphery had to resort to protection in order to industrialize. It was a protection improvised and abusive of the main but, all in all, it enabled the periphery to grow more rapidly than at the generally slow rate of its primary exports.

In the adverse conditions, first of the Great Depression and later of the Second World War, there could be no thought of exporting manufactures to the centres: industrialization had necessarily to be based on import substitution for the domestic market. This was followed by some degree of inertia until the spectacular rates of development of the centres up to the middle of the 1970s, and incentive measures in some peripheral countries, gave a start to the export of manufactures.

Thus, little by little, the passivity which had characterized the periphery in the capitalism of

the past began to disappear. But in the centres, even in their long years of prosperity, there was no general policy favourable to this new form of international division of labour which differed from the earlier schemes. There was no clear-cut response to the periphery's insistent pleas for better treatment for its exports of manufactures. The periphery was in fact excluded, save in minor respects, from the great liberalizing movement which occurred at that time among the centres.

Despite the substantial changes which are thus taking place, concepts wholly corresponding to appendicular development linger on in the centres. Some years ago it seemed as though former ways of thinking would undergo a degree of modification, but now we are witnessing certain regressive manifestations, especially in the United States, where we have recently seen a vigorous resurgence of economic liberalism.

In those early days, prompted by their own convenience, the centres were not anxious for capitalism to penetrate the periphery beyond its appendicular role. This also suited the interests of the dominant groups in the periphery. There was, indeed, a coincidence of interests; and great masses of the population, especially in the rural areas, were relegated to a position of exclusion from development.

According to these concepts formulated in the centres, the periphery should be unreservedly open to the international economy, and this called for strict observance of the principles of the international division of labour, without artificial measures hampering the operation of economic laws; and it should likewise be unconditionally open to foreign capital.

While these principles of the international division of labour increasingly strengthened the economic linkage among the centres, the periphery remained economically fragmented outside this unifying process. This fragmentation, the openness to trade and finance, and the growing economic and technological superiority of the centres, were strong pillars supporting the hegemony of the centres, particularly that of the leading dynamic centre of the time.

These remarks are not prompted by a mere urge to probe into the past which would be irrelevant to the purpose of these pages. That is not so; the fact is that these concepts of appen-

dicular development represent in my view the background of certain attitudes well-known at the present time. In these days of headlong advance in service techniques we are recommended to open up to them, and also to imports of goods in which these technical advances are displayed. There is a renewed attack on import substitution. And at the same time emphasis is laid on the advantages for our development of free foreign investment through the efficient channel of the transnational corporations.

We have repeatedly maintained in ECLAC that import substitution is not a doctrinaire preference but a response to the consequences of the time-lag in industrialization and to the above-mentioned economic and technological superiority of the centres.

2. Innovations diversifying goods and services

It is impossible to understand the exclusion of the periphery from the liberalizing movement in process in the centres without taking into account the technological innovations which give great impetus to diversification. Liberalization was in the last analysis the result of these innovations carried out in the main by the transnational corporations and of the dominant role they play in the trade of the centres.

The increase in productivity and in the surplus enabled them to shift capital and labour from the activities where the growth of demand was relatively slow to those benefiting by the innovations in question.

Trade was stimulated by shifts in demand rather than by a fall in prices. Prices fall mainly in the case of goods for which demand is weakened by shifts to new forms or new goods: it is a residual decline.

Demand for diversified goods also tends to accelerate in the ever more imitative capitalism of the periphery. But in contrast with this, production of these goods, owing to the time-lag in industrialization, is continually overtaken by the growth of demand. So this latter has to be satisfied by imports, whose rate of growth exceeds that of primary exports, save in exceptional cases.

3. *The trend towards external disequilibrium*

Thus to the trend towards internal dynamic disequilibrium is added that of external dynamic disequilibrium. The periphery attempts to correct it by the export of manufactures. But the centres are reluctant to accept them freely.

In fact, a new phenomenon is emerging on the international plane, since peripheral competition, contrary to what is happening internally in the centres, is characterized not so much by diversification of goods as by the fall in their prices, since they are precisely those goods for which demand tends to grow relatively slowly in the centres; and this gives rise to the aforesaid new unprecedented phenomenon, namely, the incipient external vulnerability of the surplus in the centres. Although the unemployment arising from peripheral competition is not excessive, it is added to that stemming from the internal dynamic disequilibrium, and the centres defend themselves with measures restricting imports, thus warding off a fall in prices adverse to the growth of the surplus.

Consider what all this means. The internal dynamic disequilibrium, as we have tried to show above, leads inevitably to a new type of inflation; and the monetary authority has no other instrument available for combating it than credit restriction. We already know that the results of this are counterproductive in that they cause a considerable waste of productive resources. All in all, the monetary instrument is very far from correcting the factors responsible for structural disequilibrium. At the same time, the restrictions which hamper the imports of the periphery mean that the reciprocal advantages of trading industrial goods which are technologically simple for others produced with spearhead technology are lost, to the detriment of the rate of development of centres and periphery.

This is what was thought some time ago when the transnational corporations thrust their ways into the industrialization of the periphery. During those long years of prosperity in the centres, it was assumed that the transnationals would play a very important part in the internationalization of production, through the development of new patterns of industrial trade, thanks to which the periphery would be able to counteract its external disequilibrium. But this has not happened,

since although the transnational enterprises play a major role in peripheral industrialization and in the reciprocal trade of peripheral countries, it is no less true that through the very nature of their technological innovations concentrated in the centres, they do not contribute substantially to the penetration of peripheral imports into the said centres.

4. *The external vulnerability of the surplus*

The external vulnerability of the surplus of the centres is not something that can be analysed outside the context of their global development. We have seen how a shift of demand is brought about by the diversifying innovations of technology. The diversification of demand could not take place without the growth of income arising from the growth of productivity and the formation of the surplus, which is the main source of capital accumulation to meet these changes in demand. The more intensive this dynamic phenomenon, the greater are the possibilities of displacement of the surplus of those industries where the growth of demand is relatively slow.

Now, the vulnerability of the surplus is occurring in the centres because of their internal dynamic disequilibrium and is also beginning to occur through peripheral competition. This makes an upward shift more difficult and leads to the restriction of imports of peripheral origin.

This does not mean that if the rate of development of the centres were high external vulnerability would be unimportant. I am inclined to believe that this is not the case. In the boom years, when important centres satisfied part of their high demand for labour through foreign immigration, they still refrained from liberalizing their imports of manufactures.

It is not only a question of political pressures opposed to liberalization. Consider for a moment that the dynamics of the system is basically sustained by the growth of the surplus. Fundamentally, defence of the surplus runs counter to liberalization, and avails itself, as we already know, of all sorts of restrictive measures.

It might be argued, however, that cases also occur of internal competition. Internally the reduction of the surplus in the industries affected is offset by its increase in those competing successfully. The global surplus still main-

tains its capacity for accumulation within a single country. On the other hand, in the case of external competition, the increase in the surplus occurs in the periphery while its decline takes place in the centres.

The concept implicit in the conventional arguments, according to which technical progress results in a fall in prices and accumulation depends on the movement of interest rates, hinders the elucidation of these phenomena. It is often said in the centres that the activities affected by peripheral competition must defend themselves by technical innovations which reduce their costs. Quite right. But it must be considered whether these activities are going to continue producing the same goods or whether they intend to employ their surplus in diversification. So this is a different case from that of peripheral competition.

5. *The agricultural surplus and its vulnerability*

This last consideration leads me to deal with the very important problem created by technical innovations in agriculture. There the possibilities of diversification of goods are extremely limited, particularly when the innovations are extended in one form or another to the whole sphere of production. Land cannot be shifted like capital to the production of diversified goods. Hence innovations which increase the volume of production beyond the absorption capacity of demand bring with them a fall in prices owing to the relatively low elasticity which characterizes these goods. The fruits of technical progress thus tend to be transferred to the consumers, often leaving the agricultural producers in a precarious situation.

This fact explains the interventionist measures of the State in major countries. Hence in the United States there have been attempts for a long time past to curb the fall in agricultural

prices through various measures restricting production of exportable goods or imports of goods subject to external competition. Much the same thing happens in the European Economic Community. And when the safeguards are not sufficient, recourse is had to dumping excess supplies at any price on the international market.

This happens even in periods in which the excellence of market laws is being preached, especially when the periphery advocates the desirability of agreements on primary products to correct or mitigate the deterioration in the terms of trade.

I always remember, because of its intrinsic significance, the recommendation made to us by one of the most eminent experts of the United States when we began to maintain in ECLAC that industrialization was an inevitable requisite of development. If you want to develop, he told us, do your utmost to introduce technical advances into primary production. But how can we employ the redundant labour force which the increase in productivity brings with it? How can we prevent, or at least minimize, the deterioration aforesaid? Industrial protection —moderate, of course— would have the virtue of shifting agricultural investment into industry and other activities to achieve this objective.

In reality, it was a question of different interests. What interested and continues to interest the centres is a fall in the prices of the primary products they import. This assertion might seem to contradict what we have said in this same section about peripheral competition. The contradiction is only apparent, since a fall in the prices of primary products enlarges the surplus of the centres while a fall in the price of manufactures diminishes it.

This leads me to insist, at the risk of tedium, on the importance of including the surplus as one of the key factors in the internal and international sphere.

IV

Theories and reality of development

1. *The image of general equilibrium*

Recognition of the great importance of enter-

preneurial initiative in the market and of economic incentive to stimulate it, as well as of the role of this incentive in the efficiency of the labour force,

is helping to exalt the significance of the neoclassical theories. I fully share this recognition (which socialism in practice can no longer escape) but I am very far from considering that the market and the laws of its operation constitute the supreme regulator of the economy.

The neoclassical theories argue thus: if left to themselves, without disturbing interventions, the market forces make for general equilibrium in the economic system. This conception of equilibrium and the mathematical rigour of its demonstration is the most seductive feature of these theories.

It has cost me an effort to discard them after having convinced myself, through observation of real phenomena, that the evolution of the system inevitably leads to disequilibrium: to internal dynamic disequilibrium, both in the centres and in the periphery, and to disequilibrium in the relations between the two.

This never was—and still is not—the view of the neoclassical theorists, because they circumscribe the market to the positive elements mentioned above and to the significance of the price system. But they overlook, in contrast, the action of other factors responsible for such disequilibria, which remove the market farther and farther from the neoclassical model.

2. *The most significant differences*

I devote this sub-section to analysing the divorce between the aforesaid theories and reality, beginning by presenting the main differences between neoclassical thinking and the real functioning of the system which I have tried to interpret in the foregoing pages.

According to neoclassical arguments, the fruits of technical progress are distributed socially by virtue of the interplay of competition. I contend that a large part of these fruits is retained in the hands of the owners of the means of production in the form of surplus. The surplus is sustained, therefore, by social inequality.

The surplus has a great dynamic role, since it is the primordial source of the reproductive capital accumulation which multiplies employment, productivity and income. The complete fulfilment of this role calls, on the one hand, for a passive labour force and a *laissez-faire* State, and, on the other, requires that a high proportion of

the surplus be dedicated to accumulation instead of to consumption. This has been the capitalism of the past, at least in respect of the growth of the surplus.

The free play of market laws and the ever-increasing trend towards the diversification of goods and services do not ensure the fulfilment of these conditions.

In fact, in the course of the evolution of the system the labour force and the State are eager to share in the fruits of technical progress to the detriment of the growth of the surplus and reproductive accumulation. This hampers the fulfilment of the dynamic role of the surplus, and the crisis of the system supervenes. The crisis is the *dénouement* of contemporary capitalism.

This crisis is outside the scope of the neoclassical theories, which say nothing of the social structure and its mutations. They also omit from their arguments the contradictions of technology: the ecological deterioration and the population growth resulting from scientific and technological progress. For the neoclassicists all these are exogenous phenomena which need not sully the doctrinal purity of their lucubrations. It is a fact that Malthus pointed out at the beginning of the nineteenth century the potential conflict between the growth rate of the population and the limited resources of the system. But this phenomenon also was left out of the theories of general equilibrium constructed by the neoclassicists decades later. They recognize now, however, the necessity of regulating population growth—but not the need to regulate the system!

From another standpoint, the neoclassical theories assume the spontaneous expansion of capitalism throughout the world. But this is contrary to fact. The primary-producer countries were left on the sidelines of industrialization in the earlier days of capitalism. Their development was essentially appendicular to that of the centres.

According to the theories in question, industrialization must be spontaneous and not achieved artificially by means of protection. But the crises in the centres forced the periphery to deviate from market laws and to seek industrialization. In this way their integral development began to evolve.

Thanks to its deliberate industrialization the periphery has with the passage of time become

competitive in a wide range of goods. But the centres object to accepting market laws on the international plane and diverge from them by applying all kinds of restrictions to imports from the periphery. They preached comparative advantages when the periphery had no industries. And now that it has them they ignore them.

When all is said and done, the evolution of the system, through structural change and the contradictions of technology, is far from conducting the best utilization of productive resources, as the neoclassical theories maintain.

Incidentally, the neoclassical economists also overlook the time factor in the production process and therefore do not grasp the important phenomenon of retention of the structural surplus.

They assumed implicitly that "supply creates its own demand", that is, that the creation of income coincides with the production of the corresponding goods. They did not perceive that demand comes from the income generated in the process of production of future goods and not in that of the current supply, this being a fact of major importance.

3. *The free play of market laws*

Their remoteness from reality definitively accounts for the impotence of the neoclassical theories in face of the system's trends towards disequilibrium. To tackle internal disequilibrium they resort to monetary restriction which, besides involving a great waste of productive resources, does not remove the basic factors which provoke it and exposes the system to its reappearance. And as regards external disequilibrium, when the periphery attempts to correct it by adding its exports of manufactures to primary products, the centres have recourse to all kinds of protectionist measures to prevent external vulnerability of the surplus, at the cost of the comparative advantages of trade.

It is really paradoxical that, despite the divorce between theory and reality, they continue preaching the virtues of the free play of the market, and contending that market laws lead to a better allocation of productive resources. Better for whom? If the reference is to the social groups structurally favoured in the distribution of the

fruits of technical progress, the allocation would be correct. But in the case of the less privileged groups and the lower strata relegated to the bottom of the social structure, it is very far from being so.

Again, if it is a question of the centres, the allocation of resources would be correct for them from the global standpoint. But if we consider the periphery, which the free play of market laws had left on the sidelines of industrialization: could it be said that the free play of the market would bring with it the best allocation of resources from the international point of view?

This problem of exclusion had no chance of being resolved without the deliberate industrialization of the periphery.

The centres opposed the protection through which the periphery gave decisive impetus to the industrializing process. They maintained that in the play of market forces the correct solution was to reduce wages in order to offset the economic and technological superiority of the centres.

And with this in view they preached monetary devaluation. Devaluation would bring down the prices of the primary products which were now competitive. This solution was unacceptable to the periphery since in that way it would transfer to the exterior at least a part of the fruits of technical progress; but it was highly desirable for the centres, since a fall in commodity prices would expand their surplus.

From its earliest days ECLAC set itself to clarify these problems and affirmed the economic justifiability of protection within certain limits, always provided that its global cost was lower than the loss of export earnings. Within these limits, protection would make it possible to raise the rate of internal development.

In this matter there is a basic problem for the centres too. The periphery has only just begun to export manufactures, thanks to the incorporation of technologies from the centres and to lower wages. And as it makes headway in its industrialization, its exports will be able to enter progressively upon increasingly advanced lines of technology. Thus the centres are confronted with a serious dilemma. If they continue to impose unilateral restrictive measures, they lose or curtail the comparative advantages of trade. And if they reduce wages, taking indirect advantage of devaluation, this will obviously result in the

transfer to the exterior of part of the productivity of their own export activities.

This would not be a sporadic occurrence, but touches the very dynamics of the system which demands the persistent growth of the surplus.

The impotence of the neoclassical theories in face of the system's external and internal disequilibrium leads them to stray from their own principles, however much they may continue to affirm that market laws conduce to an optimum allocation of productive resources. But these disequilibria are not the only cases.

In the previous section I mentioned the problem that technical progress poses in agriculture. Whereas in manufactured goods diversification defeats the trend towards saturation of demand, agriculture's scant possibilities of doing so expose it to the transfer, internally or externally, of the fruits of its technical progress. A problem which, like those mentioned above, is far from having reached a rational solution.

4 *The development ethic*

If the neoclassical theories have not faced up to the distribution struggle which evolves in the course of development it is because they harbour a latent ethic when they sustain that in general equilibrium of the system the remunerations of the factors are determined in consonance with their contribution to the productive process. The argument is perfectly logical, but far removed from reality owing to the contradictions of technology and the changing structure of society.

Hence the great flaws in these arguments which cannot be put right by mathematical subtleties.

Here we come to the nub of the problem. It is clear that if the fruits of technical progress were distributed as the neoclassicists maintain, there would be no justification whatsoever for trade-union and political action of a redistributive kind. But this is not the case, as a large part of the fruits of technical progress are seized and retained by the social groups favoured under the system, both through the power of appropriation of the surplus and through the social power of the privileged groups.

This provokes the aforesaid action to obtain a part of these fruits. In view of the nature of the system, the labour force cannot raise its own pri-

vate and social spending at the expense of the consumption of the privileged social groups; its expenditure is added to that of the latter and also to the expenditure of the State, all this to the detriment of the growth rate of the surplus and therefore of reproductive investment. To re-establish the dynamics of the system unemployment is created by means of the monetary instrument.

In this way the burden of adjustment falls on the labour force. Of course, as the dynamics of the system is based on social inequality, if an attempt is made to correct this inequality beyond certain limits the system reacts with inflation. The monetary instrument to combat it imposes a regression on the labour force, not only in respect of the progress made in its own private and social consumption beyond the limits determined by market laws, but also in order to cope with the expenses of the State in so far as it cannot reduce them; and, in addition, to satisfy the consumption of the privileged social groups.

In the second half of the nineteenth century the rigour of the neoclassical theories and their concept of general equilibrium claimed to give a scientific response to the Marxist theory of surplus value; they alleged, in effect, that the Ricardian theory of value adopted by Marx had no scientific meaning. And even if it had, they tried to show that the interplay of competition would dissolve the surplus value socially, just like the economic surplus, as has been mentioned elsewhere.

If the structural nature of the surplus were ignored, together with the contradictions of technique and the changes in the social structure (i.e., an important facet of reality), the Marxist theory could be impugned with solid arguments. The neoclassicists, at the time, believed that they had destroyed it, without envisaging its enormous political significance; just as nowadays they do not grasp the nature of the surplus and its decisive role in capitalist development.

The concept of surplus value refuted the ethic underlying neoclassical thinking. Nevertheless, the theoretical reasoning on which this ethic is based went so far as to argue that the surplus value arbitrarily deprived the workers of a portion of the social product which was theirs by right. The same could be said of the economic surplus, i.e., that the owners of the means of

production take what is not their due. Strictly speaking, the surplus represents an important part of the fruits of technical progress, which in its turn derives from scientific advances. If we had to assign them by right, going back through time to the long series of scientists and technological innovators, we should be confronted with a problem impossible to solve scientifically.

There is no scientific solution. The solution is basically ethical: the surplus belongs to society as a whole and must be used in accordance with ethical principles.

It is essential that this distribution, guided by ethical principles, should be dynamic and not statically frittered away. Thus, for technical progress to penetrate ever more deeply into the structure of society, extending its fruits to the whole community, a sufficient part of these fruits must be devoted to the accumulation of reproductive capital. Hence equitable distribution and accumulation form an integral part of the ethic of development. And to comply with it there is a need for rationality, that is, a rationality linked to the attainment of ethical objectives.

5. *The macroeconomic regulation of the surplus*

These ethical objectives could not be achieved through the play of market forces but only by the regulation of the surplus and its social use.

In what does this regulation consist? We must start from this initial concept: the market is not effective in determining the global part of the surplus which has to be devoted to expenditure and reproductive accumulation. We have already explained elsewhere how the private and social expenditure of the labour force and the civil and military expenditure of the State are superimposed on the expenditure of the privileged social groups; and we have likewise argued that there are no spontaneous mechanisms within the market which will ensure the compatibility of these different expenditures with one another and as a whole, or the volume to be devoted to reproductive accumulation. These compartments of expenditure could be justified as separate items, but not as a whole, if the rate of the necessary accumulation is taken into account.

A rate of expenditures which debilitates that of accumulation inevitably compels their reduction to a lower level than would have been the

case if they had grown spontaneously. But the reduction does not equitably affect all the social groups but falls on the weakest parts of the system.

It is essential for the two elements to be macroeconomically regulated if they are to be dynamically compatible. This is a primordial requisite of development.

6. *The social efficacy of capitalism*

This tendency to dynamic disequilibrium did not occur in those early days of capitalism to which we have referred elsewhere. Does this mean that the above-mentioned theories were at that time consonant with the reality of capitalist development? This would be a serious theoretical error. Certainly there had been no crisis like that of the present time, apart from the cyclical crises. I say this because in those days, just as now, one of the basic assumptions of the theory had not been fulfilled, namely, social dissemination through a fall in prices correlative to the increase in productivity, inasmuch as it was not transferred to the labour force: it remained in the form of surplus. But even in those times the market could not ensure *per se* the social efficacy of capitalism throughout the whole context of the system, i.e., a deeper and deeper penetration of technique into the structure of society thanks to the accumulation of the surplus. This depended fundamentally on the degree of austerity of the system, that is, upon an essentially cultural phenomenon.

It is conceivable, however, that in an austere form of capitalism too a crisis of accumulation could supervene, even given a passive labour force and a *laissez-faire* State, or, in other words, even if the essential conditions of the neoclassical paradigm were present. The crisis would result from progressive euthanasia of the surplus.

In fact, the higher the rate of accumulation, the more intensive would be the shift of labour from lower to higher technical levels. And as the proportion of the former gradually declined and the heterogeneity of the structure was thus progressively corrected, there would be a spontaneous increase in the capacity of the labour force to raise its pay in correlation with the increment in productivity through the play of market forces itself, even in the absence of redis-

tributive power. And as the surplus is the part of this productivity which is not transferred to the labour force, the paradoxical outcome would be a weakening of the rate of accumulation itself and transformation of the process would once again become indispensable.

If I digress for a moment from this hypothesis it is in order to reinforce a conclusion to which I attach great importance. I have repeatedly said that the dynamics of the system is based on the surplus, which is a clear expression of social inequity in the distribution of the fruits of technical progress. In the course of democratization, the trade-union and political power of the labour force endeavours to mitigate this inequity and thereby helps to make the surplus vulnerable, as does also the evolution of the State. The results of these phenomena lead to the crisis of accumulation. And I have just noted likewise that, with the passage of time, the austerity of the system could also culminate in a crisis of the accumulation process, if we were to carry theoretical reasoning to an extreme by ignoring structural change and the contradictions of technology.

What does this theoretical conclusion signify? It signifies that the dynamics of the system based on the surplus constitutes a historical category in capitalist development and this category in one way or another ends in crisis. It is a historical category that has not been surmounted.

The system has no spontaneous formulas for resolving this crisis. The crisis has to be resolved through the rational transformation of the process of accumulation and income distribution. It is imperative, then, to enter upon a new historical category if the system is to preserve and increase its capacity for human welfare, both in the centres and above all in peripheral capitalism.

7. Theories and interests

I have contended on more than one occasion that the persistence of the neoclassical theories was due not only to their rigorous logic but also to their conformity with interests of great political weight.

In the earlier days of capitalism the existence and enlargement of the surplus was a desirable thing for the social groups. It was for the play of market forces—the law of supply and demand—

to determine wages; and for the State to take a *laissez-faire* line regarding income distribution.

In the second half of the nineteenth century, neoclassical theories had ignored the structural phenomenon of the surplus under the influence of the dominant interests. It naturally suited those interests that there should never be any counterweight to the appropriation by the higher strata of a large part of the fruits of technical progress.

It is not surprising that, with the progressive evolution of the trade-union and political power of the labour force and with the proportionate rise in State expenditure, the neoclassicists should have criticized these developments as constituting a violation of market laws.

Neither is it surprising, in the light of this interpretation, that the neoclassicists advocate a monetarist policy to counter the inflationary crisis of the system, since this ultimately means the curbing of the trade-union power of the labour force to the extent of forcing it to accept lower wages in face of the resulting unemployment. This is why even governments in favour of social equity find themselves forced to pursue such a policy in order to correct the dynamic disequilibrium, since in view of the nature of the system they have no other ways of regulation at their disposal.

Thus is shattered the illusory belief that in the course of democratization the power of the dominant groups will ultimately be counteracted. Illusory, because sooner or later the need to give impetus to the dynamics of the system induces such governments to reestablish the surplus, making the cost fall on the labour force, albeit unevenly. In the end, thanks to the monetary instrument, the power of the privileged strata prevails.

In the same way the crisis of the system leads the State to halt or curtail its social expenditure, generally in advance of other expenditure, including that of a military nature, in order to reduce or eliminate the fiscal deficit which is frequently an expression of the dynamic disequilibrium of the system.

It is obvious that this is an attempt to restore the passivity of the labour force and the distributive unconcern of the State, without regard to the fact that this is not an arbitrary phenomenon but the result of the appropriation of a

large part of the fruits of technical progress by the upper strata.

If considerations of equity prevailed, the labour force would have to participate more and more in the fruits of technical progress and in the process of accumulation. This must inevitably be achieved at the expense not only of the consumption of the privileged social groups but also of the consumption aspirations of a part of the labour force, in order to raise capital accumulation and productivity, especially in those strata relegated to the bottom of the social structure.

Herein lies the fundamental problem which has to be tackled in capitalism by the political art of development; despite its vigour, the crisis of the system is leading to a marked frustration, involving a regression in wages and social services to a level lower than would have been attained if a regular rate of growth had been achieved.

A transformation of the process is required: a very difficult task which requires first of all a theoretical elucidation. Instead of the distribution struggle which ends in dynamic disequilibrium and inflation, a social consensus will have to be reached under the aegis of the State.

Experience will show whether we shall have to pass through successive upheavals before achieving that social consensus which, inspired by equity, will rationally restore the dynamics of the system; and which will also attain this objective in full compatibility with the spontaneous evolution of entrepreneurial initiative in the market. This last does not imply overlooking the serious defects of the market, which are usually euphemistically referred to as imperfections. We have come a long way from Adam Smith's vision of thousands and thousands of enterprises in full competition. It would have been difficult if not impossible in those days to imagine the phenomenon of concentration which stems not only from the demands of technology but also from the process of accumulation itself.

Likewise in line with the dominant interests of the centres were the theories of trade and the international division of labour, which historically so greatly delayed peripheral industrialization.

There was in fact a concordance of interests between the exporters of manufactures from the centres and the primary exporters of the periph-

ery, always opposed to a protection which increased the cost of their imports of consumer and capital goods.

This earlier concept of the international division of labour left great masses of the periphery on the sidelines of development. Sooner or later the pressure of these masses and also of certain leader groups would have brought about industrialization; the crisis in the centres was to be responsible for speeding it up. The fact that protection has been abusive and arbitrary is another matter.

Similarly, the weight of interest of activities adversely affected by the industrial and agricultural imports of the centres is reflected in restrictive or prohibitive measures against peripheral competition, without any consensus having been reached to ensure enjoyment of the reciprocal advantages of trade.

8. *A global theory of development*

The effort to interpret this crisis of capitalism in the light of conventional theories leads to great frustrations both in thinking and in action. It calls for the formulation of a global theory of development which will integrate both centres and periphery, since they are part of a single system.

The view has sometimes been taken that, after devoting ourselves to analysing the peripheral phenomena which evolved within our own field of vision, we conceived the odd notion of developing a peripheral theory different from the theories elaborated in the centres. These latter suffered, in our view, from a false sense of universality, which gave rise to conclusions as to the *praxis* of our development which reality proved to be unacceptable. It must be remembered, however, that neither the theories nor the conclusions had got to the bottom of the vital process of accumulation and its structural significance. Undoubtedly an analysis of this phenomenon could help us in formulating a global theory of development.

This global theory must go beyond purely economic aspects. It will have been noted that I do not speak of the economic system but simply of the system. For the system of capitalism integrates diverse elements which could not be omitted from a global theory. We have already

mentioned that the social structure is subject to continuous mutations which go hand in hand with the penetration of technology and that this latter presents increasing contradictions. A global theory could hardly be confined within the arbitrary framework of an economic theory when reality embraces at one and the same time technical, economic, social, cultural and political elements all interlinked by relations of mutual dependence. In the course of the mutations of

the social structure there are also changes in power relations, which intervene both in the initial appropriation of the fruits of technical progress and in their subsequent redistribution. That the play of these relations extends to the international field is implicit in our reference to the hegemony of the centres over the periphery, especially that of the leading dynamic centre of capitalism. We shall deal with this in the next section.

V

Concluding remarks

1. *Inflation in the periphery and its political significance*

Never until now had the Latin American periphery experienced such a combination of factors prejudicial to its development. The consequences of an over-protracted international crisis aggravate and complicate the internal crisis of our countries.

All of them, in varying degree, are hard beset by inflation. And this is certainly not a merely monetary phenomenon, as we have tried to bring out in the present pages. It derives from factors operating deep in the heart of society and tearing it apart. It is there that the structural consequences of the evolution of technology and its contradictions combine to take effect.

The *laissez-faire* State and the passive labour force are things of the past. *Laissez-faire* as regards income redistribution, but not with respect to the original distribution of the fruits of technical progress, inasmuch as the State depended on a political power which rested on the social groups benefiting by the appropriation of those fruits, mainly in the form of economic surplus.

Today these groups are confronted by others whose growing power is fostered by the democratization process. These groups appeared to be carrying more and more weight in the struggle for redistribution. But this development caused a gradual erosion of the political power on which the State is based, since the said groups, in the course of a redistribution struggle, tend to

override the State. The State is not showing ability to dominate them and channel distribution and the capital accumulation process.

Faced with the impotence of the State and the erosion of political power, the system inevitably develops a trend towards exacerbation of the inflation spiral. And the attempts to contain it are short-lived as well as being counterproductive. For the only instrument remaining to the State is anachronistic, depressive and regressive: i.e., the monetary instrument.

What is happening to the State is really paradoxical. It is tending towards hypertrophy, with manifold responsibilities militating against its own efficacy; and with a proliferation of interventions which undermine the economic freedom of enterprises and individuals and increasingly incapacitate the State itself from fulfilling the role of supreme regulator that the market fails to perform.

The solution of this grave problem is not to be sought only in institutional changes which will promote the correct functioning of the democratic process and the restoration of that political power on which the State must be based. This is important, but it is not all. There is also an inescapable need to transform with a strong sense of social equity, the processes of appropriation of the fruits of technical progress, of their distribution and of the capital accumulation which will give vigorous impetus to economic development.

It will not be possible to suppress the growing diversity of interests which the changes in the

social structure bring in their train. But it is imperative to introduce concord and discipline into the distribution struggle through a social consensus which will restore the political power of the State and bestow on it the aforesaid regulating function.

The time has come for a great synthesis between this regulating function of the State and the play of market forces, in which the economic freedom of enterprises and consumers can be exercised with a minimum of obstruction.

A very arduous, intricate and complicated task. It must be preceded by a major effort of enlightenment and persuasion, by a dialogue free of dogmatic preconceptions. But this requires time and purposeful perseverance.

In the meantime there are immediate solutions to be undertaken. That social consensus which must come sooner or later should be initiated without delay through an income policy which, while guiding the system on the road to equity, encourages the participation (and also the responsibility), of the labour force in the task of reproductive accumulation. This calls for the prior recovery of the surplus, especially where it has suffered severely from inflation. There will have to be fiscal discipline combined with wage restraint in order to achieve the said recovery of the surplus with a view to promoting reproductive accumulation.

And here there arises the need for a decision of great economic and social importance. Will accumulation remain solely in the hands of the hitherto advantaged social groups, or will it also be progressively shared by the broad social strata, which are compelled—at least momentarily—to rein in their aspirations?

It is common knowledge that some time ago IMF unilaterally established a régime of conditionality which is disquieting to all of us and which is apt to be inspired by dogmatic principles which are not in keeping with the requirements of peripheral development. At one time or another the Fund has mentioned the need for an income policy. It is lamentable, however, that despite its great experience it has not worked out such a policy and submitted it to debate in the appropriate fora. It has delayed doing so, perhaps because it continues to regard peripheral inflation as a monetary problem, without probing into its deep-lying structural origin, that is,

into the problems of the system's dynamic disequilibrium.

The other problem which we have examined in this article is the trend towards external dynamic disequilibrium in the development of the periphery. The conventional economists of the centres frequently continue to deny the existence of such a trend, influenced as they are by the concept of a system which makes for general equilibrium on the international plane as well.

The ideas of these thinkers, as those of their counterparts in the peripheral countries, are strongly reminiscent of those concepts which were dominant in the days of the appendicular development of the periphery. The doors had to be opened wide to foreign capital and no (reputedly artificial) measures were to be taken to promote industrialization.

It was then that a concept arose which, without being explicit, was dominant in the days of appendicular development and still remains in force, as has been explained in another chapter. The centres were interested in peripheral development only in so far as it served their own interests.

This is the explanation of the opposition to peripheral industrialization. The idea was anathema to the centres at the very outset, especially where import substitution was concerned, as we also remarked in the appropriate context. And on finally accepting industrialization as a *fait accompli* they recommended that the accent should rather be placed on exporting manufactures. And when the periphery was able to do this, the centres, far from adopting an attitude consonant with this recommendation, added new constraints and restrictions to those which they had maintained for a long time past.

This is how the matter stands today, and yet there is a tendency to return to certain earlier ways of thinking against which we should be on our guard in time, because of their great significance for our countries.

I refer to the turn which is apparently being taken by the foreign policy of the United States.

2. *Significance of the United States' new economic policy*

This country is in the throes of an external disequilibrium of growing dimensions, originating

in part in the overvaluation of its currency; this in turn is a result of the extraordinarily high interest rates through which it is drawing off abundant resources from the rest of the world in order to cover part of its fiscal deficit.

The said overvaluation vigorously boosts United States imports and discourages its exports. But for one reason or another it chooses to correct the resulting external deficit not by means of fiscal or monetary adjustments but through direct measures concerning trade.

Its aim is to encourage exports, particularly of technologically advanced goods, and likewise of services in which technical progress has also been highly intensive. And it underlines, at the same time, its intent to carry out this policy on bases of reciprocity, which means that the liberalization of trade with the rest of the world in respect of those goods and services exported by the United States should be accompanied by the liberalization of its imports from these countries.

There is talk at the moment about a new round of international negotiations on liberalization similar to those which have been so successful in the past in the trade of the centres.

To embark on this subject would be to go beyond the scope of these reflections. I should merely like to refer to the significance of this new policy for the periphery. But first it would be well to recall the terms in which the problem of its trade with the centres is posed.

In this trade there is a persistent trend towards external imbalance which we have explained elsewhere: a structural trend different from the phenomenon which is now occurring in the United States.

There are only two ways of correcting this imbalance, namely, an export expansion and import substitution. The pace of the substitution does not depend on a doctrinaire preference but on the degree of receptivity of the centres to peripheral exports: this cannot be repeated too often.

It would seem obvious that if the periphery complied with the United States' plan and opened its markets unreservedly to technologically advanced goods and services, in addition to others, the trend towards external imbalance would be accentuated. In this case, in accordance with the principle of reciprocity, the United States and the other centres taking part in

these international negotiations would have to liberalize imports from the periphery. In the rounds mentioned above, impressive reductions in tariffs were achieved which gave powerful impetus to trade between the centres, especially in goods deriving from technological innovations. The periphery, lacking such goods owing to the time-lag in its industrialization, was practically excluded from the liberalizing measures.

Would the centres now be disposed to do away with the restrictions which for some time now have been obstructing imports of technologically less advanced goods from the periphery?

It is very doubtful that this would occur. Not only recently but for a long time now the centres have put obstacles in the way of imports from the periphery, even in periods when unemployment was low. In reality, the idea was to safeguard the surplus of the activities affected by lower import prices. Although this practice is at present only moderately applied, it could reach major proportions, especially if respect for multilateral principles extended liberalization to the other developing regions. What is more, as long as the centres cannot achieve a substantial reduction in their current unemployment, such a radical change of attitude is scarcely conceivable.

How could this problem be solved, or at least alleviated, without a radical attack on the dynamic disequilibrium in the centres which produces structural unemployment?

Would the centres really be prepared to accept peripheral competition of this kind? Or will they rather seek intermediate formulas to regulate this competition in accordance, at best, with a régime agreed upon with the periphery to promote the regular growth of imports without increasing unemployment, unless in a measure that could be absorbed?

While acknowledging the impulse that such a process might give to exports of manufactures and of some agricultural products, I am far from believing that it would be sufficient to eliminate the current imbalance and cover the ever-increasing volume of imports which a rise in the rate of peripheral development and the liberalization of its imports would imply.

We must shun the illusion of assuming that to accept the liberalization of imports of advanced goods and services desired by the centres would

induce them to do their best to reciprocate in favour of imports from the periphery. I do not believe this would happen, except in the limited measure referred to, and, consequently, the periphery should continue its policy of import substitution.

Indeed, the intensification of this policy is an imperative requisite of development, especially if its rate is to be increased. And the dimension it must achieve depends basically on the centres' receptivity to the goods exported by the peripheral countries. In other words, stimulation of the latter must be combined with progress in substitution.

At this stage of the industrial evolution of the peripheral countries especially of the more advanced among them, it would be essential to carry out this substitution process in larger markets than the national ones through production agreements between various countries and reciprocal trade. This also calls for new *modus operandi*, since those conceived a quarter of a century ago have had only moderate success in achieving the positive results expected of them.

All this has to be tackled from a dynamic standpoint. Both export expansion and import-substituting industries will continue to bring with them an increase in technical and entrepreneurial capacity which, by virtue of the surplus, will foster the development of industries with more advanced technology. In this way, the countries of the periphery, some sooner and others later, would gradually draw nearer to the trade patterns of the centres.

3. *The doctrine of financial openness*

In addition to this opening-up of peripheral trade, the main dynamic centre preaches financial openness, i.e., the elimination of all restriction on foreign investment and the functioning of the transnational corporations.

It must not be overlooked that the transnationals, in co-operation with the State and private enterprise, could contribute to development in accordance with new rules of the game, that is, in line with a well-defined policy and with the requisites of development.

Each peripheral country will have to decide which fields would benefit from the co-operation of the transnationals and which should be re-

served for local enterprise, either because the necessary technology has already been acquired or because there would be other effective means of gaining it.

To yield to the doctrine of openness, above all in times of crisis like the present, would not only have adverse consequences, both economic and political, but would also block the way to the discovery of new formulas. Suffice it to recall that, if in the past we had given way to insistent pressures, we should not have been able to arrive at such formulas in a field as vital as petroleum. Here also there are signs of susceptibility to the influence of ideas corresponding to the aforesaid concept of appendicular development.

In the periphery there have been great changes which call for an all-out drive towards integral development. This will require a progressive effort to overcome the technical inferiority by which appendicular development was characterized.

If the doors were quite unconditionally opened wide to foreign imports and investment, this objective would be out of reach, since the technologically stronger industries of the centres would ultimately gain predominance, sapping the vigour of peripheral development.

4. *The fundamental coincidence of interests*

This does not concern the economy alone. These great changes are also of a political and cultural nature. The periphery is not isolated, but finds itself more and more under the influence of the political and cultural evolution of the centres and of the mass communication media in the international sphere. Thus the process of democratization, with all it entails, goes on spreading and interest in integrated development gains a firmer footing.

We cannot turn back the clock either in relations with the centres or in internal development. The traces of appendicular development implicit in the insistence on unconditional openness in trade and finance must be eliminated once and for all. There was a reason for openness in trade when in the old pattern of the international division of labour comparative advantages determined the trading of primary products for manufactures. There were no comparative advantages in industrial goods simply because

there were no peripheral industries. Today these exist in a wide range of competitive goods. The fact that these goods have begun to make the centres' surplus externally vulnerable does not mean that no solutions can be found which, without causing serious trouble, will allow these comparative advantages to be enjoyed.

There is, then, a convergence of interests. It existed likewise in appendicular development; but that lacked social depth. Integrated development requires this deeper penetration and the discovery of new and promising formulas for coincidence of interests.

For the first time in capitalism, the periphery might have dynamic influence over the centres through new and expanding patterns of trade.

This also calls for an enlightened foreign investment policy which will help to raise the rate of peripheral development, since it would involve a continuous broadening of the field of comparative advantages.

All this under the aegis of autonomous development. Autonomy and coincidence of interests will give a firm base to the objective of political coexistence. We have to live side by side with the leading centre and the rest; this is an incontrovertible fact. The intensity of its development is of vital importance for the periphery.

5. *Monetary and financial indiscipline*

This coexistence based on certain coincidence of interest will not be an easy matter. The transnational banks afford a clear case in point. When there was copious international liquidity in the Eurodollar market the financial power of the transnational banks was fully dominant. The IMF and the World Bank—State institutions—remained on the sidelines of international credit operations; in the days of euphoria it was insistently proclaimed that the private transnationals, acting independently, would be effective agents of resource allocation in the international field. Quite to the contrary, however, there was irresponsibility, which was shared by the debtor countries. The profit incentive led these transnationals to disregard elementary norms of prudence and foresight.

The problem, of course, goes very deep and it will be helpful to give a brief account of its more important aspects. Its origin lies in the fiscal and

monetary policy of the leading dynamic centre. The anti-inflationary policy now pursued by the United States is the current inverse of the inflation that had been occurring for some time past, and was accentuated later by the rise in oil prices; and this inflation in its turn is the clear expression of the dynamic disequilibrium in the United States economy, which is mainly evidenced in the fiscal deficit. The deficit is largely due to the social and military expenditure of the State. And the reluctance to meet these by taxation and reduced spending has caused the government to resort to domestic savings and to attracting external resources by means of colossally high interest rates. Such is the well-known picture.

Within this picture, there is growing concern over the increasing amount of the external imbalance. For the first time since before the First World War the United States has become a debtor, and the burden of interest is tending to swell the fiscal deficit to an alarming extent. There is also anxiety about the external consequences of these phenomena. In fact, the imbalance is severely hampering the recovery of the European economy, since it would seem to be increasing the flight of dollars; in addition to the effects provoked by the United States through high interest rates.

These interest rates cause growing difficulties for the debtor countries of the periphery, all the more so as their exports are increasingly hard hit by the crisis in the centres and the recrudescence of their protectionism.

It is inconceivable that this can continue without driving the other centres, as well as the periphery, to the adoption of very drastic measures of defence and leading to a complete breakdown of multilateralism, as happened in consequence of the policy followed by the United States in face of the great world depression.

The correction of the fiscal deficit of the United States would make possible an expansionist policy in the countries affected; but at the same time it would create new problems which we cannot ignore.

What would be the international effects of a fall in interest rates? Can we assume that the abundant resources that have flowed into the United States will stay there? Or will liquidation of the investment of these resources supervene, bringing with it a reverse movement of return?

If this last were to happen it would pose other questions: would the value of the debt be guaranteed in order to ward off or moderate the return? If so, would dollars be created again so as to cover this return? Or would the United States have to turn to IMF, which would need to resort to new sources of funds on account of not having enough in hand?

At all events, there could be a recurrence of excessive international monetary liquidity. This would provide an opportunity to learn from the lessons of the past in order to avoid the same mistakes. We ought not to give new impetus to the Eurocurrency market by foregoing any sort of regulation.

This incentive is generally efficacious in productive activity, but it has serious consequences when transferred to the monetary field. The creation of money needs to be regulated on the international plane likewise; but the private banks resisted every attempt at regulation; and to the dollars originating in the United States' inflation was added their inflationary multiplication on the Eurodollar market. Hence the problem of the debt is essentially a political problem: it is essential to correct what was lightly permitted before.

Again, the continuance of high interest rates and the suction of international resources might have very serious repercussions, in particular for the debtor countries. With a view to remedying their lack of foresight the private banks are requiring that the debtors compress their imports in order to pay their heavy interest rates and this involves the compression of the whole economy, owing to a theoretical attitude opposed to a selective import policy. At all events, the increasingly heavy burden of debt servicing is

severely cramping development and hampering economic expansion. All this has its limit and that limit is very near. It will be well to take care that it is not exceeded. Accordingly, there is a pressing need to find a political solution.

The resources of this possible increase in liquidity might be tapped through the issue of securities destined, in the first place, to the long-term postponement at low rates of interest of the periphery's oppressive debt; and secondly, to meet the inescapable need to contribute to the recovery of the peripheral economies, prostrated as they are by the effects of the crisis. In each case the liquid resources would return to the centres in payment of debts or exports.

We are all waiting to see what the United States will do. But we cannot wait indefinitely without taking our own measures of defence and constructive adaptation. In the course of my long life I have witnessed in person and sometimes had to take action against the adverse effects of the vicissitudes of the centres: the great depression, the Second World War and the postwar period, the inflationary euphoria and its international spill-over. And now against the consequences of the anti-inflationary policy of the main dynamic centre.

I have also witnessed the great achievements of this centre; the Marshall Plan, the support for the European Payments Union, for the European Economic Community and also for the Alliance for Progress, which came to grief soon after its birth. Great vision and creative inspiration, such as are needed in these days likewise. They are needed also by the periphery to grapple with its serious problems. Vision and creative inspiration, which is slow in coming everywhere.

The political and social outlook for Latin America

*Torcuato Di Tella**

Taking a down-to-earth view of the probable evolution of the main economic conditioning factors affecting the countries of the region, especially the external debt, the author sketches the broad outlines of a strategy for stimulating medium- and long-term development. As regards the external debt he forecasts an increasingly conflictive situation, to the point at which its seriousness will lead to the acceptance of more flexible proposals by the creditor banks and countries. The conflicts will themselves hasten the historical process and help to generate the situations and actors that will strive to relieve the present stifling situation.

Against this background, the Latin American countries must reorient their economic development along the path of industrialization, protection and planning already pointed out by some of them in the 1930s. This implies an emphasis on State intervention and on the improvement of its efficiency, the mobilization of idle resources, the orientation of production towards activities which will help to raise technoproductive, scientific, social and cultural levels, the strengthening of democratic systems and the reinforcement of regional co-operation. This last should not be conceived solely on the economic and financial plane, although this may be very important; the coming years call for a profound climate of solidarity in Latin America leading to collective measures which will sustain and express the power of the region as a whole.

*Argentine sociologist and Professor of the University of Buenos Aires.

I

The looming catastrophe

The medium-term political and social outlook for Latin America is heavily conditioned by the present constraints produced by the external debt. These can only be surmounted by the exceptional expansion of output and exports, or by the collective and radical renegotiation of the terms of the payment of the debt, including substantial reductions in interest rates. The adoption of either of these solutions would result in a series of vicious circles, however, since on the one hand an increase in production and exports requires a capacity for accumulation which is precisely what is blocked by the servicing of the debt. The use of massive contributions of foreign capital would involve heavy remittances of profits; besides, this solution to the problem would imply such a heavy sacrifice of resources that it would provoke insuperable political reactions. On the other hand, collective and radical renegotiation of the terms of the debt calls for a political capacity that the region does not possess, largely because of the weakness of its national economies, destabilized as they are by their straitened financial circumstances (Hill and Tomassini, 1982; Jaguaribe, 1982; Villanueva, 1980).

The situation is so grave that it raises the question of possible resort to extreme solutions. One of these is recolonization, which would have to be accompanied by authoritarian political systems, since public opinion would not voluntarily accept it. The other is a defiant repudiation of the debt obligations, which would generate revolutionary and very probably also authoritarian conditions, although in the opposite direction. If one considers that the crisis situation is likely to persist year after year for an unpredictable period, and if one thinks of the score or so of relatively large Third World countries characterized by high political instability, a mere calculation of probabilities leads to the conclusion that the time will come when some political elite will decide—as in the case of the Falklands invasion—to break the rules of the game. This denouement, if it occurs in a small country, may be absorbable by the international financial system without problems. If, on the other hand, it happens in a larger country, its impact will be very great. Perhaps it may not be as disastrous for

the financial system of the North as is sometimes believed, but it will certainly cause commotion and will call for a massive intervention by the States of that part of the world to save the system. Moreover, a situation of this type will involve a conflict between the defaulting country and the guardians of international order which might cause the outbreak of war—once again of the Falklands type, but not necessarily with a similar outcome and with possible international complications between the great blocs. Of course in this case it would be the taxpayer, who today is so often described as being unwilling to meet the costs of a radical renegotiation of the debt, who would have to pay the damages, perhaps even without realizing it. Although the North might be able to prevail in such an eventuality, it would do so at too great a cost both in lives or war material and in bank failures, to say nothing of its loss of prestige and credibility in its role as director of the international order. For the Third World country that took the line of default the consequences would also be serious, and would make its action far from advisable in the light of a cold analysis of the advantages and disadvantages involved. But political decisions are not taken in this way, as the countries of the North undoubtedly realize, since they are well acquainted with their own history (Calcagno, Sáinz and de Barbieri, 1972; Lechner, 1981; González, 1981).

This may seem an excessively alarmist prospect, and it certainly would be so if such a course were explicitly proposed. But it is highly probable that events of this type will take place within the period of 15 to 20 years considered in this paper, since it is unrealistic to suppose that the Third World countries—with one or two exceptions—will be able to solve their present difficulties in this lapse of time. The temptation to break away will continue, therefore, to hover on their horizons, firing the imagination of one or another of their leading elites or counter-elites. Put in another way, this is very much in line with Henry Kissinger's declarations in the sense that, if our institutions are not sufficiently consolidated, our kind of countries could give rise to new revolutionary leaders.

Far from being alarmist, however, the outlook may even be considered as moderately good if one thinks of events like those that accompa-

nied the independence of India, the wars in Biafra, Bangladesh, Iran and Iraq, or the Cultural Revolution of China or Cambodia. It is true that in Latin America the economic and social conditions are on the whole less distressing than in the greater part of the Third World, but there are still extensive regions, and even entire countries, where the standard of living is close to the subsistence level. Moreover, the constraints caused by the public debt apply to all, and we cannot be sure that even the more prosperous regions, once they enter into crisis, will not be the scene of political phenomena which are equally or more extreme, albeit of a somewhat different type. Besides, even if the breakaway does not occur in Latin America, its results will make themselves felt in this area.

It is also foreseeable that in the medium term there will be a serious crisis of the economic policy pursued by the present United States Government. The aim of this policy is to offset the deficits on the budget and external trade by heavy public indebtedness and imports of capital, both associated with high interest rates. The resultant strengthening of the dollar makes it more difficult to close the external gap, while the interest rates depress the productive sector, even though they may achieve partial results in reducing inflation. The euphoria, and the consequent backing by United States public opinion, cannot last long, because a simple numerical calculation indicates that sooner or later the apparent remedies become part of the disease. The flows of foreign capital begin to generate contrary currents of financial services, the Government's public debt must be paid at least in respect of its interest, and businesses finally crack beneath the weight of their banking commitments. Of course, the theory behind this policy is that all this reorganizes the productive factors through the discipline of the market, and makes the United States economy once again internationally competitive. But it is precisely this excessive confidence in the virtues of the market that will prove unjustified in the not-too-distant future. The crisis will then demand—as happened at the beginning of the 1930s—a New Deal that will confer on the State a more dynamic interventionist role, particularly in its control of the financial system. Just as there has been heavy intervention in the banking system in Europe

—more for ideological reasons in France, more for practical reasons in Spain— something similar is foreseeable in the United States. The pressure of international debtors will be joined by that of the local producers themselves, some of them transnational in dimension. The current equivalent of a Marshall Plan cannot consist of unilateral hand-outs or of the mass promotion of exports of capital from the centre to the periphery. It must consist, basically, of intervention in and control of the international financial system, involving a radical reduction in the real values of existing credits. This, as will be argued later on, must be accompanied by the stabilization of the prices of the basic export products of the Third World, with a trend towards higher values than the present ones, all of this stimulated by some scheme —politically motivated— along the lines of OPEC.

To sum up, there is a first hypothesis to be put forward, namely, that one or more break-aways from the rules of the international game are going to occur in the next twenty years, with serious warlike complications, and this will become increasingly probable as time goes on unless other solutions are found. Pursuing this exploration in the future, we may add a second hypothesis, according to which the tendency of the governments of the North to take a hand in the financial system will gradually increase. Unfortunately, one or more traumatic events will be needed to induce these governments to adopt the measures required, which will injure powerful vested interests but which will be necessary for the maintenance of their own social systems and their international role.

Metaphorical speaking, a first recommendation for action deriving from this analysis might be to wait for some “bullock” to cross the river of default and, while the piranhas devour it, take advantage of the confusion or the changed circumstances to cross in force as soon as possible, avoiding the voracious fish, which would most likely be called to moderation in the meantime by the river-god (the most influential

capitalist circles). Although it may not be considered in good taste to recommend this kind of behaviour, it is probable that this is what will actually happen in the end by the mere force of circumstances, without anyone’s proposing it. In any case, it is neither possible nor advisable to remain passively awaiting events: something must be done in the meantime, even though it may be a question of exercises which, though they will not give much benefit while the piranhas are patrolling the river, will nevertheless leave more room for manoeuvre on the day when things may change.

Abandoning metaphors, the position is that there are a number of moderate, or gradualist, strategies which for the moment, in face of the harsh conditions of the indebtedness dilemma, do not hold out much hope of great results, but which might be successful in a different international setting. Let us, in fact, return to the two (non-extreme) methods of overcoming the existing constraints which were put forward at the beginning. One was the increase of output and exports and the other the renegotiation of the financial burden. Increasing exports involves greater access to the markets of the developed world, which are today firmly closed as soon as there is any serious competition with local producers. When the predicted breakaway has taken place it will be easier —perhaps not for the country that takes the plunge, which will be “punished”, but certainly for the others— to obtain adjustments in this field. And the same will occur as regards financial renegotiation. Something similar will happen on an international scale to that which took place in the advanced industrial economies with regard to the relations between capital and labour. Compared with the danger of revolution —experienced directly or indirectly— unionism will no longer seem a lesser evil, but rather a positive good. Thus, just as today some sociologists say that strong trade-unionism is the chief barrier against revolution, the day may come when the debtors’ clubs are organized from Wall Street.

II

The need for an interventionist State

Latin America lacks capital, yet at the same time it has idle capital. It is short of trained technicians, but it has technicians without employment. It needs skilled workmen, but it has them largely underemployed, thus wasting their skills. Moreover, it has an abundance of unskilled labour, both urban and rural, which seeks opportunities without finding them and forms a marginal mass. It cannot be expected that mere market forces or international capital movements will correct this situation. What is needed is intervention by the State, compatible in varying degrees —according to the conditions of each country— with the complementary and still important role of the market forces. State intervention, notwithstanding, is not a panacea, and is frequently a hindrance to the productive forces if it is not performed with efficiency. The fact is that in this field there are simply no panaceas, either of the free-market or of the controlled-economy type. The mobilization of national resources calls for the solution of a complex equation with many variables, taking into account the requisites both of private and of State enterprise, of the market and of planning, of technocracy and of the participation of interested parties.

It is sometimes said that in our countries the State is such a bad administrator, so corrupt, or so permeable to political influences in conflict with efficiency, that it is better to reduce its role to the minimum, removing it not only from the area of production but also from that of planning. Expressed in these extreme terms, this argument is too ideological and by no means valid, because although a badly administered State is capable of committing appalling errors, a market left to itself can do much worse, as was demonstrated by the crisis of the 1930s —with its sequels of fascism and war— and several other earlier cases. In most of the countries of the area it will be necessary to seek combinations between State and private enterprise. But the State must be converted into an efficient instrument, with its sectors more isolated from the pressures of party politics than is the case at present. There is a need not only for a bureaucracy, but also for a technocracy with its

own functional requisites —for example, as regards salaries and career structure— and with its own areas of competence which even the popularly elected powers must respect. This means that most public posts, from the lowest to the highest —except some directly designated as political posts— should be assured of stability, and should only be open to specially trained personnel. Only very great changes in our political and party systems will enable this new public administration to be created. Perhaps the process will take more than the coming 20 years which are under analysis here, but it needs to be put forward as a definite proposition now.

Until this new State, efficient and honest, comes into being, it will be difficult to plan our resources with success. If the continuance of the present inefficient State were considered inevitable, the ultra-liberal solution of entrusting everything to the market would be more tolerable. But it would be over-pessimistic to resign ourselves to this limitation, and if on this basis all attempts to use the powers of the State were abandoned, our dependent condition would become permanent. It may however be granted —although it is a controversial topic— that the State is not an adequate direct organizer of production of most of the goods and services required by a modern country. Its limitations stem not only from arguments of efficiency but also from the impact of such a monopoly on public liberties. But it is quite a different matter to assign to the State an important interventionist role in the creation of the broad parameters or rules of the game within which the economic actors move and to grant it a function, through quasi-autonomous ministries or enterprises, in certain areas of production.

Both the example of the United States and that of Western Europe show that this can be done in conditions of efficiency and freedom. In the case of Latin America the weakness of the entrepreneurial elements will require an expansion of the role of the State. Since the State we have is inefficient, however, another vicious circle is created here, through the need to employ a

badly designed instrument. But there is no alternative, and its continuous use should provide the experience to improve it. If we were so influenced by the inefficiency of the State that we decided to put much more reliance on local or transnational entrepreneurs, even more vicious circles would be created.

The local entrepreneurs are just as full of defects as the State, and in the dog-eat-dog situation which characterizes our economies they have no option but to act with excessive individualism and speculation. The foreign (transnational) enterprises may sometimes give an appearance of more stable activity, with greater resources and more continuity of objectives, but it would be anti-national and courting Balkanization to rely mainly on them. Some oft-quoted examples of their role, as in the countries of Southeast Asia (South Korea, Taiwan, Hong Kong and Singapore) are not relevant, because there the State has a supremely directive function, especially in the two largest mentioned, not to speak of Japan (Fajnzylber, 1983; Fishlow and others, 1980; Chenery and others, 1974). The secret of success in these countries does not lie in the (non-existent) transnational paradise they are sometimes claimed to offer, nor in the authoritarianism with which they are governed or have been governed in the past, but in their characteristic strong social solidarity. This social solidarity, which gives priority to national and productive objectives over sectoral or distributive aims, is the result of their peculiar historical evolution. Its effects on their mode of life and public liberties are complex, and not readily acceptable to broad sectors in countries which,

like those of Latin America, have lived through long periods of enjoyment (albeit only partial) of public liberties and reaffirmed individualism. It is not easy to change these Latin American attributes, although it would do us no harm to show a little more social solidarity: that is, a lessening of the intensity of conflicts between social classes, pressure groups, and other corporative sectors. But this greater solidarity is generally based, to judge from historical experience —on the acquiescence or passivity of the popular classes. In most of the Latin American countries these popular sectors are not disposed to contribute so humbly to national solidarity; and the upper strata would have to make too many sacrifices —as they see them in terms of their values and expectations— to be able on their side to help to create this solidarity. It is not realistic to expect either of these two things to happen, so that for good or ill the outlook for our continent is the continuation of situations of scant solidarity and hence of little social legitimacy for the existing hierarchical structures, including private or public enterprises, scientific and technical institutions, and political entities. If we had the per capita product of Western Europe or the United States we might, despite what has been said, create a situation of greater solidarity and legitimacy. It so happens, however, that we have a large dose of the individualism and sectorialism of those countries, but not their resources, and this accounts for the peculiar bellicosity and tensions of our political confrontations. What is needed is to recognize this fact and to adapt both our institutions and the mentality of our controlling groups to the creation of solid institutional structures in these conditions.

III

The mobilization of idle resources

The State —progressively consolidated in the manner indicated— should facilitate the use of the idle resources in the region. One way of doing this is to help to create a larger economic area through the unification of markets, whether at the overall Latin American level —a somewhat remote objective— or through subregional

groupings such as the Andean Group. These subregional groupings, possibly restricted to certain industries and to countries which are nearer together or whose economies are already more associated, are easier to bring about, because they involve a smaller number of actors. These actors comprise the respective States, entrepreneurial

groups and trade unions; furthermore, as a dynamic element, the political parties and ideological groups must also be taken into account here. The unification of markets, like any other economic phenomenon, is really a political process, which must transcend the purely corporative element to be successful. The Andean Group is a good example, and this was especially so at the time of its formation, when the central role was played by the Christian Democratic Parties which were ruling in Venezuela and Chile and had affinities with the Conservative Parties of Colombia and Ecuador. Among the popular parties of this region the strong links between Democratic Action of Venezuela and the APRA (American People's Revolutionary Alliance) of Peru are well-known; they are influenced by the Social Democratic Party and have affinities with Colombian liberalism and the Revolutionary Nationalist Movement of Bolivia. Another example of this type of grouping restricted to a few countries and also to only a couple of industries is the European Steel and Coal Community, launched a little after the Second World War and embracing productive sectors with large concentrations of private and State entrepreneurs. The coincidence of views of the Christian Democrat governments of the Federal Republic of Germany, France and Italy, along with this party's participation in the cabinets of the Benelux countries, facilitated this project. The Social Democratic movement, albeit more reservedly, also supported this plan, although at the union level it was only strong in the Federal Republic of Germany and the Benelux countries. The Communist parties of France and Italy did not favour this attempt at capitalist planning, especially owing to their general position at that time, which was much more challenging than the attitude they assumed later.

The European Common Market owed much to that first experiment in limited co-operation among six countries (in practice, four units, since Benelux was regarded as a unified entity). In its turn, the Common Market itself went on slowly expanding on the basis of that small initial number of associates, after the failure of some other projects such as the European Free Trade Association sponsored by Great Britain and a number of peripheral countries. The ambivalent position of Great Britain, hesitating between con-

tinuing its relations with the Commonwealth or deciding to throw in its lot with Europe, has so far hampered its fuller incorporation into the European economic project. Moreover, the popular parties—not only in England—have continuing doubts as to the expediency of participating in this supra-national planning, which, owing to the nature of the political forces in play, cannot fail to give more weight to the capitalist sectors of the countries concerned than is possible within national boundaries in situations more favourable to a socialist evolution. But the advantages—economic as well as political and cultural (and to a certain extent also military)—of the unification of markets are in the long run overcoming resistance. Within a larger economic area it is likewise feasible to adopt certain protectionist measures of a clearly strategic nature (such as those designed to ensure food self-sufficiency) which would be considered excessively onerous, if not impossible, at the national level. All these aspects are examples of the close interweaving of economic motivations and factors with ideological or political considerations that lies behind a plan for the unification of markets. The mobility of labour that this implies is also facilitated, in this case, by the similarity in the level of social and cultural development achieved by these countries. The fact of having begun with a few State and private actors whose historical experience led them to make radical innovations in their former practices in order to survive is also an element in their success.

This experience suggests that in the next two decades or so the best strategy for Latin America will not lie along the lines of LAFTA or ALADI, and much less in the search for a common market for the whole region—not because such measures would be undesirable, but because of their impracticability. Although ALADI can provide a frame of reference, it will be more rewarding to attempt to bolster up the Andean Group, or revitalize similar groupings in Central America or the Caribbean. In the southern part of the region, complementation agreements between Brazil, Chile and Argentina, perhaps limited to certain industries, would be the equivalent of the European Coal and Steel Community. In order to enjoy the political support without which they have no future, such agreements require the consolidation of the democratization processes

which are occurring in these countries; they could also include Uruguay and Paraguay. The necessary ideological solidarity, on the other hand, will require a creative effort, especially on the part of the intellectual sectors of these countries, to redefine in more universalist terms such apparently national phenomena as Peronism, Radicalism and Varguism. The Right, moreover, must not be absent from this scheme, although its associations with repressive régimes will deprive it of legitimacy for quite some time. Without a political Right, however, the entrepreneurial sectors of these countries will not feel that they have sufficient backing to participate fully in supra-national projects.

In addition to economic unions among countries relatively close to each other there is also the prospect of collaboration—perhaps in particular among the largest countries of the region—on specific projects such as that recently launched by certain official banks of Mexico, Brazil and Argentina for the creation of a multi-lateral marketing enterprise for capital equipment.

All these projects imply the creation of large economic areas, in which there will be competition among enterprises of the countries involved, though protected to some extent from foreign competition. At all events, this question of competition will need considerable supervision, because of the heavy pressures on each State to subsidize its own nationals. These pressures will be so strong that they cannot be disregarded, and it is better to bring them out into the open and make them the subject of negotiation. The situa-

tion would be something like what happens in Europe with agricultural production, which needs to be subsidized. For similar reasons—economic, political, cultural and strategic—Latin America should subsidize its industries and plan its difficult entry into the sphere of regional competition. Moreover, the role of these same industries in exporting beyond the area must certainly be considered (SELA, 1983; SELA, 1984). But the first step in escaping from the asphyxiating atmosphere of the national markets is to get used to competing among entrepreneurial units which are relatively the same in strength, dimension, level of technology and capacity for mobilizing political resources. This need for homogeneity is precisely what places limits on the size of the projected economic unions. In the southern part of the region it is essential that at least Argentina and Brazil should take part in the projects, because of the already considerable volume of their trade and particularly because, given the potential rivalry between these two countries, the success or failure of the whole Latin American integration project depends on their convergence. The type of trade to be promoted is not wheat for coffee, and much less apples for automobiles, but rather products of a similar technological composition. This means that within the free and competitive area there must be a major sector with some kind of regulation. To use a phrase that was fashionable in Argentina some years ago, candies are not the equivalent of steel, although by producing many candies one can buy any quantity of steel. But this subject needs to be dealt with at somewhat greater length.

IV

The extra-economic effects of industry

The difference between producing a million pesos worth of candies or of steel does not reside in the amounts exchanged, which by definition are equal, nor even in the income they generate, which in principle is also equal, although it may be differently distributed among the factors of production. To assess the real difference it must be borne in mind that industry does not only

need labour as one of its inputs but that it literally generates it. This is because the labour in question—including in this term not only manual labour but also the administrative, technical and management levels—is formed (or its formation is consolidated and strengthened) by means of work. It is the working situation which promotes higher skills, through training on the job, or

through the individual training that the demand for work promotes. But industry does not only generate manpower with a certain degree of skill: it also entails the creation of a number of institutions—businesses, associations representing these businesses, and the trade unions that these make possible. In effect, there will be a difference between the iron and steel workers' union and that of the candy workers, just as there will be a difference between the iron and steel entrepreneurs and the owners of the candy factories. Care is called for in making these distinctions, because work is equally honourable in any activity, whether at the manual or at the technical or entrepreneurial level. Nonetheless, from the sociological point of view, the two realities created in this way—components of social classes—will be appreciably different. To begin with, the scale of the organization will be very different: the complexity of the entrepreneurial structure and of the technical services involved—including the scientific, cultural and political services—will be much greater in the one case than in the other. A modern country requires techniques of production and organization—not only as regards production but also in social and cultural matters—that operate on a large scale, with a high scientific component and a complex division of labour. Perhaps it would be preferable to have a society where activities were on a smaller scale, although highly qualified from the scientific and cultural point of view: for example, computation or electronic services, repair or production of specialized components, or artistic handicrafts. But this is very different from the production of candies, or even of wheat, meat or leather. It is true that in these fields also advanced technologies can be applied, and research institutions set up to supply them. But it is very difficult to construct on such limited foundations (still referring to wheat, meat and leather) a complex division of labour, a rich and varied occupational structure, and a diversified organizational and associative experience. In practice, this does not happen, and if this collective experience is to be conferred on a country it must be by way of industry. Obviously, it is not necessary to produce absolutely everything, and perhaps steel can be dispensed with. In this case, however, there will have to be specialization in something else that will have the same secondary occupa-

tional and institutional effects as those mentioned above.

In other words, the problem of the division of labour must be considered with care, taking into account its social aspects and not only its economic components in the strict sense of the word. The division of work between the engineer, the physician and the musician is different from that which distinguishes any of them from the instrument-maker, the nurse, the unskilled manual worker or the labourer. The first is essential for the progress of a society; the second, though also necessary, forms the basis for social domination and class privilege. Similarly, the international division of labour is one thing if some countries produce tractors and others cars, or if some make computers and others telescopes; but it is quite another matter if some produce any of these things and the others provide shoes, or bread, or minerals, all at low prices, or wait to receive the former to entertain them during their vacations in hotels and bars. All this does not mean that it may not be necessary, or inevitable on occasion, for a country to be reduced to producing or providing one of these things, while hoping to improve its status with the passage of time. But in all probability, unless it has vigorous political guidance, it will never achieve that improvement. Things may even get worse if through some combination of circumstances, like Argentina or Uruguay, it has experienced a prosperous version of that paradise of the international division of labour based on the production of cattle and grain. If that prosperity came to grief, it was certainly not due to the fact that someone took it into his head to industrialize, defying the laws of the international market. The market, with its crises, is perfectly capable of destroying those artificial paradises. The logical answer to these crises is a strategy of industrialization, to employ the population which now can find no place in the earlier scheme. And here, it is true, many mistakes can be made, as certainly happened in various countries of our continent. Or perhaps, rather than mistakes, one should speak of circumstances and crises which made it very difficult to apply measures successfully. The primitiveness in the technological, entrepreneurial, cultural and political fields of a country dedicated to the production of a few primary goods augured ill

for its future prospects. Other countries in similar conditions of primary production, like Australia or New Zealand, had more success. It would need a more comprehensive study than can be attempted here to probe into the causes of the difference. But if these countries went ahead it was precisely because they abandoned their concentration on primary production and became industrialized, assisted to a large extent by the stimuli of close involvement in a major war.

The classic economic theory takes into

account, to some extent, the type of factors mentioned here, when it speaks of external economies, or of social costs as distinct from private. But it does this in a tangential manner, without exploring in depth all the aspects of the said external economies, particularly the creation of complex institutions, ranging from enterprises, the public administration, or trade unions to political parties, universities and the world of culture, which, in the final analysis, develop in response to the labour, technical, administrative and organizational demands in industry.

V

The new industrialization

To some extent it is necessary to retrace the road of industrialization, protectionism and planning which several Latin American countries hesitantly began during the 1930s, continued owing to war scarcities in the early 1940s, and then adopted by political decision in the postwar years. It was a period characterized by populist régimes and various forms of democracy with limited participation, which in some cases were abruptly terminated but in others managed to survive the buffetings of an increasing unfavourable international climate. On the basis of the experience accumulated it is necessary to correct several aspects which are sufficiently important to make the process virtually a new one. Although the situation differs from country to country, some common elements can be mentioned as requisites of this new industrialization:

i) To begin with, the operations must be on a regional scale, or rather subregional, owing to the above-mentioned difficulties in generating real social forces which will give adequate backing to associations over very extensive areas. One of the stifling elements of the earlier stage was its limited national setting; it is no accident that the countries in which industrialization was most successful were Brazil and Mexico, the largest in the area. Protection, therefore, should be applied on a quasi-continental scale, and there should be an attempt to reorient the trade flows within this area and to strengthen, among other things, its internal means of communication.

ii) The process calls for the backing of democratic political systems, with the total participation of the population. This differentiates such systems from the preceding stage, when in many cases the systems were based on populist régimes with no particular respect for opposition. After the widespread attempts to obtain radical change through armed conflict or favourable military coups, the leftist and populist groups are slowly coming to understand the requisites of democracy, which include, *inter alia*, control over the most extreme or impulsive members of their own militants, and the abandonment of the illusion that they are the only genuine representatives of the people. The division of the electorate into competitive groups are slowly coming to understand the requisites of democracy, which include, *inter alia*, continue to extend to an increasing number of countries. The consolidation of democracy will be accompanied, in addition, by greater legitimacy and security of ownership and control of productive enterprises and of cultural and mass communication institutions. Although it is logical that possible changes in the system should be proposed from different angles, the consolidation of democracy calls for relative moderation in the proposals, thus facilitating investment in the private sector.

iii) The State must become more technified in order to fulfil its planning role. This, in its turn, calls for stability, in order to undertake

long-term programmes, which are the only ones that can give good results. To control recruitment into the public service and establish the system of promotion based on merit implies very radical changes in our customs and in the procedures of political parties. The transformation will be assisted if the number of these parties is reduced, preferably to two opposing positions. This will prevent one of the most serious forms of unemployment: that of politicians who head small groups doomed to stagnate or survive through partisan action or continuous reshuffling of parliamentary majorities. The existence of only two or three large parties or permanent coalitions acts as a factor that weeds out leaders and offers them a more solid career and experience of team work.

iv) Industrial promotion should not only be based on the direct economic aspects of investment ("static comparative advantages") but should take into account its impact on the institutional, cultural and university system and on the consolidation of highly qualified social strata ("dynamic comparative advantages"). Because of this, the capital goods industry and others of high technology should have their place despite their apparently high costs. Moreover, the problem of the arms industries has to be faced. Although it would be desirable to see the world free not only from the production but also from the use of armaments, the ideal of peace cannot be based on the premise that the great dominant centres should be Leviathans which monopolize the manufacture of elements of destruction. It is true that the proliferation of arms ends by promoting local wars, such as some going on at the present time. But these wars are also a clear example of the fact that the main variable lies in the existence of aggressive régimes which, if they have money, can buy whatever they want. The local production of arms will give countries some autonomy in the face of the possible confrontations with the dominant centres which are to be foreseen according to the argument at the beginning of this article.

v) On the ideological plane, supra-national identities must be created within a regional framework. The specific nationalisms of each country, although they may continue to fulfil

their function, should be integrated into a Latin American projection. The same should be done with the other ideologies, so that joint action will be facilitated, not only through continental solidarity, but also through the rapprochement of parties and intellectual groups across the frontiers. The knowledge of our mutual histories, traditions and social realities should be made a priority aim in our educational programmes, at all levels, from primary school to university and research activities.

vi) The countries must prepare themselves for collective international political measures. These could take the form of cartels of primary producers, like that of the oil producers. Copper and bauxite are good candidates in this respect. There are no quick results to be obtained in this, and it takes a long time to prepare the ground for these unions, which demand political and ideological solidarity going beyond mere economic advantages, since otherwise the drive is not sufficient. Collective action can also take the form of moderate interventions in conflicts between countries of the area and some of the dominant centres, such as that which gave rise to the Drago doctrine in face of the attempt at the forcible collection of the Venezuelan debt. Negotiations regarding the external debt will provide more and more occasions for this type of activity.

In completing this list of lines of action we return to the problem mentioned at the start, namely, the constraint caused by the external debt, which robs us of the resources needed for the success of the programmes proposed. However, the constraint is not total, and a series of measures such as those suggested are possible within the limits imposed by the present crisis. Since the results are bound to be slight and slow, many aspects of the situation will continue to get worse and will produce explosions of various types in some areas, whether in Latin America or in the rest of the Third World. These explosions will speed up the tempo of history and facilitate the task of those who wish to transform, in a moderate and negotiated but increasingly radical manner, the factors which deny us liberty of action today.

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Modification of the industrialization model in Latin America

*Klaus Esser**

Apart from its intrinsic value, this article has the added merit of providing a straightforward presentation of a prominent German scholar's views on Latin American industrialization. It is divided into four chapters. The first two outline the main interpretations of this process from the 1930s up to the present, while the last two address the central issue of the modification of the predominant industrialization model. The author takes a critical view, not only in terms of a long-term historical perspective, but also of the policies implemented during recent years in response to the crisis, which are generally marked by "stabilization without creativity" and the hope of resuming economic growth with the help of direct foreign investment.

In line with ideas developed by ECLAC, the author proposes an industrial strategy based on the achievement of "inward-directed growth" through the creation of capital and mass consumer goods industries, the continuance of selective import substitution, the establishment of clear-cut guidelines for the division of labour within the region and the application of a selective and dynamic policy aimed at gaining market positions in the central countries.

The economic, social and political conditions which must be met if such a strategy is to be carried out successfully include, *inter alia*, the elimination of structural heterogeneity; political, administrative and financial decentralization; a considerable advance in technological development; the creation of an autonomous industrial and technological core; strengthening the national entrepreneurial sector; and an increase in State autonomy and efficiency. Towards the end of the article, the importance of political aspects are underscored; the systematic effort required to apply this strategy, the imbalances to which it gives rise and the obstacles in its path make it necessary for the strategy to be based upon the participation, motivation and creativity of society as a whole.

*Head of Department, German Development Institute, Federal Republic of Germany.

I

Insufficient inherent momentum within the industrialization process

The decline in exports of raw materials consequent upon the world economic crisis was followed by a need to substitute domestic production for imports. Originally, when import substitution was still a spontaneous process, it represented a defensive strategy. Even in its dirigistic phase—from the end of the Second World War—it never developed into a comprehensive and aggressive industrialization strategy. "Industrialization" in Latin America meant the introduction of technical progress not into all sectors of the economy but only into the modern branches of industry and the export-oriented sectors: mining, agriculture, and trade.

Unlike East Asia (Japan, South Korea), Latin America retained its pre-industrial economic and power structures. Consequently, the region had to rely on the "modern sector of the economy" in seeking high rates of growth. The models of development were dual or unbalanced based on the premise that the momentum of the modern sector would gradually dislodge the traditional structures. However, in many countries opportunities for import substitution were exhausted as early as the 1960s, and insufficient action was taken to mitigate internal imbalances and thereby increase domestic demand. Sectoral, regional, and social imbalances—the heterogeneity within and among the various sectors—were soon found to form a critical barrier to the inherent momentum of the industrialization process.

The shape of industrialization was determined from the outset by the attitudes of upper and middle-class consumers. The increasingly marked concentration of incomes which reflected the economic, social and political imbalances resulted in the premature imitation of consumption patterns typical of the industrialized countries, in particular the United States. It steered industrial development towards consumer durables, including cars, and sectors in which development depended on investment by transnational companies; for many years only scant importance was attached to labour-

intensive exportable consumer goods and indeed to capital goods. This type of industrialization did not absorb an adequate fraction of the quickly-expanding labour force and resulted in a rapid increase in foreign participation, which later was frequently excluded from deliberations on industrialization strategy.

Industries under foreign control (the motor vehicle, chemicals and pharmaceutical industries, for example) experienced a period of vigorous growth as long as the —mostly small— domestic markets remained unsaturated. In many instances, assembly and packing plants were commissioned, but the subsequent transfers of resources (profits, payments for technologies) represented a constant drain on the balance of payments. The national private sector has largely continued to produce simple consumer goods, demand for which has expanded only sluggishly, especially since the mid-1960s, because of the stagnation in agriculture, the strong concentration of income, and the absence of government corrective policies.

Growth in the agricultural and industrial sectors was largely ascribable to a few large companies, while small and medium-sized national firms were neglected, their development even being hampered by the economic policy pursued. However, an industrialization process confined to large companies implied that there was no alternative to importing foreign technologies. This productivity was further aggravated by the fact that the technological and industrial options selected by the industrialized countries (large-scale technologies, armaments industry) were emulated in an increasing number of sectors.

Medium-sized and even small countries likewise spent many years trying to press ahead as far as possible with an import-substituting type of industrialization. Despite its inadequate geographical size, Chile, for example, opted for an industrialization path looking to heavy industry and forward integration. Even countries such as Uruguay sought to establish a motor vehicle industry, thereby overlooking the advantages of industrial specialization. Such industries tied up considerable financial resources but did little to accelerate the industrialization process because expansion in the industries manufacturing intermediate products remained inadequate and intra-industrial demand limited; moreover, they

soon became obsolete owing to the limitations of national technological capacity. Only the larger countries were capable of substituting domestic production for some of the more complex import items, thus developing an industrial apparatus with increasingly clear vertical and horizontal linkages.

In Brazil, the economic and political influence of the groups predominating within the pre-industrial sector was nullified, and industry came under pressure to step up its competitiveness. Since the mid-1960s, moreover, Brazil's domestic market had proved to be sufficiently large to afford industrialization a further boost: by means of government investment in the basic and capital goods industries and also investment by foreign groups in the development of fully integrated motor vehicle complexes and industries producing consumer durables and showing considerable intra-industrial demand. Since the mid-1970s, Brazil has also become an internationally significant exporter of manufactures. It owes its exceptional position in Latin America, however, to its size and potential, and also to massive commitments by multinational groups; social, sectoral and regional imbalances here are certainly no less pronounced than in the other countries.

Although imports continued to expand (both despite and on account of the import-substituting industrialization strategy), and the evolution of the terms of trade was perceived to be critical in Latin America, virtually all countries in the region have relied on exporting their large-scale and well-diversified natural resources to back up their industrialization process. Export business is transacted by foreign and, to an increasing extent, domestic mining and petroleum companies, and also via certain segments of agriculture, which has undergone thorough modernization only in the large countries. Because of the significance of agriculture in export business, and by extension, the power held by landowners, the efforts made to remove the structural obstacles to industrialization in the agricultural sector have remained scant, and more and more compromises have had to be made in economic policy. In some small and medium-sized countries in particular, it was not long before signs of stagnation emerged because the excessive emphasis placed on import substitution precluded any in-

dustrialization based on natural resources, and more specifically on agriculture, a strategy which would have entailed an export-oriented approach.

Some of the proceeds from exports accrued to a stratum of society whose position had never been challenged in the past but which combined imported consumption patterns with limited production know-how. Substantial sums were also invested in the public sector of the economy, where the bureaucracy was quick to adopt the values and demand pattern of the weak private-sector bourgeoisie. Even as early as the mid-1950s, dependence on a few exports had resulted in a shortage of foreign exchange reserves, though this conduced to a general feeling of export pessimism rather than to any change in favour of exporting manufactures. Latin America was slow in emulating the shift of emphasis in world trade toward manufactures during the period of rapid expansion on the world market which lasted from 1955 until 1980.

Whereas in Japan, South Korea, and Taiwan massive redistribution measures, including agrarian reforms, were instrumental in securing high rates of saving, in Latin America a degree of concentration of wealth and income by far higher than in virtually any other region of the world led to consumerism in relatively narrow population strata, to squandering of resources and—in periods of crisis or more attractive interest levels abroad—to a massive flight of capital. Whereas in the industrialized countries the financial infrastructure was established parallel to and on

the basis of the industrialization process, in Latin America no mobilization of domestic capital based on the expansion of the financial infrastructure occurred because of the excessively easy access to cheap foreign capital. The capital inflow from abroad even partially took the place of savings formation at home.

The exogenous causes of the shortage of resources, and indirectly also of capital formation within the region, should not be underestimated; undoubtedly, however, these would not necessarily have represented an insurmountable obstacle to a dynamic industrialization process if suitable conditions had been created and enterprise-oriented strategies pursued. It is significant that the "light exports" of agricultural products and petroleum of Argentina and Venezuela were precisely those which made it possible to retain an extensive growth model over a period of decades, whereas the competitiveness of the economy, and of industrial exports in particular, remained extremely low in relation to the level of industrialization. Capital is indeed an important factor in development, but it is by no means sufficient in itself. Precisely because the export of raw materials and an influx of capital from abroad paved the way for a succession of "soft options", the deployment of capital remained relatively inefficient. Institutional and microeconomic factors, and in particular the low level of performance of government and industrial firms, together with the lack of cooperation between these, did much more to hamper the industrialization process than any shortage of capital.

II

The 1970s: The road to crisis

The problematic elements of the Latin American industrialization model outlined above were compounded in the 1970s by factors which at the outset could be ascribed largely to the region's power structures and economic strategies but subsequently to changes in the world economy:

—The oil price rises triggered off substitution programmes, most of which entailed large-

scale projects having a long gestation period and requiring extensive imports and foreign financing. It was soon found that dams (such as that of Itaipú) were too large and ecologically questionable; that nuclear programmes were financially demanding and technologically unpredictable; and that a scheme like Brazil's alcohol programme were not only costly but also antisocial

because of its displacement of small farmers. In some cases, significant substitution effects could be achieved, but the programmes concerned always exacerbated the existing economic and social imbalances, prevented the implementation of alternative schemes —some of which might have made for a drastic reduction in energy consumption— and increased foreign debts.

—The upswing in imports and external financing was also ascribable to the greater emphasis attached to expanding the basic and capital goods industries in the large and some of the medium-sized countries. The oil-exporting countries (Mexico, Venezuela) set out to develop their petrochemicals and steel industries, but the projects concerned made only slow progress because the financial and, in some instances, technological strain exceeded the resources of the companies concerned, most of which were State-owned. Had these projects been executed as originally planned, they would also have necessitated extensive exports, though the world market situation had not been adequately considered at the design stage. Admittedly, a number of countries succeeded in greatly expanding their capital goods industries: between 1978 and 1981 self-sufficiency in capital goods rose to 80% in Brazil, 70% in Mexico and Argentina and 40 to 45% in Colombia and Peru, but only to 10% in Chile. Large sums were also invested in the expansion of mining companies, many of which had been nationalized in the 1960s and 1970s with a view to increasing exports.

—After the seizure of power by the armed forces, Brazil and Argentina in particular began to develop large-scale military-industrial complexes for security reasons and also in pursuit of their objective of becoming major powers (armaments and nuclear programmes, aircraft construction, including aluminium industries). While Brazil made every effort to become internationally competitive and rapidly increased its exports of military equipment, Argentina's military-industrial complex remained inefficient. Nonetheless, the country succeeded in evading the monetarist experiment, in obtaining major subsidies for its basic industry, which was similarly controlled by the military, in ensuring that the domestic private sector was given preference over foreign direct investment, and even in keeping alive obsolete industrial companies.

Not only did its efforts contribute little to increasing exports; they also tied up an enormous amount of capital and entailed extensive importing of armaments. "Military strength" resulted in a general neglect of other objectives, in particular the upgrading of efficiency by means of industrial specialization.

—In the countries of the Southern Cone (Argentina, Chile, Uruguay), where opportunities for import substitution were almost exhausted as early as in the mid-1950s because of the length of time which this strategy had already been pursued (a tendency which had political implications inasmuch as the population was relatively well organized), the military governments opted for monetarist economic policies. Placing their trust in market forces, they proceeded to generally liberalize imports and capital markets; however, no adequate support was forthcoming for the adjustments to the needs of the world market which companies made by specializing within the agricultural and industrial sectors, and during the second phase in particular (1978 and 1981), the pressure to adjust became unrealistic in the wake of the "monetary approach to the balance of payments" advocated by the modern monetarist school. These economic policies resulted in the loss of a social consensus on basic aspects of development, further exacerbation of existing economic and social imbalances, drastic contraction of domestic markets, de-industrialization tendencies, and a tremendous increase in speculative capital movements, flight of capital and external indebtedness.

Latin America's foreign debts have mainly endogenous causes which were bound to result in a crisis in the wake of the changes taking place in the world economy. At a time of international adjustment, the countries of the region persisted in pinning their hopes on a high rate of growth. The cumulative effects of overconcentration on the modern sector, an inadequate technological basis for the industrialization process and poor export performance were adversely compounded in the 1970s by various factors: this applies as much to the above-mentioned gigantomania in connection with substitution projects in basic industries and the energy sector —which were not infrequently supported by inter-

national financing institutions— as to the subordination of the industrialization process to notions of security policy and military interests. It also holds good when one considers the attempts made, in particular in Mexico, to pursue a two-fold policy of implementing major heavy industry projects and at the same time expanding the likewise import-intensive consumer durables industry, including integrated motor vehicle complexes. In Brazil too, where a large measure of import substitution was achieved in this manner, the procedure in question resulted in a high level of external indebtedness. It is virtually impossible to trace the underlying economic con-

siderations that explain how, despite the austerity programme introduced in the OECD countries, the traditional obstacles to demand for consumer goods could be removed, thus enabling large quantities of goods to be imported. The irresponsible allocation of loans by the international banking system is undoubtedly as unsatisfactory an explanation for Latin America's adopting such a course of action as any reference to increased exports. The combined impact of all these factors meant that the economies of the region were much more severely affected than those of the industrial countries or the countries of Asia; it resulted in "derailment".

III

Stabilization with creative transformation

Even assuming that its liquidity problems will be alleviated and its debts partially cleared—courses of action which are hardly avoidable, though there are no signs of their being accomplished in the foreseeable future—the region faces a fairly protracted period of limitation of its external financing facilities. It will not be able to recover from its decline before the early 1990s. Technocratic attempts at stabilization are at present having the effect of making domestic markets contract, while in the light of foreign trade problems it is becoming increasingly necessary for economic policies to focus on expanding exports. The action possibilities open to governments for halting the "downward spiral", preventing the further obsolescence of the production apparatus, and combating mass poverty are proving to be inadequate while this "stabilization without creativity" persists. As has been apparent in some countries of the region for many years, concentration on short-term policies creates an inexorable and growing need for stabilization.

Many governments are still hoping that the traditional "growth-cum-debt" pattern can be resumed and repeated. They base their action on the familiar concepts of concentrating excessively on economic growth, improving the climate for foreign direct investment, and over-

coming assumed shortages of capital by raising yet more funds abroad. But since stabilization is not accompanied by standard-setting economic and social reforms, these concepts are encountering growing political resistance. The coincidence of various factors (internal and external imbalances, foreign indebtedness, saturation of the industrialized countries' markets and the protectionism to which these countries are resorting in order to facilitate the technological modernization of their industries, the third technological revolution, etc.), has brought Latin America to a turning-point. The long period of low growth should therefore be used to bring about a creative transformation.

If the region is to overcome the recession, regain its industrial momentum, and adjust to the changes in world economic conditions, a more complex strategy will be required. The objective here cannot be to "catch up" with the industrialized countries; instead, the region must try to avoid their mistakes—which are having increasingly serious repercussions, particularly with respect to the environment—and to link elements of "catching up" and "closing the gap" with original solutions which, wherever possible, anticipate new developments in certain sectors and may even enable the region to "overtake" the

industrialized countries in some areas. What is needed is a skillful and flexible combination of elements such as the following, the relative importance of which may well vary through time:

—development of domestic markets to permit “inward-directed growth” via the mass-produced consumer and capital goods industries. This will require above all prompt action to minimize growth-inhibiting imbalances and reinforce the technological foundations on which industrialization is based;

—continuance of import substitution, though now with a view to reducing imports selectively and preventing a further rise in domestic costs, widespread inefficiency, inadequate profitability, and limitation of opportunities for private-sector investment, phenomena which import substitution has provoked in the past;

—establishment of clear-cut objectives for the division of industrial labour within the region, especially in high-technology research and the motor vehicle and capital goods industries;

—an aggressive but selective policy of forging links with the industrialized countries, not with a view to highly subsidized export trade in manufactures, wherever this might be possible, but concentrating instead on industrial linkages which would enable the region to acquire strategically important market positions and shares.

A strategy which seeks to combine elements of both inward-looking and outward-directed industrialization such as this presupposes reforms in the following five fields in particular:

1. Industrialization is a macrosocial problem and calls for increasing homogeneity of structures. The manoeuvrability of societies in Latin America would be markedly enhanced if non-industrial production methods in the “traditional” sector were phased out and social, sectoral, regional and ecological imbalances were reduced. Agricultural reforms in particular are long overdue in many countries of the region and are an imperative necessity if economic and social growth is to become more balanced, the rapidly growing urban population is to be fed, industrialization speeded up, and politically stable development achieved. What is required is a skillful combination of elements of structural and technological reform, a feature which agricultur-

al reforms have customarily lacked in the past. This would entail:

— selective measures to change tenancy and ownership structures and introduce ecologically acceptable forms of reallocating and consolidating farmland, where possible without disrupting modern export-oriented holdings;

— a radical change in the agro-technological base in the traditional sectors of agriculture and the grouping of small farmers in cooperatives with a view to largely excluding the middleman from trade in mass-produced consumer goods (this being essential if prices are to be raised *and* the urban population is to be catered for at reasonable cost);

— selective strengthening of the input and output sectors of agriculture (metal-working, chemicals; biogas and other decentralized energies; agricultural banks); in some instances, in particular where artificial fertilizers and insecticides are concerned, agreements with industrially advanced neighbouring countries would be an advantage.

It is important to ensure that the adverse financial and ecological effects of the agricultural policies pursued in the industrialized countries are precluded in this region. Evaluation of the industrialized countries’ experience and knowledge of new methods applicable in bioecologically-oriented agriculture are therefore essential. The aim here must be to develop an agricultural sector in which the consumption of costly energy, artificial fertilizers and pesticides, and thus the level of government subsidization, is kept as low as possible. It is not to give priority to the development of the agricultural sector but to speed up the pace of industrialization which, in the small and medium-sized countries in particular, will not be possible until modern technology and modern production methods are introduced in the agricultural sector.

2. Although industrialization requires concentration of the population and the emergence of centres of economic agglomeration, the processes of urbanization and economic concentration, proceeding almost unchecked as they did in the region in the absence of government counteraction, soon generated marginalization tendencies and had a deleterious effect on the

economy as a whole. Political, administrative, and financial decentralization would counteract the urban agglomeration process and the neglect of the hinterland and of "absolute poverty", and change the features of the industrialization process. Stimulating regions and communities to act on their own responsibility and initiative and encouraging self-help organizations are instrumental in invigorating and expanding the non-durable consumer and capital goods industries, thereby broadening the basis for industrialization and rendering it more independent.

The objective of tapping neglected regional and local potential via decentralized development is not to initiate a process of "self-centred regionalization" or "regionally centred development" but rather to counterbalance concentrations of population and agglomeration (as has recently been done in Spain), if possible *without* obstructing the development of national industrial cores or diminishing their international competitiveness. Advantage must be taken of the many attempts made and initiatives launched to develop regional circuits. Although special schemes such as that designed to assist the North-East of Brazil are justifiable, emphasis should initially be placed on the elimination of intra-regional economic and social imbalances rather than on financial compensation to offset the discrepancies between rich and poor regions such as is customary in the industrialized countries. Priority should be attached in this context to strengthening financial authority at the regional and local levels and to developing small towns ("agro-urban centres") in the hinterland.

In this decentralization endeavour, much depends on ensuring that the municipal level is geared to the concept of self-help. Experience in Latin America has shown that even countries which have made some progress in industrialization cannot imitate the industrialized countries in the provision of a national social security system and must in any case avoid the cost explosion which has occurred in the OECD welfare states. Furthermore, the burden on central government must be eased wherever possible so that it can concentrate on the major tasks of guiding and controlling the industrialization process. The State should stimulate, guide and monitor, but provide only subsidiary support for local self-

reliance. Developing countries will therefore differ from industrialized countries in the distinction which they must make between individual responsibility and social security, especially in view of the extreme importance of moulding together into small, uncomplicated, closely-knit communities a population which has become individualized in the wake of migratory processes and is held together, if at all, by an unstable family structure, and in which distrust is the predominating social sentiment. The public interest can only become a generally meaningful value if society is organized from the bottom up: in small groups, especially self-help groups to combat poverty, and community structures at the local level.

3. Dynamic industrialization is inconceivable without mastery of technology. The technological development of industry, for its part, in turn presupposes an appropriate mentality: no industrial revolution can take place without a revolution in value systems. In Latin America, however, industrialization began in a society in which, despite numerous adjustments, traditional values still predominate. The countries of the region selected the capital investment option, but accepted the rent-seeking attitude of the investors. At the same time, they neglected the most important factor of development, namely, the creation of satisfactory resources in terms of human capital.

Perhaps the most important cause of the dependence incurred by the incorporation of technology was the shortage of technical skills. The education and training system reflects the imbalances prevailing in the economic field: the lower strata of society have the doubtful privilege of undergoing an extended period of education during which they learn little or nothing about self-help and technology. Except in Brazil, the size of the skilled workforce has remained limited, and the scant provision made for training is normally concentrated in special institutions (SENA, etc.). The universities produce large numbers of intellectuals who understand little of industrialization and, because of the social inequities and obstacles to their own careers, set their sights on political change. The domestic and foreign private sector prefers to recruit its highly qualified employees from foreign or national private colleges.

Priority needs to be given to an education and training offensive to generate basic and versatile skills and promote a generalized mastery of technology, including the new technologies. Only such an offensive would make it possible to reinforce self-help capacity among broad population groups, to ensure understanding of various technological levels and the combination of these, to develop selected key technologies, to establish a dynamic innovation system with a high level of technological flexibility, and, finally, to create a "national technological culture".

At this stage, rapid adaptation and imitation of technologies is more important than basic research. "Technological independence" cannot be achieved within the foreseeable future, but this time-span can certainly bring a continual reinforcement of "technological autonomy", which ought to be directed towards ensuring a rapid increase in productivity, in particular by means of the new key technologies. The path towards the commercialization of adapted or imitated technologies can be shortened, especially if it is possible for industry and research institutes to work in close co-operation. However, intensive and continuous co-operation between the universities and industry will not be possible until profound reforms have been implemented in the long-since dysfunctional university sector. A measure of the stature of the new democracies in the region will be whether or not they can be successful in implementing reforms such as these, which do not represent a primarily financial problem.

4. The international learning process is tending towards the view that dynamic industrialization is possible only if an autonomous industrial and technological core can be created and constantly strengthened. "Industrialization" implies the creation of a national industrial core, in particular in the capital goods industry, which possesses the technological competence to modernize the entire production sector to an increasing extent out of its own resources. This core can only develop from a sustained and co-ordinated commitment on the part of government, industry, and research institutions. A country which relies exclusively on the free forces of the market is in effect consolidating its state of backwardness and will be largely negatively affected by the new technologies. It may even be said that an import-substituting industrialization

which does not seek to establish a technologically competent industrial core and to promote technical progress in all sectors can at best aspire to earn such large amounts of foreign exchange revenue from its exports of raw materials that it is able to advance in step with the technological state of the art in the industrial countries by virtue of constant imports of capital goods.

It is astonishing that technological competence within the State and national companies in the countries of Latin America has remained so low. Little effort was made over a period of decades to back up industrial development by establishing independent technological expertise. Technological and entrepreneurial capacity for adaptation and imitation remained limited, and, economic linkages were slow to multiply. Industrialization failed to develop sufficient momentum of its own because import substitution was based on foreign technologies and, in many dynamic sectors of industry, on foreign direct investment. It was not until the 1970s that the institutional conditions for importing and developing technology were improved in the larger countries. But even now, only Brazil has the ability to ensure the rapid incorporation of technology and, in a few sectors only, to achieve autonomous technological development.

The only developing countries which can undergo a process of dynamic industrialization are those which succeed in incorporating traditional *and* new technologies strictly in accordance with their needs and on a low-cost basis. A "forward-looking strategy" at technological level is required before it is possible to incorporate several generations of technology simultaneously, to make "development leaps", to develop constructive relations with foreign companies, to proceed beyond complementary foreign trade in at least some selected fields, and to enter the international technology race. For all developing countries, however, a minimum level of technological competence is essential if advantage is to be taken of the opportunities offered by both old and new technologies and national control over the development process is to be gradually extended.

5. How many technologically competent firms, how many national firms that are internationally competitive are operating on the

economies of large countries such as Mexico or Argentina? This question is even more legitimate when viewed in the context of comparison with the countries of East and South-East Asia, where the industrialization process in many cases is of much more recent date. The propelling force of industrialization in market economies, i.e., the private companies, which take most of the decisions on production and investment, remains undeveloped. Even in Brazil the industrial bourgeoisie drops into third place behind government and foreign capital in many key sectors. Given this situation, it not uncommonly happens that too little attention is paid to the functions which the private sector should perform in industrialization, in developing technology, and in exporting manufactures. This is particularly true with respect to the following:

- the development of a small group of large, efficient, national companies with diversified production, innovative capacity, and financial management systems, which are instrumental in ensuring active integration into the world market and may come to resemble multinational groups;
- the emergence of technologically up-to-date small and medium-sized enterprises such as those which play an important role in the OECD countries as subcontractors—rendering the larger companies more competitive— and also in the innovation process;
- the restructuring of labour-intensive small and medium-sized firms in traditional sectors of industry which have an entrepreneurial and employment potential that has so far remained largely untapped and which have been slow in fulfilling their functions in the fields of production, distribution, and provision of services.

IV

Objectives and instruments of a complex industrialization strategy

The implementation of such a concept is dependent on whether or not the new democracies can succeed in strengthening the autonomy of the State and at the same time can upgrade its capacities for concertation, monitoring, and control. Because political will is not clearly agglomerated and administrative capacities are inadequate, in many instances governments have so far not even been successful in indicating a clear course for the public sector to adopt. Countries such as Argentina are largely “undermanaged”; they show evidence of accumulated institutional deficits which could only be remedied over a space of years because of vested interests and considerations of party politics. Decisions on industry policy or regional policy, for example, are often taken without reference to the criteria of economic profitability. Inspection and evaluation exercises cannot suffice to direct attention to more efficient and less costly options. Of particular importance is the lack of modern systems of “bonuses and sanctions” both in the

public sector and in relations between government and enterprise, such a system being required for any transition to the phase of “intensive industrialization”.

However important stable macroeconomic conditions may be, macroeconomic control alone is not sufficient—as is evident in the industrial countries too—to manage the technological upheaval and its profound social implications. Indeed, macroeconomic steering must be complemented by enterprise-oriented policies which single out areas of emphasis in a number of selected fields. The establishment of clear focal areas and the creation of sufficient negotiating authority to have these consolidated are much more important than the still popular formulation of comprehensive macroeconomic and sectoral plans, for example. The various spheres of policy (industrial policy, regional policy, etc.) should be directed towards consolidating these focal areas, reconciling apparently contradictory elements therein, correcting the imbalances

which continually emerge in the wake of economic growth, and smoothing the path for industrialization.

Industrial policy should be directed towards strengthening the national industrial core and upgrading international competitiveness. It should be concentrated on a few areas having favourable prospects for development, and be selectively designed so as to support a small group of modern entrepreneurs. In the field of the new spearhead technologies, attention must be directed towards the high-volume, standardized product path in a small group of strongly export-oriented foreign companies, and also towards the rapid diffusion to virtually all fields of the economy, using medium-sized national enterprises as vehicles, of the innovations in the computer industry (this having the currently most important key technology) as well as in the information and communication industry. The development of such medium-sized national firms could be supported by means of fixed-period protection and promotion programmes. An over-complicated network of policies and instruments such as tends to impose too much strain on both the public administration and the entrepreneurial sector could be avoided by establishing an efficient development bank which would support industrial and technological change with inter-company linkage contracts, participations and consultancy programmes.

The capital goods industry should be given top priority. Its expansion should focus not on large-scale projects requiring considerable capital and imports but wherever possible on the intelligent deployment of modern technologies. This is likely to be feasible wherever governments and companies can agree on "technological grading", for example. Whereas the neoliberal experiments have frequently led to an upturn in import business, both government purchasing and private-sector demand should in the future look more towards domestic sources of capital goods. The State should place obstacles in the way of channelling investment towards projects in which economic profitability is of only secondary importance. Despite positive effects on the overall economy, tax incentives for investment in construction should be eliminated in the

interest of supporting readiness to commit venture capital. In addition, structural change should be promoted directly, for example through cheap loans to companies which have excelled by virtue of innovation effort or export expansion.

Further concentration on the basic industry sector would in any case be extremely difficult to finance, would provide the region with excess capacity, and would represent an erroneous path of specialization for many small medium-sized countries, even within a context of regionalization. The process of consolidation should advance hand-in-hand with a gradual elimination of subsidies, especially in industries which are stagnating or in decline in the industrial countries. The consumer goods industry should concentrate in future on mass-produced consumer goods rather than on complex durables. Here, the objective should not be to widen the range of products but to increase demand by standardizing products, limiting production to a few models and types only, and introducing other measures to bring down costs, many of which would also reduce energy consumption and would be more acceptable from the environmental viewpoint (e.g., a move away from the principle of producing disposable articles). In weak industries, restructuring programmes such as those introduced in Southern Europe should be launched. Restrictions on the development of the basic industry sector and consumer durables should be paralleled by restrictions imposed for several years on the extension of material infrastructure; despite grave problems of indebtedness, in some countries there has been but little evidence of this.

In technology policy the primary need at this stage is to optimize technologies imported from the industrial countries: for example, to place greater emphasis than hitherto on acquiring technologies on the basis of licenses and other forms of co-operation not involving capital participation, and then adapting the technologies thus acquired to specifically national needs. The technologies selected should be amenable to broad-based diffusion in the agricultural sector, the agroindustries, and industries producing mass consumer goods and capital goods. Here, the scope for action open to governments and companies could best be maximized by means of

a series of relatively small but technology-intensive investments. Modern production and information technologies, precisely because of their flexibility, make it possible to manufacture in small series on a viable basis. Assuming a predominance of clear-cut, smaller projects carried out mainly by domestic firms and financed with domestic funds, demand for imported capital and goods would decline and exports of industrial goods expand. In addition, this would be instrumental in reducing the problems encountered in the employment and environmental fields.

It appears important to emphasize that it would not suffice to establish a small technologically modern export sector. The aim should be to bring about a general improvement in the efficiency of the economy, in the level of technology it relies on, and in the quality of workmanship and service, so that more and more sectors may become increasingly competitive. Specialization, selectivity, and flexibility are possible, especially if they can draw on a generally modern industrial apparatus. An aggressive export orientation calls for efficiency in a constantly expanding domestic market. The government can support the establishment of a broad technological base by providing favourable conditions for investment, by introducing reforms in the education and training system, by making effective use of the media, by introducing new technologies in the public administration and by taking suitable measures in government procurement policy, investment financing, and external economic relations.

Of decisive importance is the implementation of strategies to build up a core of medium-sized enterprises which are equipped with modern technologies and prepared to operate on competitive markets. In many countries there is no shortage of firms which, given a suitable bonus and sanction system, could develop into agents of change. Even a small group of "new companies" can exert pressure to adapt on larger companies, many of which show weaknesses from the viewpoints of research and development and export business; such a group can also be instrumental in modernizing small and medium supply firms, and can furthermore introduce modern concepts of labour relations. Only a new entrepreneurial core such as this can pave the

way for the transition to "intensive industrialization". It is the only agent capable of supporting that type of industrialization which the new technologies render economical in its inputs of energy, materials, and capital investment. As soon as this core offers sound prospects, it will contribute towards mobilizing residual capital and bringing back capital expedited elsewhere.

The employment problem can be alleviated only in the event that various factors can be made to coincide: a high rate of economic growth accompanied by dynamic inward expansion; better-balanced distribution, to be brought about primarily via structural reforms in the agricultural sector and the creation of intermediary organizations; the juxtaposition of various technological levels, in particular a combination of high-level and low-level technologies in the industrial sector, such as is found in China; and in addition a redistribution of the volume of labour and expansion of the education and training process. Furthermore, short-term special programmes to reduce unemployment are indispensable (small dams, rural road construction, housing, social services, reforestation programmes). Infrastructure and production-oriented measures of this type, which would not infrequently obviate the need for major projects heavily dependent on external financing, ought to absorb more than 20% of the labour force in many countries, thereby substantially alleviating the employment problem. The programmes should be transformed into local programmes as soon as possible. Finally, it is essential that population growth be drastically curtailed. Most Latin American experts agree that the problem of absolute poverty or pauperization is financially and organizationally soluble, even during a period of recession such as this, provided the countries concerned make sufficient effort to solve it; the problem, it is claimed, remains unsolved for want of political attention.

Apart from the social costs involved, the price paid for industrialization in ecological terms is extremely high, even in the earlier stages of the process. But neither the public nor governments are as yet sufficiently aware of the need to protect the environment. Despite the catastrophic conditions prevailing in some areas of agglomeration, very little is spent on environmental protection. Road traffic is largely

responsible for air pollution. Rail networks could be developed with little external assistance, incorporating road-and-rail links for example, or in combination with a network providing bicycle tracks, of which there are very few at present. In addition to consideration of such energy-conserving, less environmentally offensive, and lower-cost transport systems, importance should also be attached to regionalizing the automotive industry, thereby permitting its thorough modernization, and likewise to introducing speed restrictions such as those imposed in almost all industrialized countries. The aim in the industrial sector in this respect should be not only to extend the inspection and monitoring systems (ex-post environmental protection) but also to examine industries *before* they develop with a view to ensuring their environmental compatibility. At least those of the industrialized countries' environmental and nature conservation policies which are not excessively expensive could be emulated in the short term. If ecological disasters are to be avoided, a number of projects will have to be abandoned.

The low level of progress towards integration made in past decades can be ascribed primarily to the fact that although relatively weak countries have endeavoured to form regional associations, the larger countries have set virtually no store by regional markets, regarding national industrialization as their priority. It was not until the mid-1970s that it became evident that they would likewise have to rely on an intra-regional industrial division of labour in order to achieve economies of scale, and that regional co-operation was indispensable in view of the pace of technological innovation. As can be seen from the example of the European Community, the fragmentation of an industrial area cannot be remedied simply by establishing a customs union. What is needed is a joint strategy in the fields of science, technology, and industry. Research and development programmes have been but few in number to date in Latin America, this omission being particularly grave in the field of the new key technologies.

More realistic than an integration model which is overambitious in terms of political and planning possibilities is a form of regionalization which takes account of the growing discrepancies in levels of industrialization. The determining

factor here is the interest felt by the larger countries in having stable regional markets for their manufactures, providing, of course, that their supply capacity is sufficiently advanced to permit production at world market price levels. Close co-operation among the industrial agglomeration centres within the region will have spill-over and spread effects that will benefit the other countries, which are unable to develop so differentiated an industrial structure and have to seek niches for their exports by resorting to industrial specialization. The process of negotiation between the advanced and the less advanced countries will determine whether traditional forms of the division of labour can be dispensed with or can be gradually displaced.

Latin America has to overcome its "export pessimism" in a situation wherein the multilateral trade order set forth in GATT is exposed to progressive erosion, protectionism among the industrial countries is becoming yet more pronounced, and the new information and organization technologies are rendering the trade position of the region even more difficult. In the case of labour-intensive industrial goods in particular, the developing countries' export opportunities are diminishing in consequence of technological innovation. This consideration lends substance to the call for "technological development leaps". Active relations with the industrial countries will become indispensable, their nature being dependent on the level of industrialization achieved and also on amenability to the continuing furtherance of the industrialization process. The region should enter upon an emulation race which is backed by active but selective policies in the fields of trade, foreign investment, technological and scientific co-operation and development financing. In many cases, "counter-trade" will be inevitable during the initial period; the decisive factor, however, is arrival, step by step, at a high level of efficiency, creativity, and competitiveness on the basis of technological modernization throughout a large part of the production apparatus.

Such a complex strategy can be implemented effectively only if the fronts shaping domestic politics, which were stiffened during the 1970s, become more relaxed and it proves possible to bring together social and political forces in the interests of a "social project". The resolve to co-

operate is much more in evidence today in many countries, and, providing adequate governmental co-ordination is forthcoming, could really afford scope for broad-based "social pacts". This is all the more probable in the light of the fact that those strata which tended to reject the concept of industrialization have forfeited political power by siding with backward-looking military officers, by engaging in experiments with monetarism, and also as a result of deteriorating terms of trade and the technological developments taking place in the industrial countries (high-fructose corn syrup, single-cell proteins, etc.).

A broad-based consensus is also required because the *leitbild* of a technology-based growth model—its image as a guide—is indeed problematic. Technological dependence is virtually

inevitable during the course of a somewhat protracted learning process. The new technologies have properties which do not only imply economies in input factors, low maintenance costs, and versatility; it should be recalled in particular that they will do little to contribute towards overcoming the employment problem. The social consequences of innovation leaps, as indeed in the industrial countries too, are not of a solely positive nature, and supporting measures are also required to counteract the new imbalances. If the complex industrialization strategies are to solve such problems, they presuppose participation; participation is the essential element ensuring that sufficient motivation, creativity, and human effort is forthcoming to guarantee that such strategies can be successfully carried out.

The process of accumulation and the weakness of the protagonists

*Víctor E. Tokman**

During the three decades leading up to the present crisis the growth of the product, employment and the level of investment in Latin America reached a very high rate, but the process of accumulation had two important defects, if compared to the United States in the period 1870-1910. First, its greater dependence on the exterior, both on direct foreign investment and on external financing and, second, the lesser relative importance of local private investment in comparison with State investment. Both these features illustrate the relative weakness of local private business in the process of capital accumulation.

Similarly, the utilization of the investment shows that despite the intense process of modernization and absorption of labour in the non-agricultural modern sectors and, in particular, in industry, large contingents of the labour force are still employed in the traditional sectors, both rural and urban. Likewise, the proportion of manual workers employed in the secondary sectors is declining, while informal workers are maintaining their share and that of non-manual workers is increasing. As a result, workers have also failed to increase the real possibilities of their participating in the modernization process.

The writer distinguishes between countries which have an absolute dynamic insufficiency and those which show only a relative deficiency in this respect, and the typical model of the countries of the centre; less than the differences between the region as a whole and the typical model of the countries on the centre; the main limitation on its process of accumulation lies in the lack of strong social protagonists, capable of ensuring independent, sustained and equitable growth.

*Director of the Regional Employment Programme for Latin America and the Caribbean (PREALC). The author wishes to thank N. García, L. Geller and E. Klein for commenting on this paper and thereby helping to improve it. As is normal, the final result is the author's sole responsibility.

Introduction

The international crisis affecting the Latin American economy has reopened the debate about the long-term growth model which the region has been following. The crisis illustrates indeed the shaky foundations of the growth of the past decade and, going beyond debt renegotiation and short-term adjustment, makes it necessary for the question of the long-term engines of growth to be reopened. With this in view, it is important to re-examine the nature of the process of accumulation, for from this may be deduced two of the great historical errors: the lack of independence in this process, which seriously reduces the capacity to absorb external shocks, and the inability to produce social protagonists to assume the leadership in the process.

In his many works on the functioning of peripheral capitalism Prebisch approaches this issue from two standpoints: on the one hand, the dependent nature of the accumulation and, on the other, the periphery's imitative pattern of consumption.¹ Both lead to the dynamic insufficiency of the process of accumulation, which cannot solve the problem of the absorption of labour in the modern sectors and produces what Prebisch calls the "social inefficiency" of the model, which means that a growing proportion of the population can find employment only at the lower technical levels. This dynamic insufficiency is linked to dependence by the transfer of the surplus abroad, while the imitative consumption of the middle and upper groups of the population also helps to diminish the investable surplus, so that its utilization produces fewer jobs.

In a more recent work (1984) Touraine also analyses the characteristics of the region's process of accumulation and tries to pick out the elements which define the Latin American model of development. He identifies as weaknesses or negative factors the dependent nature of the process and the inadequacy of the class protagonists. Both aspects are bound up with the lack of a leading national élite to control the rate and direction of accumulation. Basing himself on earlier works (Tokman, 1982; García, 1982) Touraine identifies, however, as a positive factor in the process the high rate of investment

¹A full presentation of Prebisch's views may be found in Prebisch (1981).

achieved, to which he adds the high degree of urban cultural participation. These features denote the presence of elements of a more developed industrial society.

In this paper we shall try to adduce certain economic antecedents as a means of analysing these relations. To this end we shall examine the characteristics of the process of accumulation and its effect on the formation of a private leading national elite or "pure" social protagonists² capable of taking over the leadership of the process. Firstly, we shall analyse the degree to which accumulation in Latin America has been dependent and the role played by the private business sector in the generation of investment. This analysis will enable us to assess the dimensions of one of the class protagonists in the process. Secondly, we shall examine the utilization of the surplus and of investment and its effect on the generation and structure of employment. On this basis we shall consider the formation and evolution of the working class in the region.

It must also be said that the task described above is extremely ambitious for a work such as the present one, and this explains a number of limitations and restrictions in the analysis. We should like to mention five, in particular.

The first is that the analysis explores only some of the economic indicators which are held to be pointers to weakness on the part of the social protagonists. Of course, these indicators are not sufficient, and discussion of the introduction of other interpretative factors used in sociological debate is left open. In an illustration of this type of limitation it is sufficient to describe two of them. On the one hand, the lower rate of participation of the private national sector in investment will be taken in this paper as indicating that the national business world has assumed a smaller role in the process of accumulation. Nevertheless, if the business world was strong enough to control the State, this indicator would not be sufficient to denote weakness. On the other hand, the decline in the proportion of jobs

occupied by manual workers in the secondary sectors will be taken as an indicator of weakness of the working class. As in the previous case, a partial analysis may be insufficient if, for example, together with this quantitative decline there were changes of leadership within the trade union movement in favour of non-manual workers or if, as a result of the process of concentration of manual workers, they were found in greater numbers than before in larger-scale factories.

The second limitation is that in order to assess the extent and direction of the process we shall use international comparisons. Following a methodology used earlier (Tokman, 1982), we shall take as a point of reference the experience of the United States between 1870 and 1903.³

The third limitation relates to the need to select indicators that can be used as "typical indicators" to illustrate the process, for these indicators necessarily have further limitations connected with the available statistical base and their comparability both over time for a single country and among countries.

The fourth restriction is that the paper will refer to the period before the international crisis, and the analysis will focus on the period 1950-1980. However, as is explained below, the crisis only reinforces the conclusions drawn. Thus, investment declines as a result of external restrictions, illustrating the process's lack of independence; the private sector has to be supported by the government in order to avoid its financial collapse, and the government takes the lead in the slight recovery in 1984; finally, the crisis increases open unemployment and reduces employment in the modern sectors in which wage earners are concentrated, thus weakening even further the capacity of the working-class sectors to exert pressure (García and Tokman, 1984).

The fifth limitation is that the central assumption operates with respect to Latin America as a whole. Its degree of validity varies from country to country. For this reason, an analysis will be offered for a representative number of countries, grouped according to their common

²The concept of "pure" social protagonists is taken from Touraine (1984) and means that social protagonists in Latin America are not identified with *one* single characteristic, whether it be modern or traditional social class, nation or national movements or agents of imperialist domination. On the contrary, the protagonists are mixed and combine various features.

³This period was chosen because of the similarity of the changes in the distribution of the labour force between agricultural and non-agricultural sectors (see chapter II).

features, which will illustrate the nuances of interpretation that have to be kept in mind when

extrapolating each country's analysis from the analysis of the region.

I

Dependent accumulation and non-hegemonic protagonists

Accumulation in Latin America is characterized not only by its dynamic insufficiency, which will be described below, but essentially by its inability to produce national agents capable of taking the lead in the process.

Thus, because of this dependence part of the leadership function goes abroad, and because of the weakness of national business groups the government becomes the principal agent. In turn, the relative deficiency in the creation of jobs in the modern sectors reduces the ability of the workers to develop into powerful agents.

In contrast, in the central model which we are using for purposes of comparison and which was common in the United States and some Western European countries, the private bourgeoisie of the country leads the modernization process and makes it indigenous on the basis of earlier domestic changes. The State takes a subordinate role in this (Touraine, 1984)⁴. The progress of modernization is also sufficient and promotes increasing participation by wage earners. It is useful, therefore, to compare the Latin American experience with that of the United States in similar periods of transition in the labour market. In particular, we shall analyse the dynamics of accumulation with respect both to the investment effort and the protagonists in the process and to the relative absorption of labour in the modern sectors.

⁴Touraine (1984) formulates a classification of six models. Three types are distinguished according to the leading elite —national bourgeoisie, national State bourgeoisie or foreign bourgeoisie. Within each type he distinguishes two other types according to the relative importance of the other elements in the process. We have adopted the central model for purposes of comparison because it is held that this is the prevailing model in the dominant countries with respect to Latin American dependence.

1. *The weakness of the national bourgeoisie*

An analysis of table 1 gives a concrete illustration of the theory we have propounded. The table shows antecedents for three aspects of the process, i.e., the degree of dynamism, the strength of the dependent relationship and the importance of the national private sector as an agent of investment.

Table 1
DYNAMICS OF ACCUMULATION

	Latin America ^a	United States ^b
<i>Investment coefficient^c</i>	20.8	18.9
Investment in construction ^d	62.6	75.1
Investment in private housing ^d	23.3	23.7
<i>Degree of dependence</i>		
Direct foreign investment ^e	19.2	—
External financing ^f	14.2	—
<i>Degree of privatization^g</i>	71.4	91.2

Source: Latin America: figures prepared on the basis of ECLAC data on national accounts; United States: figures prepared on the basis of 1975 Bureau of the Census data.

^a For the period 1950-1980.

^b For the period 1870-1910.

^c Gross fixed investment as a proportion of gross domestic product, both expressed in constant values.

^d Share of total fixed investment.

^e Direct foreign investment as a proportion of investment in machinery and equipment.

^f External savings as a proportion of fixed private investment.

^g Fixed private investment as a proportion of total fixed investment.

By comparing the investment coefficient for Latin America in the period 1950-1980 with that

for the United States in the period 1870-1910, we see that the process of accumulation was dynamic and at least similar to that of the central country.⁵ It must be pointed out that the period considered for the United States has the highest investment coefficients in the last 150 years, for after 1920 these coefficients do not exceed 15%. Similarly the United States was the country that invested most from the mid-nineteenth century up to about 1960 (Tokman, 1982). The fact that the accumulation was very rapid does not remove the possibility that it may have been insufficient. In fact, as we shall see below, it was relatively insufficient, for the process proved incapable of absorbing the growth in the labour force in the modern sectors. This means that in order to overcome this insufficiency, the rate of investment would have to exceed the rate recorded by the central countries in their time. In only very few countries of the region is the dynamic insufficiency, thus defined, related to the insufficiency of absolute investment.

The use to which investment is put should be investigated, since for similar coefficients such use might be different, as Prebisch (1981) argues when he maintains that Latin America has put a large share of investment into non-reproductive capital. This situation would imply that investment and employment still have room for expansion over and above the rates already achieved. Information about the utilization of investment is even more scarce than in the previous case and relates only to investment in construction and, within this sector, to investment in housing. This partial indicator might be used to assess the extent to which investment in Latin America was channelled more disproportionately into construction, and especially housing, than is generally closely associated with "consumption" by the higher-income groups. The available figures are insufficient for this hypothesis to be verified, unless, on the contrary, they mean that Latin America put a higher proportion of its investment into construction than did the United States and that the share of investment in private housing was similar in both cases.

⁵This paper considers the ratio of fixed investment to output. If variations in stocks are taken into account, the investment coefficients are 21.5% and 21.4% for Latin America and the United States respectively.

The second feature which emerges from the comparison is the dependence of investment in Latin America, with respect both to direct foreign investment and to financing from abroad. In the United States both these factors were insignificant during the comparison period. The nature of the dependence has varied over time. During the 1950s it was concentrated mainly in direct investment and reached a proportion of investment in machinery and equipment of about 30%; whereas dependence with respect to external financing, in particular the part coming from private sources, became heavier between 1970 and 1980.

Dependence in the process of accumulation implies the relative loss of control over the levels and uses of investment. Foreign investment and external financing entail promises of future payment. As long as the net flow remains positive, a high level of investment can be maintained, as in fact happened in the period 1950-1980. Interruption of the flow means a shrinking of investment, as has been happening since 1980 without any compensating domestic investment. Thus the dynamics of the process comes to depend on the exterior.

The third feature which emerges from the comparison is that the private sector generates a lower percentage of investment in Latin America than in the United States. The public sector accounted for some 29% of the region's investment, while in the United States it contributed only 9%. This indicator shows that the private sector is weaker in Latin America than in the central country, and that it is the State which plays a major role in domestic investment.

In this connection, an analysis should be made of two elements which are outside the scope of this paper. The first is that from the ideological standpoint the relevant question is still who controls the State. The second is that the indicators described could be interpreted to have the opposite causality; i.e., the private sector does not take control because the State has interfered too much. In response to this last question it is worth analysing each country's historical experience. However, the neo-liberal experience of the Southern Cone, especially that of Chile, indicates that if the kind of diagnosis we have described is accepted, the role of the State is reduced and the rules of the game are changed, in

the expectation that foreign investment and the private sector will take over the lead. The actual result is the opposite, for in view of the wariness of foreign investors the national businessman not only does not invest more but, on the contrary, follows the line of the public sector, so that the decline of the investment coefficient is accentuated.

2. *The weakness of wage earners*

The second aspect to be considered is the effect of accumulation on job creation. This determines to a large extent the characteristics of wage earners who, according to the theory, should be the other agents to play an important role.

The rapid accumulation we have mentioned led not only to a fast growth in output but also to a very dynamic process of absorption of labour. This is reflected in the rapid relocation of active population from the countryside to the town and in a high absorption rate in the modern urban sectors, in manufacturing industry in particular. Proof of this is provided by the decline in the agricultural labour force from 55% to 33% between 1950 and 1980 and by the generation of jobs during this period in the modern urban sectors and manufacturing industry at annual cumulative rates of 4.1 and 3.5 respectively (table 2). This absolute dynamism with respect to employment is similarly confirmed if it is compared, for example, with the creation of man-

Table 2
DYNAMICS OF EMPLOYMENT

	Latin America	United States
A. <i>Growth of:</i> ^a	<i>Cumulative annual rates</i>	
1. Population	2.8	2.0
2. Labour force	2.5	2.7
3. Non-agricultural labour force	4.0	3.7
4. Employment in non-agricultural modern sectors	4.1	4.4
5. Employment in manufacturing sector	3.5	3.5
B. <i>Changes in:</i> ^b	<i>Percentages</i>	
1. Proportion of non-agricultural labour in total labour force	44.1-67.1	45.0-65.0
2. Proportion of informal workers in non-agricultural labour force	30.6-28.9	33.6-20.2
3. Proportion of traditional rural workers in non-agricultural labour force	58.3-57.5	...
4. Proportion of secondary manual workers in non-agricultural labour force ^c	45.6-38.7	...
5. Ratio of non-manual non-agricultural workers to secondary manual workers ^d	75-97	...
6. Ratio of non-manual own-account workers to secondary manual workers ^e	40-39	...

Source: Latin America: A.1 to B.3: PREALC; B.4 to B.6: G. Rama (1984); United States: Tokman (1982).

^a Latin America 1950-1980; United States 1870-1910.

^b Non-agricultural labour force for same period as ^a; informal employment United States 1900-1920.

^c 1960-1980, although for some countries the period runs to 1970, suggesting that the coefficient did not vary in these cases. Secondary manual workers include artisans, skilled workers, and wage workers and day workers in industry, construction and electricity, gas and water.

^d For the same period as ^c. Non-manual workers include managers and public and private supervisory staff, professionals and salaried specialists, and office workers, sales staff and the like.

^e For the same period as ^c. Non-manual own-account workers include employers, professionals and freelance specialists, and own-account workers in commerce and trade.

ufacturing jobs in the United States during a period of relocation of labour at a rate similar to the one recorded in Latin America. Nevertheless, the creation of jobs in the modern urban sectors does not reach the United States level.

This great dynamism has not been sufficient, however, to reduce the high proportion of the labour force found in low-productivity sectors, in rural as well as in urban areas.⁶ Table 2 also includes two indicators which illustrate this point: the proportion of the agricultural labour force engaged in traditional activities decreases only from 58.3% to 57.5% between 1950 and 1980; and the proportion of the non-agricultural labour force employed in the informal urban sector declines only 30.6% to 28.9%. What we are seeing, then, is a very dynamic situation with respect to absorption of labour in the modern sectors, but one which at the same time is insufficient to wipe out or at least significantly reduce the traditional forms of employment.

Another trend displayed by the modern sectors must also be considered. The number of manual workers employed in the secondary sectors, who approximate to "the proletarian vanguard", is also tending to decline. Between 1960 and 1980 their representation in the non-agricultural labour force dropped from 45.6% to 38.7%. This drop in the proportion of manual workers contrasts with the maintenance of the proportion of informal workers and with changes in the ratio of non-manual workers (mainly supervisory and clerical staff) to manual workers in the secondary sectors, which climbs from 75% to 97% during the same period, and in the ratio of the latter category to non-manual own-account workers, which remains constant at about 40%. This shows not only that the proportion of wage earners is declining, but also that the composition of this group is becoming more heterogeneous, at the same time as industry is losing in importance to the tertiary sectors. The final outcome is that wage earners are undergo-

⁶The traditional sectors include own-account workers, except for professionals, unpaid family members and domestic servants. They should also include, in the case of urban workers, persons employed in small production units, but this information was not available.

ing changes which are increasingly restricting their capacity to lead the modernization process.

The causes of this process have been analysed elsewhere (García and Tokman, 1984). However, some of them must be briefly described. Firstly, the pressure of the labour supply in the non-agricultural sectors grew at very fast rates (a cumulative 4% annually). This being the case, the growth of modern employment should have been even greater, since this sector is only part of non-agricultural employment, with the effect of diminishing the proportion of informal jobs. Nor is this supply pressure unheard of in the international sphere, for, as can be seen from table 2, the growth recorded in the United States is only slightly lower. Secondly, the main causes are to be found in the nature of the modernization process in Latin America. In the agricultural sector the penetration of technological progress does not generate more jobs in the modern strata, nor does it destroy the rural economy. As we shall see below, this phenomenon is concentrated in one group of countries and also has characteristics of its own which make interpretation more difficult. In the non-agricultural sectors technological change is concentrated in limited strata and does not bestow its benefits on the mass of the population, since it is biased against jobs and retains the profits of higher productivity in those strata. This means that the intersectoral and intra-sectoral differences in productivity, greater than those in today's developed countries, do not diminish. Finally, in terms of resources, this makes the process of absorption of labour and the transfer of labour from the traditional to the modern sectors more expensive.

These long-term trends have been accentuated by the international crisis which has been affecting the region since 1980. Open unemployment in the towns grows from 7% to about 11% and affects wage earners to a greater extent than before; visible underemployment increases, employment in the modern sectors declines, informal employment expands and wages fall (PREALC, 1985). For this reason, the share of the more organized sectors in urban employment shrinks, and the position of wage earners, especially manual, grows even weaker.

II

Differences among countries

The Latin American model described on the basis of regional averages conceals the differences which exist among the countries. It cannot therefore be applied to each country separately unless the individual nuances are also taken into consideration. Accordingly, in this section we shall try to devise a classification, on the basis of a representative sample of countries, to enable us to see to what extent we can talk of a general model and what the most obvious differences are.

The limitations already described, which arise from the small number of indicators used, apply even more in the analysis of individual countries, for in the global analysis the differences tend to cancel each other out. Hence, the national situations are used in this study only as points of reference for the comparative analysis, rather than as subject-matter for individual evaluation. This latter task is a more ambitious and complex piece of work which remains to be done.

In order to determine the classification, the information available for 11 countries⁷ was subjected to examination. The same indicators were used as in the regional analysis: i.e., the average investment coefficient for the period 1950-1980, as indicator of the dynamism of the accumulation process; the coefficients of direct foreign investment to investment in machinery and equipment and of external savings to fixed investment, as indicators of the degree of dependence; and the ratio of public investment to total fixed investment, as indicator of the importance of the State in accumulation. Finally, several indicators of the evolution of the labour market were combined in order to identify changes in the proportion of secondary manual workers, taken in turn as indicator of the degree of proletarianization. For this purpose, variations were noted in the proportion of informal employment in the non-agricultural labour

force, in the ratio of manual workers in the secondary sectors to non-agricultural labour, in the ratio of non-manual workers to secondary manual workers, and in the ratio of own-account workers to secondary manual workers. For reasons of data availability, the changes in the last three indicators generally relate to the period 1960-1980. Only changes in the above-mentioned coefficients were used, and structural differences were not included in the analysis, since there are, for example, differing degrees of advancement in the process of urbanization. This consideration will be taken up later.

It can be concluded from this analysis that the regional model is applicable, with individual nuances, to the majority of the countries in question. These nuances relate to the various relationships considered in the analysis and represent differences within the region rather than variations in the several characteristics with respect to the United States model.

Table 4 contains a summary of the main characteristics which emerge from the quantitative data in table 3. Two large groups are distinguished: in the first the accumulation model offered for the region is applicable with some nuances; in the second, which is closer to the earlier interpretative regional model, the accumulation process displays absolute as well as relative dynamic insufficiency. The degree and the evolution of the process of proletarianization introduce variants in each group, and three sub-groups can also be identified if the main criterion of classification is the labour market rather than accumulation.⁸

1. *Countries with relative dynamic insufficiency*

The first group of countries is made up of Brazil, Colombia, Costa Rica, Honduras, Mexico, Dominican Republic and Venezuela, i.e., two-thirds of the countries examined. This group's character-

⁷Argentina, Brazil, Colombia, Costa Rica, Chile, Honduras, Mexico, Peru, Dominican Republic, Uruguay and Venezuela.

⁸This is the criterion used in earlier works. See, for example, García and Tokman (1984).

Table 3
PROCESS OF ACCUMULATION: SOME KEY INDICATORS, 1950-1980

	Dependence				Employment		
	Investment ^a	Direct investment ^b	Financing ^c	Privatization ^d	Degree of urbanization ^e	Informality ^f	Proletarianization ^g
	A	B	C	D	E	F	G
Argentina	19.5	5.7	2.9	68.1	72-85	4.1	-13
Brazil	23.3	21.5	11.1	81.5	39-68	- 3.1	- 3
Colombia	19.6	4.1	4.3	77.3	39-65	- 4.6	+ 1
Costa Rica	21.1	17.3	42.9	69.2	42-70	- 7.3	- 3
Chile	13.6	20.7	29.3	50.6	63-77	- 2.0	-16
Honduras	19.8	17.6	34.6	69.1	19-43	1.0	+17
Mexico	19.4	11.4	16.5	62.7	35-62	- 1.6	-19
Peru	15.7	10.2	14.3	74.8	36-58	-12.5	-19
Dominican Republic	18.6	20.7	21.8	67.6	28-59	- 2.8	-16
Uruguay	12.7	25.1	18.5	74.1	78-82	+ 4.5	- 8
Venezuela	30.1	6.0	-15.9	65.3	51-79	- 8.8	-17
<i>Latin America</i>	20.8	15.4	9.2	71.4	44-67	- 1.7	- 6.9
		(19.2) ^h	(14.2) ^h				

Source: A-D: data prepared from ECLAC information on national accounts; E-F: PREALC; G: Rama (1984).

^a, ^b, ^c and ^d as in table 1.

^e Share of the non-agricultural labour force in the total, 1950 and 1980.

^f Percentage-point changes in the share of informal workers in the non-agricultural labour force.

^g Percentage-point changes in the share of manual workers in the secondary sectors of the non-agricultural labour force. These figures refer to changes in the period 1960-1980, except for Colombia, Mexico, Dominican Republic, Honduras, Uruguay and Venezuela, where they refer to 1960 *circa* 1970.

^h Excluding Argentina, Colombia and Venezuela.

Table 4
ACCUMULATION AND THE SOCIAL PROTAGONISTS^a

	Relative dynamic insufficiency		Absolute dynamic insufficiency	
	Sub-group I ^a	Sub-group II ^b	Sub-group III ^c	Sub-group IV ^d
Accumulation	A	A	B	B
Dependence	A	A+	A	A
National bourgeoisie	B	B	B	B
Proletariat	M	R-M	B	R-B

Source: Table 3.

^a Includes Brazil, Colombia, Costa Rica, Mexico and Venezuela.

^b Includes Honduras and Dominican Republic.

^c Includes Argentina, Chile and Uruguay.

^d Includes Peru.

Notes:

A = high; B = low; both in comparison to the United States;

R = very high rural employment;

M = moderate decline;

M and B refer, in the proletariat line, to the decline in the group's importance.

istics are similar to those of the region as a whole, since the countries in it had a high investment rate, similar to that of the United States; they show heavy dependence with respect to foreign investment or external financing, or both; in them the State took a central role in the investment process and, finally, while they do show considerable progress in the modernization of the labour market, this is still insufficient in relative terms because the share of informal jobs in rural employment declines at a slow rate, and in the modern sectors there is a drop in the proportion of manual workers in industry and construction.

There are several kinds of difference within this group. However, one first distinction which must be explained relates to the degree of development and the structural situation of the countries in the group. By applying these two factors it is possible to differentiate the situation of Honduras and, to a lesser extent, that of the Dominican Republic from the others. These two countries, which are to a certain extent representative of the small and open economies in the region, have high investment levels combined with a heavier degree of dependence than the other countries in the group and a significant State role in investment. These are perhaps the cases which illustrate most clearly the lack of national autonomy.

Similarly, the analysis of the employment structure shows that both countries, despite a high rate of migration, still have a large proportion of jobs in the agricultural sector and, within this sector, in the traditional strata. In Honduras, agricultural employment still exceeded non-agricultural in 1980. For this reason, the formation of the working-class protagonist must be relatively weaker because of the predominance of the countryside. What is more, in the urban sectors informal employment takes a large share, one that expands in the case of Honduras between 1950 and 1980. The lack of weight of secondary manual workers is due to the fact that industrialization is still in its early stages, rather than to changes occurring as this process advances.

In the other countries differences can be noted in at least two aspects. The first is that the investment coefficient is particularly high for Brazil and Venezuela, and the second relates to

the degree of dependence, for Colombia and Venezuela show greater investment autonomy.⁹ The differences with respect to State participation in investment are insignificant,¹⁰ and the evolution of the labour market shows interesting similarities. The countries in this group have the region's highest rates of migration and growth of the non-agricultural labour force. The share of agricultural labour in the total falls between 25 and 30 percentage points from 1950 to 1980, and the non-agricultural labour force grows on average for the group at a cumulative annual rate of 4.8%. Their high investment rate also brought about the greater expansion of employment in the modern urban sectors, in particular in manufacturing industry, which recorded cumulative annual rates of 5% and 4.4% respectively. Similarly, in the majority of these countries the continuing process of agrarian modernization and transformation is reducing the proportion of the labour force affected by underemployment (PREALC, 1985).

However, despite this great dynamism, the share of the informal urban sector declines at only a slow rate and there is, moreover, a drop in the proportion of manual workers in the secondary sectors. Two observations must be made in this connection. One is that for Brazil, Colombia and Costa Rica¹¹ the decline in the proportion of manual workers is insignificant; and the other is that this decline coincides with an increase in the ratio of non-manual workers to manual and the maintenance or drop in the ratio of own-account workers to manual.

⁹The degree of dependence has a very limited definition here. It certainly does not show the true magnitude of the dependence or its effect on the degree of autonomy, since no examination is made of such variables as the importance of foreign markets, the degree of trade specialization, the determination of trade prices, the external debt obligation, etc.

¹⁰Paradoxically, Brazil is the country with the lowest public sector participation in investment. However, apart from problems of measurement, the significant presence of the State in this country takes indirect forms which do not show up in the indicator used. These include lending, incentives and agreements with Brazilian businessmen for the implementation of joint projects.

¹¹Information for Mexico is available only for the period 1960-1970, which shows a decline in the proportion of secondary manual workers. According to the indirect data available for 1970-1980, the country's industrialization continued to advance rapidly, and a smaller decline in the indicator used may therefore be expected.

This indicates that three tendencies were present: intense industrialization, as can be seen from the rapid growth of manufacturing jobs already mentioned; technological changes in industry, involving the replacement of manual work by non-manual; and lastly, a tendency towards tertiarization but, in contrast to what happened in other countries of the region, predominantly modern. The first tendency partly offset the other two and prevented an even greater drop in the proportion of secondary manual workers.¹²

*2. Countries with relative
and absolute dynamic insufficiency*

The second group is made up of the Southern Cone countries (Argentina, Chile and Uruguay) and Peru. They are more consistent with the present interpretive model in the sense that they show a dependent and insufficient process of accumulation, even in absolute terms. They also display a clear weakness in the formation of pure social protagonists, which is indicated both by the magnitude of State participation in investment and by the sharp relative decline of secondary manual workers, which also takes place in absolute terms during the last decade in Argentina and Chile (Lagos and Tokman, 1983).

Nevertheless, as in the previous group, there are dissimilarities among the countries in this group as well. The first concerns the structural features which distinguish Peru from the other countries. Peru still has a high proportion of its labour force in the agricultural sector and, within this sector, in traditional agriculture. Moreover, despite the rapid migration rate in the period 1950-1980, traditional agricultural jobs increase their share in the sector from 62% to 75%. This development shows up in a slow decline in underemployment and, as in the cases of Honduras

and the Dominican Republic,¹³ the size of the proletariat is kept in check by the high proportion of agricultural workers, to which is added in this case inadequate expansion of the modern sectors as a result of insufficient accumulation. Thus, the average investment coefficient for the period 1950-1980 is only 15.7%, and industrial jobs increase at a cumulative annual rate of 2% during this same period. Consequently, not only is there a drop in the proportion of secondary manual workers, but rapid spurious tertiarization also occurs. In 1960 there were 57 non-manual own-account workers for every 100 secondary manual workers, whereas in 1981 this ratio was 74 for every 100 (Rama, 1984).

The three Southern Cone countries are very like each other. In particular, they are the most urbanized countries in the region, a characteristic which they already had to a large extent in 1950. They also industrialized earlier than the first group of countries, and this is one of the features of more modern economies. However, there are some differences between Argentina on the one hand and Chile and Uruguay on the other. Argentina has a higher investment coefficient, concentrated in the period 1960-1980, and a much smaller degree of dependence.¹⁴

Apart from these differences, the three countries have common features which, in our view, constitute the major reason why they diverge from the interpretation of the Latin American model. One such feature is their very low investment. Chile and Uruguay have an average investment coefficient for the period 1950-1980 of about 13%, clearly lower than the regional average of about 21% for the same period. Their investment is dependent on the exterior. In Chile, for example, direct foreign investment between 1950 and 1960 accounted for 65% of in-

¹²An idea of the differing effect of technological progress in this century can be gained from observation of changes in the proportion of manual workers in the total labour force in the United States. Thus, between 1900 and 1920 there is a drop of two percentage points, or of one percentage point if only wage earners are considered. On the other hand, in the 20 years from 1950 to 1970 the proportion of manual workers drops by almost ten percentage points.

¹³In earlier works we considered Peru together with such countries as Bolivia, Ecuador, El Salvador and Guatemala, a group characterized by slow progress, and in some of these countries even by a deterioration, with respect to the labour market situation (PREALC, 1985).

¹⁴The comment in footnote ⁹ concerning the limited definition of the degree of dependence also applies to Argentina, in particular with respect to the large financial obligations for future payment resulting from its foreign debt. As far as investment is concerned, the coefficient for the period 1950-1960 was 16%, as against 19% for the region as a whole.

vestment in machinery and equipment, and external savings accounted for 55% of investment between 1970 and 1980.

National investment is very low and, what is more, it is effected directly by the State. Between 25% and 50% of investment is public. As there was little investment, job generation was slow. Employment in the modern urban sectors grew at a cumulative annual rate of 1.8% between 1950 and 1980, and industry increased its share of jobs by only 1.4% a year. Accordingly, although these countries had very moderate rates of growth of the non-agricultural labour force, a result of their advanced state of

urbanization, the urban economy was unable to absorb productively the new entrants in the labour market. Argentina and Uruguay experience growth of the informal sector, and in Chile open unemployment and public emergency-jobs programmes expand. There is also a sharp decline in the proportion of manual workers in the secondary sectors, a trend which becomes very marked in the second half of the last decade as a result of the neo-liberal economic policies pursued. Lastly, the capacity of wage earners to exert pressure weakens and does not play an important role in the modernization process.

III

Conclusions

To end, we should like to sum up our conclusions. The most important is that the main limitation on the accumulation process in Latin America as a whole lies in the lack of strong social protagonists capable of ensuring independent, sustained and equitable growth. The reason for this is that accumulation takes place in a context of dependent international involvement and a large number of the important investment decisions are taken abroad, while at home the State must take good the lack of a national business system capable of taking the lead in the process. Similarly, the use to which the resources are put and the region's structural characteristics denote a relatively weak job-creation capacity in the modern sectors and, in particular, a steady decline in the role of wage earners, especially manual workers in industry and construction.

The process of accumulation in the region

has been dynamic, but insufficient. The high investment coefficient, similar to that of the United States, shifts the emphasis of the interpretation to the factors of labour supply and the low rate of creation of modern jobs resulting from the nature of technological change in countries in which there is a high degree of inequality in the ownership of and access to productive resources, capital in particular.

It is clear that the situation in the region differs from country to country. Nevertheless, the situations which determine the regional average do predominate. On the other hand, the countries which combine a lack of absolute dynamism in the accumulation process with dependence and inability to produce social protagonists are fewest in number. All the same, their influence on the formulation of interpretative models has been very strong.

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The international crisis and Latin American development: objectives and instruments

*François Le Guay**

After outlining some of the most harmful effects of the present crisis, the writer describes two theoretical ways out of it: the liberal capitalist and the social democratic. Although the second way seems to him more propitious for the future development of the countries of Latin America, he argues that even this way will be inadequate unless it is accompanied by the establishment in these countries of an independent and self-sustained pattern of development.

During the 1970s, both within and outside the region, many theoretical and practical ideas were elaborated with respect to this new pattern of development, ideas which were pushed aside by the revival of liberal economic doctrine. These ideas remain valid in the writer's view, so that the problem now is not to create a new model but to incorporate an operational element into the notion of independent and self-sustained development, especially in certain key areas such as food self-sufficiency, the introduction of an increasingly independent industrialization process and the development of the industrial and farming sectors.

In seeking to introduce this operational element into theories for the transformation of the prevailing style of development, it is also necessary to confront the question of planning, which should be capable of making a more effective contribution to the orientation of the process as a whole. Foremost among the aspects of planning which need improvement are the integration of time horizons, the meshing of global with sectoral planning, and the development and consolidation of the processes of social harmonization.

Finally, the writer asserts that neither was there any shortage of ideas, of research or even of suitable institutions in the field of integration at the subregional as well as the regional levels; the causes of their shortcomings and failures should rather be attributed to the lack of political will to put them into effect, as was demonstrated by the scant progress made with industrial and energy integration.

*Professor at the University of Grenoble and the Institute of Advanced Latin American Studies at the University of Paris.

I

Some reflections on the effects of the crisis

The most striking manifestation of the crisis—the extraordinary level of indebtedness of the majority of the countries—was the focus of international attention for many months. After the meeting of the International Monetary Fund in September 1984 there was a relative silence on the matter. According to official sources, the production of *ad hoc* solutions for each case (the case of Mexico is the prime example) smoothed over the problem, and the international financial system survived the major danger without the need for far-reaching structural changes. This view appears to me excessively optimistic. Even with respect to the purely financial aspect it seems to me to be very difficult to argue that the present situation, with its enormous net financial flows from the countries of the South to the countries of the North, can be maintained for many more years.

More important than the financial aspects, I think, are the actual effects of the crisis on the economic systems and social and political structures of the developing countries. Taken as a whole, Latin America has passed through three years of serious recession (1981-1983), and the growth of 2.5% in the gross product in 1984 does not even equal the population growth. The average standard of living has been put back 10 to 20 years, depending on the country.

What is even more serious is that the crisis has profoundly affected production systems. In some countries and in some sectors of industry and agriculture it has led to the abandonment of productive capacity and to technological backsliding and dispersal of skilled labour. This deterioration will make it very difficult to achieve rapid growth in certain sectors, even if the demand situation improves.

The social impacts have also been very severe and will continue to be felt for a long time. Owing to the fragility of social security systems, unemployment does not just mean a decline in purchasing power but a sharp plunge into poverty. The hunger in the cities and in the countryside and the deterioration in health, housing and other public services are having irreversible effects on the people's health. In short, the crisis

has exacerbated dependence, social and economic disintegration, and inequalities among regions and social groups —familiar features of underdevelopment. In other words, it has accentuated the pernicious elements in the existing patterns of development.

In this respect the crisis has paid little heed to the categories in which it was fashionable a little while ago to classify the countries of the Third World: oil exporters, newly industrialized countries, relatively less developed countries. All are suffering serious structural damage. If there are differences among them, it is not according to the categories mentioned above, but according to their degree of integration in the economic world. In Latin America the most seriously affected countries include Argentina and Chile, which pursued ultra-liberal policies of indiscriminate openness to the world. In both these countries there are signs of genuine de-industrialization, with the destruction of whole sectors which in some cases had been established many years ago.

These effects have already been extensively analysed. On the other hand, much less attention has been given to a point which, to my mind, is very important: the effects of the crisis on the international political dialogue and on the development of ideas. The capacity of the developing countries to make themselves heard in the world is strikingly weak, when compared to the period 1973-1980. The collective voice of the Third World is no longer heard, as if governments had been paralyzed by the fear of prejudicing the possible solution of their individual situation in the eyes of the creditor countries and international financial bodies. But much could

be said about the responsibilities implied by the present situation and about the permanent validity of the solutions favoured by the international community in the 1970s. The crisis has demonstrated not that these solutions are obsolete but, on the contrary, that the need to put them into effect is even more urgent.

But this paralysis has affected not only the political dialogue but also the development of thinking in the economic, social and political fields. Even academic and intellectual circles seem inhibited by the arrogance of the neoclassical "new orthodoxy". It is paradoxical that those most responsible for the situation are managing to impose on their victims, in addition to the practical consequences of the crisis, an acceptance of their view of what happened.

From 1984 some more positive signs began to appear in this rather bleak picture. At the political level, the most important was the holding of a series of meetings, beginning in January with the Latin American Economic Conference convened at Quito by the then President of Ecuador, Dr. Osvaldo Hurtado. The Declaration and Programme of Action adopted at that Conference stressed the need to find collective political solutions to the debt problem, with a view to spreading the costs of refinancing more equitably. The Quito Declaration also underlined the need to go even further and promote cooperation among the countries of Latin America in the search for longer-term structural changes in trade, agriculture, industry, etc. This marked the revival of a broad debate on the basic issues which will determine the region's future and its integration in the outside world; and with it ECLAC resumes its one-time role as an intellectual stimulus and as a place for the exchange of ideas.

II

The prospects for overcoming the crisis in the North and at the international level

The documents which have emerged since that Conference properly emphasize that strategies for Latin American development must take into consideration what is likely to happen in the world system, which will have an impact on the situation in the region in many ways. It appears essential, therefore, to essay an exercise in international forecasting, at least conceptually, with a view to discussion of ways in which this line of reasoning might be expanded and invested with a quantitative structure.

At this point I will limit myself to a critical presentation of two hypotheses about the solution of the crisis which, I think, sum up in broad terms the general thinking current in the countries of the North.

These hypotheses are not more or less probable forecasts of what is going to happen in the countries of the North up to the year 2000. They represent merely an attempt to state coherently some possible directions that this evolution may take, in order to provide the authorities in the countries of the South with a reference framework for study of their own development strategies.

Before presenting the two hypotheses I must emphasize that there is no guarantee that the international system will find solutions in either of them. It is possible that the present contradictions will not be overcome in any lasting way, and that phenomena such as worker redundancy and imbalances among sectors and regions will persist or that there will be, perhaps, a new recession. The situation in Europe tends to indicate that such a development may take place, and that the possibility of another slump in the United States should not be dismissed. If this happens, divisions among the countries of the North, protectionist trends and international tensions aggravated by the high level of arms expenditures may persist for a long time yet.

In such circumstances all countries, and even more so the developing countries, would undergo a long period of recession and would have

to devise suitable survival strategies. Without wishing to underestimate these possibilities, I think it is more interesting to examine solutions to the crisis that have in fact been applied with some degree of success. This will now be done by means of a summary presentation of two hypotheses.

1. *First hypothesis: overcoming the crisis by the traditional route of liberal capitalism*

The starting point of this hypothesis is the basic assumption that the Reagan Administration's economic policies have already brought the United States out of the crisis. The introduction of the most modern technologies in the main industries is making new advances in productivity possible after a long period of stagnation. The relaxation of the regulations in a number of sectors and the dismantling of the rigid systems of the "Welfare State" are injecting enterprises with a new energy. Non-inflationary gross product growth and a considerable reduction in underemployment are thus being achieved.

According to this assumption, the continued application of these policies will ultimately result in a more thorough dismantling of the "Welfare State". The market's sphere is being extended to social activities which were formerly the responsibility of the State (health, education, communications, postal services, and possibly even security services). The scope of capitalist accumulation is thus being expanded, and high-productivity sectors are being integrated with mass-consumption sectors. New patterns of consumption are emerging and gradually gaining ground, providing reserves of growth for a long period to come. This model of growth is accompanied by enormous inequalities among regions and social groups.

In this hypothesis, without the counterweight of the State and society, the American transnational corporations will strengthen their power, expand their field of action and increase

the number and efficiency of their operations. The American State encourages these activities in the domestic market and supports them overseas.

The stable and lasting realization of this scenario in the United States presupposes that solutions will be found to the problem of the deficits of US\$ 200 billion in the federal budget and US\$ 100 billion in foreign trade which the country now faces; clearly, this goal will not be easily achieved.

At the international level, the implementation of this theory requires that the growth model and consumption pattern devised in the United States should be extended to the other industrialized countries. It is likely that Europe will find it very difficult to make such changes, for this would mean the *de facto* dismantling of the traditional social security systems. Such a development would provoke tensions and conflicts which would have an adverse effect on the competitiveness of European industries and on their influence and presence in comparison with the United States and Japan at the world level and indeed in the European market itself.

According to this theory, Japan would be a privileged partner of the dominant American pole, although the introduction of the new model would run up against difficulties of a cultural kind. Some South-East Asian countries might take an active part in the American-Japanese model, and the centre of gravity of the world economy would shift increasingly towards the Pacific area.

In this situation the international system functions without major institutional changes. Transnational bodies have a role of limited importance. The monetary system is based on dependence on a strong dollar. In short, it is a world existing under the sway of the American transnationals backed up by the political power of the United States.

In the next section consideration will be given to ways in which the developing countries can devise development strategies on the basis of the two hypotheses. It is clear that under the first assumption they have very little scope of action to resist economic and political domination. The prevailing pattern of consumption would continue to spread to the social groups that have adequate incomes. The South's production sys-

tem would participate in the international system in the sectors and countries which the transnationals consider advantageous for the maximization of their own earnings at the world level. Basically, this would mean the traditional sectors of mining and agriculture and certain basic or labour intensive industrial sectors which could be incorporated in the international division of labour. It seems inevitable that this scenario will produce more inequalities and imbalances among the countries of the Third World and, within each country, among the sectors incorporated in the world market and those left outside it.

2. *Second hypothesis: overcoming the crisis by the social democratic route*

It is assumed here that the policy outlined in the previous scenario will reach a dead end after some years even in the United States, and that systems will be sought which offer a better balance between a flexible capitalism in which the transnationals remain strong and States of the social democratic type. This would require new forms, distinct from the traditional "Welfare State", capable of meeting the demands of society with efficient public services, achieving a degree of redistribution of income among regions and social groups and finding innovative solutions to the problem of underemployment. The consumption pattern would be somewhat different from the one described in the previous hypothesis: there would be greater development of collective services and a different division of time between work, community like and leisure. Several different patterns might in fact be envisaged, some making relatively large use of traditional goods and services, others being more innovative in that the development of society outside the market would arrive at growth models close to "zero growth".

At the international level, several variations on this theme can be envisaged, depending on the geographical spread of this type of solution. One would be its extension in various forms to all the countries in the North, with shared and balanced management in the international system. Another variation would imply a situation of greater conflict in that Europe would adapt more

easily to systems close to its traditional social organization, while the United States would be slow to find a suitable solution and would remain in a state of crisis for a longer period.

In any event, these models entail the introduction of counterbalancing forces (the State and society) into the market economy. At the international level, this would mean strong international institutions capable of controlling the system in the monetary, financial and trade fields. In addition, the necessary conditions would be created for the application of measures similar to the ones proposed in the Brandt Report and in a number of United Nations resolutions: organization of the commodities markets, systems of preferences, increases in the transfer of technology, intensive and widespread aid, and industrial restructuring at the world level by international agreement.

The question that must be asked here is whether, even on the apparently very optimistic assumption of the widespread introduction of this kind of system, this would mean genuine development in the countries of the South. My personal opinion is that, unless it is accompanied by the implementation of very determined measures to promote independent development by those countries themselves, this type of international system, although more beneficial than the system described earlier, will not in fact attain the objectives set by its advocates. There is a very big risk that an international strategy of this kind might produce heavy dependence and greater inequalities among countries and among social groups. Selective integration in the world market might lead to increasing internal dislocations, marginalization and proletarianization in the larger part of the Third World.

I think that it is appropriate in this connection to dwell on some of the solutions to the crisis

based on schemes for a massive increase in North-South financial flows, sometimes described as a new Marshall Plan for the Third World. These schemes emphasize North-South interdependence and seek to solve at one and the same time the problems of unemployment in the North and the lack of investment in the South. Before embarking on such plans it would be worth analysing what happened in the latter years of the 1970s and the first years of the 1980s. The abundance of liquidity (partly petrodollars) in the North combined with the recession to result in an increase in North-South financial flows at much higher levels than in the proposed Marshall Plans. This produced in fact a sharp increase in trade flows (luxury goods, armaments and some capital goods) and was very useful for the recession-threatened industries of the North. But for the South the abundance of funds meant competition from imported goods for their national industries, mammoth projects, economic and social disruption and enormous debts. Clearly, interdependence was a one-way street.

The history of recent years invites us to reflect on the shortcomings of solutions based on financial transfers. The development difficulties encountered by the countries which have the use of resources from income (income from oil or other sources) offer material for reflection along the same lines.

It is to be hoped that the present analysis of the situation will contribute to a clearer awareness that international financing, which for many years has been the centrepiece of the whole development debate, is in fact a two-edged sword. In this connection it is worth mentioning the news that the World Bank is going to have to reduce the level of its lending in 1985 owing to the lack of demand from the developing countries. It will be interesting to see whether this trend continues in the future.

III

In search of a new model?

It may be concluded from what has been said above that the developing countries need a new pattern of development or, to use a term which has been current in Latin America in recent years, new styles of development. I do not wish at this stage to engage in a controversy on the point touched on by Enrique Iglesias in his presentation at the ECLA meeting in Lima in 1984: whether it is too early to seek an economic model for Latin America (Iglesias, 1984). The analysis of the crisis and the exploration of the possible effects of the hypotheses described above offer instead reasons for re-examining the ideas developed in the 1970s which, to my mind, have lost none of their validity. The neoliberal policies pursued under the "new orthodoxy" have demonstrated their harmful effects. They have exacerbated inordinately the structural defects of dependence, inequality, economic and social disruption and environmental damage which are characteristic of underdevelopment.

Although the severe restrictions associated with indebtedness create more difficult conditions, the need to extricate the developing countries from the negative influence of the international market now seems more evident than ever before. The crisis has placed on the agenda the search for strategies of independent, self-sustained development. These concepts created in the 1970s by Third World researchers became part of international thinking and debate in the middle of that decade. They found public expression in papers issued by the Hammarskjöld Foundation or at the Cocoyoc meeting. They also appeared in official documents of the United Nations system resulting from, for example, the sixth special session of the General Assembly (May 1974), the Lima Conference on industrialization (March 1975) and the ILO Conference on basic needs (May 1976).

The events of the following ten years have not rendered invalid (quite the contrary) the conclusions reached at that time, such as, to mention just one of them: development is something distinct from mere economic growth, but it implies structural changes. These changes will not be

brought about by the interplay of market forces alone; deliberate action to redistribute production, risk and power is needed at both the national and the international levels.

In the field of industry the international community adopted a quantitative target for the restructuring of the sector at the world level and decided to set up a permanent system of consultation, with a view to the adoption of measures capable of achieving this restructuring.

Development implies that basic needs should be satisfied as a matter of priority and that appropriate policies should be pursued for the redistribution of income.

The essential problem with these development strategies is not that they were mistaken but that they were not put into practice. Even in countries where these principles were proclaimed as the theoretical basis of national policies many contradictions may be noted between the principles and the measures actually taken.

Today, likewise, the countries of the Third World are trying to win a degree of independence that will let them decide, in accordance with their own development objectives, as to their patterns of consumption, the goods they produce, the choice of technologies, their investments and the utilization of their financial capacity. This is possible only if at the same time they have a certain amount of autonomy as to their involvement in the international system and the determination of their trade, financial and monetary policies.

Such strategies might appear utopian in the present circumstances. The majority of the countries will run up against insuperable obstacles if they try to apply them in isolation. But they might be more feasible if South-South cooperation were to be organized in agriculture and industry and if suitable institutions were established for trade, financial and possibly monetary regulation. Clearly, the international context may be favourable to a greater or lesser degree to the implementation of strategies of self-sufficiency. For example, of the ways out of the crisis described in the preceding section, solu-

tions of the second type would make independent development a less difficult undertaking than would solutions of the first type.

In any event, to my way of thinking the present problem is not to define a new model but to incorporate in the concept of self-sustained development an operational content that can take material shape in specific decisions or clearly defined measures of economic policy. The content of these objectives and their interrelationships will obviously have to differ from one country to another. In general terms, the most important key points, the nucleus of decisions on which the effort, the measures and the action will be concentrated must be sought out in each individual case. By way of illustration, I would mention certain key points which appear to be of importance in the majority of the countries of Latin America:

—Achievement of food self-sufficiency. This point relates to the objectives of breaking free from dependence, modifying patterns of consumption, meeting essential needs, etc. It concerns the rural sector, which would have to be thoroughly restructured. It also affects foreign relations (position on world agribusiness, international co-operation), industrialization strategy, countrytown relationships, etc. To give this objective maximum priority, not just on paper but by setting in motion a concrete process with targets and dates, could mark a fundamental redirection of economic and social policy as whole;

—Definition of the process of industrialization starting with an indigenous nucleus (*Fajnzyl-*

ber, 1983) and proceeding via a progressive dynamics of increasing independence. This implies not only production targets and investment programmes but also policies and institutional systems to control the import of technology (cf. Mexican policy in the 1970s and decision 24 of the Andean Pact), research and technical training institutes, capital goods production projects, etc.; it also means the horizontal integration of all sectoral activities;

—Integration of modern technology enterprises with traditional enterprises in the farming and industrial sectors. The deterioration in this integration is a major cause of underdevelopment, social and regional inequalities and the transformation of modern enterprises into “enclaves” of the international system. Progress in this area will require not only the adoption of domestic measures for each sector but also strict control of external relations, greater concentration on the domestic market, price control, the adoption of fiscal incentives, training programmes, etc.

In citing these examples it was not my intention to embark on an analysis of each of the topics but to indicate that they are not of merely sectoral scope, requiring fragmented attention. Each of them combines external with internal elements, horizontal with vertical aspects, and sectoral measures with global and institutional ones.

The desire to inject a concrete content into objectives which often have remained fixed in the past from the conceptual or even rhetorical standpoints entails contemplation of new forms of planning and co-operation.

IV

New forms of planning (Le Guay, 1984)

Planning, which thrived in the 1970s in both Europe and Latin America, has since gone through a long period of decline. It may seem paradoxical to wish to revive it in much more difficult times, when uncertainty about the future is at a peak and governments are under continual pressure to take urgent, very short-term decisions. I think, however, that while times of crisis make things more difficult, they also

make them more necessary. Since governments need to solve the immediate problems and at the same time devise new strategies, they are compelled to conceive planning systems with renewed institutions, processes and methods.

I shall offer some suggestions in this connection, based on a critical examination of the methods devised in earlier periods. Clearly, these methods were not entirely in tune with the logical

conclusions that flow from the proclaimed principles concerning the nature of underdevelopment and the strategies needed to overcome it. Many of the plans did not give a concrete content to the declared principle that development is something more than economic growth; and in fact the objectives were limited to the achievement of the fastest possible growth.

The technical instruments used mostly suffer from the same limitations: the models of optimum global effect relate to the national or sectoral levels; the cost-benefit analyses of the projects are aimed at maximum product output, i.e., an arithmetic and not a structural goal.

In order to overcome this dichotomy, it is not enough to include in the objectives figures for gross domestic product, production rates or investment levels. A practical content must be given to concepts such as "styles of development", the theory of which has made progress in Latin America in recent years. This is to say that there is an interrelationship among the different aspects of a strategy: consumption patterns, income structure, sectoral integration, choice of technology, external relations and cultural identity. Thus, the planning system, the process of compilation of the plans, the technical tools used and the planning institutions must be organized accordingly.

And so, it is a question of conceiving and constructing a planning system which effectively helps the process of making decisions on the complicated matters mentioned above, incorporating multiple objectives which cannot readily be traded off against each other; moreover, this system must be flexible, capable of rapid adaptation to the sudden changes that can affect domestic or foreign conditions. I will limit myself to some thoughts about the characteristics of such systems.

1. *Integration of time horizons*

For a long time planning systems gave priority to the compilation of medium-term plans. What is needed today is planning that is at once more strategic and more operational, i.e., that achieves a closer integration of the structural objectives, which are usually of long-term effect (15 or 20 years), with decisions involving the inherent measures of economic policy, which are taken today.

To this end, I think it important to extend the planning tools in both directions: towards the long-term and towards the short-term.

In the long-term this means devising forecasting tools capable of making projections to the end of the century on the state of the world system and the consequences of national and regional strategies. This includes quantitative forecasting, which is the only means of ensuring a minimum degree of consistency in the evolution of various magnitudes. That does not mean that the long-term plan should have the same categories and the same details as the short-term one.

These forecasting tools should facilitate the study of the consequences of alternative strategies in the light of a number of different assumptions about the future of the international system. It would be a great help for the purposes of studying the effectiveness of the exercise and the possibilities for co-operation among the countries of Latin America if the various countries could agree on common assumptions about the international situation. It would then be possible to compare strategies and collate their points of compatibility. This would be a first step, taken bilaterally or regionally, towards the harmonization of strategies.

In parallel with extension towards the long term it is very important in the present circumstances to devise tools for the permanent implementation of the plans which can adapt swiftly to the changes that occur in the international or domestic situations. Experience with annual operational plans (sometimes also called economic estimates) is very helpful in this connection, although in the present situation other difficulties do arise. Very sudden changes can take place in inflation rates, the balance of payments, the level of unemployment and interest rates; it is very difficult, therefore, to assess consumption performance, savings, investment, and the production decisions made necessary by these changes.

Various practical consequences may be inferred from the foregoing:

—The need for a much more dextrous system for the collection, dissemination and analysis of the economic information required for the decision-making process;

—The creation of forecasting tools suited to

situations which are very different from those of the past removes much of the validity of models based on the relations of historical behaviour.

—The importance of closer co-ordination among the institutions which participate in economic-policy decisions and, accordingly, in the preparation of the annual plans which assist that process (in particular, planning and financial bodies and central banks).

2. Integration of overall planning with sectoral planning

In traditional planning methods the interrelationship between overall planning and the planning of the various sectors was often weak both conceptually and with regard to institutions. Overall planning provides a fairly rough outline of the general demand structure. In fact, the planning of each sector is carried out almost independently in each of the ministries concerned; in the highly intensive sectors the big enterprises have an important role, and the national plan is rarely a joint and more or less co-ordinated presentation of the outlook for producers.

An instructive example of this is provided by the energy sector, in which planning is sometimes limited to the oil and electricity subsectors. In many countries, on the recommendation of the World Bank, energy-planning exercises are carried out outside the context of overall planning.

Inevitably, these sectoral or subsectoral plans are concerned only with maximizing the partial product, in accordance with criteria of maximum output applicable to a single sector or sometimes to the enterprise responsible for a single subsector. Thus, the lack of integration of Latin American economies grows worse, and harmful external effects are multiplied. As we saw earlier, the objectives of genuine development do not relate to one sector alone but to several sectors, and to the links among them—a factor which should be taken into account in sectoral planning methods and in the organization of sectoral planning institutions. The studies undertaken and the decision-making process should enable a choice to be made from among alternative solutions which, while still offering promise from the standpoint of the sector concerned, also have

indirect positive effects on the general objectives and the development of other sectors.

To take the example of energy planning a step further, the planning methods would have to avoid a repetition of the mistakes made earlier in many countries, when energy systems were constructed which were unsuited either to the users' needs or to the countries' resources. This would mean including in the planning process decisions on the use and management of the energy and not just on the sector's production and investment. It would also mean counterbalancing the present dominant role of oil in countries which do not have their own resources by promoting other national energy sources.

Only methods which go beyond optimization models or cost-benefit analyses can facilitate rational decisions on such complex problems as, for example, electrification as the basis for the development of a national capital goods industry, the study of the positive and negative effects of a programme for the use of certain crops for energy (Proalcohol), and overcoming the harmful effects of oil income on the social and economic systems of the producer countries, etc.

3. The harmonization process

Planning in Latin America has been criticized for being too bureaucratic and producing plans drawn up without consultation of the social groups concerned, plans which therefore have little practical influence on the subsequent operation of economic policy.

The happy revival of democratic government in the majority of the countries offers an opportunity for renovation of planning systems and incorporation in them of a machinery for consulting social groups. This is even more necessary in the present difficult situation, when the mistakes of the economic policies of the past—and their most visible consequence, debt—are going to mortgage the future development of the countries for many years. However, if governments are to devise long-term, independent strategies and defend them against external pressures, they must have the broadest possible domestic support. The compilation of medium- or long-term national plans by means of a process

of consultation and agreement can help a country to find a point of convergence of different

aspirations and alleviate conflicts which seem insuperable in the short term.

V

New forms of co-operation

As in the case of planning, the theme of co-operation among developing countries, and more specifically of regional co-operation in Latin America, at one time awakened great hopes, which were followed by many disappointments. It is not possible in this paper to analyse the advances and retreats of the various regional and subregional schemes in Latin America. Political developments in some of the countries of the continent and indeed the wave of ultra-liberal policies certainly had harmful effects. The South-South co-operation effort loses much of its purpose if development is sought by means of indiscriminate involvement in the world market. Sometimes even foreign enterprises can have more of the strength and flexibility needed to take advantage of the favourable provisions of certain treaties of integration.

On the other hand, if the road taken is the one that leads to self-sustained development, regional and subregional co-operation regain all their importance. There is a wealth of legal texts, institutional structures and accumulated experience at both regional and subregional levels. It would be very useful to make a historical and critical analysis of the various schemes and identify the causes of their failure with a view to the proposal of innovatory measures which will make it possible for new strategies to be put into practice. At this stage I would advance one single idea: there was no shortage of concepts, ideas, texts or studies, or even in some cases of institutions and qualified staff; what was lacking were development strategies capable of taking advantage of those elements. The instruments of co-operation among countries lose their effectiveness unless the countries decide at the same time to establish common positions towards the outside world. I will give just one example: the celebrated decision 24 of the Cartagena Agreement. It contains all the elements for effi-

cient industrial co-operation that extends beyond the trade and financial aspects and aims at common industrial and technological policies. Its defect lies not in its conception but in the fact that it has never been put into practice. It might regain its relevance if the member countries agreed to determine jointly their mode of integration in the international market and their long-term development plans. With regard to the Latin American region I would simply like to mention two documents which concern important sectors and which might also prove to be useful tools in the present circumstances.

In the case of industry I would recall the Latin American Conference on Industrialization, attended by industry ministers at Mexico City in November 1974. In accordance with the recommendation of the sixth special session of the United Nations General Assembly and looking forward to the Lima Conference which took place a few months later, the Conference adopted a quantitative objective for Latin American industry within the world framework and affirmed, *inter alia*, the principle that the uncontrolled operation of market forces is not the most suitable means of promoting industrialization and that agreements on industrial co-operation between governments and enterprises should be worked out with assistance from the United Nations system.

At the regional level, too, the Conference proposed objectives for harmonization and co-ordination of industrial policies, for specialization and complementary arrangements, and for the strengthening of existing integration plans and the search for new forms. It resolved to adopt measures for the harmonization and co-ordination of investment policies (national and foreign), technological development, scientific and technological co-operation, and protection of export prices. It approved the principle of Latin American transnational enterprises, agree-

ments on complementary arrangements and a regional imports system. It commissioned the regional organizations, especially ECLAC, to evolve study and promotion activities to contribute to the implementation of the measures adopted.

After the passage of ten years it must be admitted that little has been done to give effect to these excellent ideas. Governments were unable to invest the principles which they themselves had proclaimed with a concrete political content. Neither ECLAC nor SELA, a recent creation at the time, took advantage of the favourable circumstances and the clear mandate they had been given to undertake determined action to promote industrial co-operation.

The difficulties resulting from the crisis, provided that an adequate analysis is made of their causes, may stimulate the Latin American countries to adopt new styles of industrial development, starting from the indigenous nuclei which exist in several parts of the continent. If that happens, industrial co-operation activities along the lines devised ten years ago can multiply the opportunities and accelerate the process.

The energy field also possesses possibilities for co-operation which have not been fully utilized. One very interesting initiative is the San José Agreement between the oil-producing countries (Mexico and Venezuela) and the oil-importing countries of Central America and the Caribbean. This Agreement links the supplying of oil to the financing of development projects, especially in the energy field. Without embarking on a detailed analysis of the implementation of the Agreement, it must be noted that despite its positive points it has recently shown a tendency to slow down. It should also be noted that the latest renegotiation has resulted in conditions less favourable to the recipient countries.

The Latin American Programme for Energy Co-operation (PLACE), approved in 1981 by 25 countries within the framework of OLADE, is more ambitious. Its aim is to develop among the

countries a common strategic view of the provision of energy, promote unified and lasting actions and encourage co-operation in all areas of scientific and technological capacity, prospecting and exploration, and training. PLACE seeks to go beyond the exchange of information, the conduct of joint studies and research, and technical co-operation; it is proposing the establishment of joint industries, in particular a Latin American capital goods and equipment industry for the energy sector.

After three years in existence, PLACE's achievements have been somewhat disappointing. Projects are under way on only a limited scale. For the most part they consist of studies, training and technical assistance. The concrete projects concern individual countries and are not helping to develop joint productive capacities in several countries together. It has to be asked whether since adopting the programme, governments have really demonstrated the will to put it into operation. But it may also be noted that the OLADE secretariat has devoted a major effort to technical and methodological work (such as energy balances, methods of forecasting supply and demand, training seminars, etc.), fields in which several research institutes are already operating efficiently in Latin America. Meanwhile, the political task of promoting joint projects and enterprises among member governments has been neglected. Nevertheless, these possibilities remain open, and for many reasons the energy sector is one which lends itself well to rapid progress in the matter of Latin American co-operation.

This paper expresses the conviction that despite the predominance of the current ideology—the new orthodoxy—the time is very ripe for some deep thinking about a new stage in Latin American development. The presence of democratic governments in the majority of the countries and the search for a new direction that has become evident, particularly since the Quito meeting, testify to this possibility.

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The Revival of American Hegemony

*María da Conceição Tavares**

One of the most striking features of international economic and political relations in recent years has been the revival of United States power in the Western world. After a couple of decades in which a situation of multipolarity seemed to be consolidating itself in the structure of the relations among the developed capitalist countries, there is once again a concentration of power in the hands of the country which, of course, has been for many years now the main centre of the world economy.

The author of this article, a leading Brazilian economist, describes the main milestone in this process, which is a direct result of the policy pursued by the United States since 1979. This policy is a combination of an expansionary fiscal policy and a restrictive monetary policy which raises interest rates and attracts international financial flows to the country. In the author's opinion, the overriding weight of this policy has meant that the other industrialized countries—whatever their political orientation—have had to redirect their own policies to bring them into line with the policy of the United States, thus demonstrating the central role of the United States in the world order.

After analysing the important effects which this policy is producing both within and outside the United States, she considers the likelihood of its being maintained in the future and the way in which it would affect the policy options of the countries of Latin America, especially Brazil, with respect to international financial and trade relations.

*Professor in the Faculty of Economics at the University of Rio de Janeiro. A preliminary version of the ideas discussed in this article was presented at a meeting sponsored by the Institute of International Relations of the Papal Catholic University of Rio de Janeiro in September 1984.

Up to 1980 or 1981 it would not have been reasonable to suppose that the United States would succeed in reasserting its hegemony over its Western competitors, much less move towards a new international economic order and a new division of labour under its control. Today it is quite likely that this will happen.

Until the end of the 1980s it could not be foreseen that the United States would be capable of bringing into line two countries of strategic importance in the capitalist system: Japan and West Germany. If the United States had not succeeded in molding the private Japanese economy to its set of interests and if British and German policy had not been so conservative, the United States would have had to confront two blocks, European and Asian, with claims to economic independence. It must be stressed that at the time the interests at stake were so obviously in conflict that the world trends were polycentric, and it seemed impossible for the United States to succeed in reasserting its hegemony, although it continued to be the dominant power.

Other general circumstances of the 1970s seemed to confirm this argument. The private banking system was totally beyond the control of the central banks, in particular the Federal Reserve Bank (FED). The subsystem of transnational subsidiaries was operating on the basis of regional divisions of labour among enterprises, contrary to United States interests, which sharpened intercapitalist competition to the detriment of the United States.

In short, the existence of a world economy that lacked a hegemonic pole was leading to the dismantling of the existing post-war order and the decentralization of private and regional interests.

Developments in United States domestic and foreign economic policy, from 1979 to the present, were aimed at reversing these trends and regaining international financial control by means of so-called strong-dollar diplomacy.

As is generally known, the Chairman of the FED, at the end of the last IMF meeting in 1979, stated that he was not in agreement with the proposals of the IMF and the other member countries for the maintenance of a devalued dollar and introduction of a new international monetary standard. He added that the United States would not allow the dollar to continue to decline, as had been happening since 1970 and in particular since the collapse of the Smithsonian Agreement in 1973. Following on this abrupt

change of position, the United States announced that the dollar would be kept as an international standard and that the hegemony of its currency would be restored. This restoration of the FED's financial power meant that the United States itself and the whole world economy were to sink into an unbroken recession which lasted three years. Furthermore, several large corporations and a few American banks failed, and indeed the whole United States economy was subjected to severe structural strain. The beginning of the recession and the sharp increase in interest rates were decisive factors in the electoral defeat of President Carter.

Reviewing what happened with the benefit of hindsight, it can be argued that the Reagan Government's economic policy (subsequent to these events) was not absurd from the standpoint of the national interests of the United States—as almost all economists had proclaimed at the time of its formulation—even though it had brought a truly “imperial” pressure to bear on the rest of the world. It was in fact a very contradictory policy, not derived from any “international conspiracy” nor even from a solid national consensus. Indeed, no such consensus was possible when the United States Treasury Department had one policy and the FED another; when the California group held certain ideas and the Middle West and the East Coast other quite different ones. In short, as a result of an intense conflict of interests and domestic disagreements, the United States applied, and is still applying, a multi-faceted policy entailing the launching of a process of economic recovery of a peculiar kind, one that was almost inconceivable at the beginning of the 1980s.

In fact, in addition to the campaign for the restoration of political and ideological prestige, Reagan had in mind something unheard of, namely, a spurious, upside-down Keynesian policy combined with hard-line monetarism. To redistribute income to the richest, increase the fiscal deficit and hoist the interest rate is an explosive combination of economic policies, from the domestic as well as the international standpoint. In spite of everything, this contradictory policy resulted in the recovery of the United States economy to the extent that this country managed to influence its allies and throw down an economic challenge to its foes.

On the other hand, by maintaining a strict monetary policy and forcing the overvaluation of the dollar the FED was in fact able to regain control of the international private banking system and manipulate to its advantage a broad range of different interests. In fact, after the turnabout announced by the FED Chairman, followed by the Polish crash, this system was first compelled to clamp down on lending almost immediately, thereby putting a brake on operations in the inter-bank market and, more importantly, on the expansion of lending for the countries on the periphery. The cutback in lending was even more abrupt following the Mexican crisis, for on that occasion the private banking system panicked and took shelter in the big financial markets. From that moment the flow of inter-bank lending was definitely directed towards the United States, and the banking system was under the FED's control. And not only under the control of monetary policy, which dictates the rules of the game, and of fluctuations in the interest and exchange rates, but also at the service of American fiscal policy. Since the beginning of the 1980s all the big international banks have been operating in New York, not just sheltering under the FED's wing but compelled—because they had no other remedy—to finance the American fiscal deficit.

All this may seem very strange. But the truth is that today we are witnessing the following situation: the United States has a fiscal deficit of a structural kind, and its inability to reduce this deficit arises from its own financial and military policies. The financial element in the deficit is increasing, simply because of the “rolling-over” of the public debt which has caused it to double in barely three years. In 1984 the public debt amounted to approximately US \$1 300 000, a figure close to the total amount in circulation in the international inter-bank market. This debt is the only tool with which the United States can achieve the necessary tapping of international liquidity and attract Japanese and European banking capital towards the American money market.

Up to 1981 only the United Kingdom was pursuing an economic policy openly in support of the American currency. The Japanese had a real possibility of following an independent monetary policy and they resisted the adoption

of neoconservative policies out of the monetarist prescription book. Several other countries, such as France and Austria and the Northern European nations, and even Brazil itself, also tried to resist falling automatically into line with the orthodox economic policy. They all knew clearly, from 1979 to 1981, that they must not comply, but they were nevertheless brought under control. All the developed countries of the world, whatever the colour of their Governments—socialist, social democratic, conservative, etc.—are practically in alignment in terms of exchange-rate policy, interest-rate policy, monetary policy and fiscal policy. Consequently, all growth rates, all exchange rates and all interest rates are centered on the performance of these variables in the sphere of the American economy.

In these circumstances all these countries have been compelled to pursue tight monetary and fiscal policies and to maintain increasing trade surpluses which stifle their national growth potential and transform their public deficits into structural financial deficits that are useless for the purposes of policies of economic deflation.

The way in which Japan's economic policy was brought into line was impressive, even dramatic. Throughout the post-war period this country was the most heterodox in matters of economic policy. It invested on short-term borrowing and pursued a loose monetary policy; it surrounded its business system with an apparently impossible risk structure; it made little use of the securities market or of public debt; in short, it produced its own national development model. In 1975 it tried to carry out an internal readjustment plan in keeping with its potential, but it was gradually forced to abandon all that and today it is totally under the influence of the dynamics of the American economy. Japan is not following an independent development policy, except with regard to the minimum internal security of its society. The larger part of Japan's banking and transnational capital is tied to United States recovery plans; it has enormous exportable surpluses but no prospect of resuming its historical investment and growth rates. This means that the Japanese financial market is inextricably linked to the American, saving some accidental breakdown between 1985 and 1987 in the United States banking system and a sudden

devaluation of the dollar—the only point at which there is still a possibility of an upheaval that could shake American hegemony.

A little while ago, everything indicated that the United States had lost the capacity to lead the world in a beneficial way, and this is still true. But, in contrast, between 1979 and 1983 the Americans gave indisputable proof of their ability, not always beneficial, to exercise their hegemony and bend all other countries to their will by means of recession.

Since 1984, in the very words of its financial élite, the United States has been establishing a new international division of labour and boasts of being the "trade locomotive" of world recovery.¹

One fundamental aspect of this process of restoration of the dominant position of the United States stands out in an analysis of the country's economic relations. Between 1982 and 1984 the United States doubled its trade deficit every year, and this fact, together with interest receipts, enabled it to absorb real transfers of savings from the rest of the world which in 1983 alone amounted to US\$ 100 000 million and in 1984 should have exceeded US\$ 150 000 million. On the other hand, its terms of trade improved and its domestic costs declined, for its imports are the best and the cheapest in the world. Thus, without making an intensive savings and investment effort, without touching its energy infrastructure, without touching its agriculture or old heavy industry, the United States is modernizing its high-technology industry with cheap equipment of the most advanced kind and with venture capital from Japan, West Germany and the rest of Europe and the world.

The structure of United States trade was always symmetrical and closed. It exported raw materials, foodstuffs, industrial inputs and capital goods, i.e., all the important items of international trade. The United States economic relations with the rest of the world could not be contained within the traditional centre-periphery arrangement. There had to be an international division of labour which favoured the United States in absolute or relative terms. The surprising fact is that now it is seeking to establish an international division of labour that works to

¹See Morgan Guarantee Trust: *World Financial Markets*, September, 1984.

its own exclusive advantage. After having exported to the rest of the world for more than two decades through the transnationals the technological pattern of the American industrial system, it is using its hegemonic power to rebuild its position as dominant technological centre. It makes use of its banks, trade and finance and of direct foreign investments to achieve redeployment, despite having lost the trade race to the other developed economies and even some semi-industrialized ones.

The United States is now investing heavily in the tertiary sector and in the new advanced-technology industries. It is sufficient to examine the investment structure in 1983 and 1984 to realize the extraordinary concentration of investment expenditure in the field of information technology, biotechnology and sophisticated services. The United States is not interested in preserving its old structure. Moreover, it knows that it does not have the capacity to bring about a boom by reforming the industrial sectors which lead the way in post-war economic growth. On the contrary, The United States is concentrating its efforts on the high-technology sectors and is leaving its old industries open to international competition from its partners.

With its enormous trade deficits and the resumption of growth, the United States can be sure of the support of its exporter partners, especially Japan and West Germany. With its high real interest rates it finances the support of the bankers. And with joint ventures within the United States it ensures its leading position for the future, in addition to helping the recovery of its domestic economy.

It must be stressed that the recovery of the American economy is being achieved by means of short-term borrowing and with growing indebtedness. In actual fact the Americans are using the same technique that Brazil and Mexico recently used and which Japan used in the 1950s. The United States finally discovered the Latin American and Japanese development technique: financing investment by means of short-term borrowing, foreign debt and fiscal deficits. And since its currency is dominant and overvalued, the American economy has no inflation. This is indeed a very puzzling situation for economists, for if what the monetarists or Keynesians or any traditional textbook say is correct, the United

States should already be experiencing galloping inflation because of the tremendous demand pressure engendered by a heterodox economic policy.

Budget policy provides an example of this heterodox approach. The United States has practically halted expenditure on public goods and services and has increased expenditure in the armaments sector, cutting back welfare expenditure accordingly. In short, it has swapped social welfare for weapons and has carried through a redistribution of income to the rich. In addition, it has reduced the tax burden on the middle class and introduced almost full tax relief on interest paid to banks in connection with purchases of consumer durables. It has also encouraged faster depreciation of the assets and refinancing of the liabilities of certain companies. In these circumstances personal debt has been transformed into good business, for part of the financial cost of the debt can be set against income tax. Accordingly, short-term borrowing has been used on a large scale for the purchase of houses and consumer durables. Similar methods have been used to finance investments in the tertiary sector and high-technology industry which do not take long to come to fruition and whose expected rate of return is much higher than the nominal interest rate, which is showing a tendency to decline. There are apparently three interrelated reasons for this drop in interest rates: the absorption of international capital, the FED's less orthodox position and the decline in inflation. This latter phenomenon is due in turn to the decline in domestic costs resulting from the overvaluation of the dollar and competition from imports, which have produced an improvement in the relationship of trade prices in favour of wage-earners' purchasing power.

Many people hoped that from 1983 the United States would revert to an overall balance-of-payments surplus, since from 1982 the income earned by American capital abroad did not cover the current-account deficit. This was not, however, to happen, because the influx of foreign capital comfortably covered the deficit. The investment of venture capital also increased. For example, Japan alone invested US\$ 10 000 million during the recovery period and is planning to invest a further US\$ 40 000 million before the end of the decade. West Germany, for its part,

will probably have invested approximately US\$ 8 000 to US\$ 9 000 million, although the exact total is not available. In short, all of Europe and Japan are investing in the United States; the United States, meanwhile is taking back part of the capital of subsidiaries of the American transnationals which have no capacity for further expansion in the rest of the world. Finally, while the peripheral countries remain at a standstill and the rest of the world has a growth rate of 1 to 2%. The United States grew at a rate of 7 to 8% in 1983-1984.

Buttressed by this enormous influx of capital, the United States could continue with a trade deficit whose limits are still not in sight. From US\$ 30 000 million in 1982 it climbed to US\$ 60 000 million in 1983 and jumped to over US\$ 120 000 million in 1984. In 1985 it might well reach US\$ 200 000 million and it may continue to increase unless a deliberate brake is put on the American economy, simply because there is surplus capital in the world. This surplus of capital and "external savings" is due to the fact that the rest of the world has been sticking to conservative policies, whatever the Government in power. In fact, the universality of orthodox policies has compelled all countries to maintain low investment and growth rates and to increase export rates. As a reflection of the forced adjustment, all the countries of the world have balance-of-trade surpluses. All except the United States.

The United States is opening up its economy and in so doing stimulates a massive transfer of income and capital from the rest of the world to the United States. One very important point is that this makes it possible to close the structural financial deficit in the public sector. It all happens as if every time the FED issues bonds to finance the national debt, it can be certain that they will be taken up by all the world's banking institutions and *rentiers*. The essential fact is that the whole world is financing not just the United States Treasury Department, especially its financial element, but also American consumers and investors. This time, and in contrast to what happened in the 1970s, there has been a transfer of real savings and not just of loans, liquidity and speculative capital.

Another question on which light needs to be shed is the influence of interest rates on investment. Many people argue that the high level of

real interest rates will put a brake on investment sooner or later. It is obvious that the Americans are not financing investment in the capital market. There is no market in new capital; the market that matters today is the money market. The Americans —it is worth repeating— are replacing traditional long-term borrowing (through the issue of debentures, equities, etc.) with short-term borrowing, or they are using their own resources and venture capital. On the other hand, this situation clearly places at risk many old companies and the value of their stocks and debentures. If a large enterprise wishes, as several have tried recently, to launch an issue of several thousand million in the stock market, after a week that same company will be compelled to buy the issue back or otherwise see the value of its stock fall. This means that the only real risk that the United States is running is that of a sharp devaluation of the old enterprises whose stocks are quoted at prices different from the effective ones. It should be pointed out in passing that the big banks which concentrated their investments in the old branches of production or in energy or agriculture have been and are still experiencing serious difficulties. The technical failure of Continental Illinois is a clear example of this. On the other hand, all those which invested in California, in Silicon Valley and in services are in a very favourable position.

To pick up the thread of the main argument, there is no capital market, strictly speaking, in the United States. The market that matters is the market in money. The United States open and overnight markets are as erratic as our own, but they are controlled by the FED and not by the "inverted" lunacy of the Brazilians. Nor is its level of public debt less foolhardy than ours, but it is beneficial, since it is being financed by the influx of all the world's banking capital, which is clearly not true of our public debt. Whereas we (the Brazilians) are compelled to solve the domestic problem of public financing at the cost of inflation and sharp increases in domestic interest rates, the United States, in contrast, is subject to no pressures of this kind. Its interest rate can decline provided that it maintains a slight differential from the European rates. It can thus be argued, in the light of the events of 1984, that the confidence in the dollar that resulted from President Reagan's victory and the "forcing into line

of the international bankers" will be hard to shake. It is as if the devaluation of the dollar had never happened, even with a less rigid monetary policy on the part of the FED and the increase in the American deficit. On the contrary, it is the European central banks which since the end of 1984 have been striving to prevent the devaluation of their own currencies. The United Kingdom has just paid its respects to the United States by experiencing the biggest devaluation of the pound ever in a single week.

The United States does not need to solve its problem of domestic financing as long as the growth rate of the European countries remains lower than its own, for there is not the least likelihood that the rest of the world's capitals will invest by preference in the countries of origin until those countries resume growth at sustained rates. Up to now they have been investing by preference in the United States, and national policies are aimed exclusively at improving industrial production structures and, in the case of the Common Market, food production structures as well. Since the recession the countries of Europe have not formulated any plans to re-establish their overall economic growth on sound foundations. They have merely acted individually and tried to protect themselves against the invasion of their markets by the Japanese. Nevertheless, at the same time as inter-capitalist competition was growing sharper elsewhere in the world, there was an enormous upsurge in efficiency in the modern industries of Japan and certain European countries. And as we saw earlier, the United States is taking advantage of this situation to modernize its production at the expense of the rest of the world, including the peripheral Latin American countries, which has transferred to the United States in recent years almost US\$ 100 000 million by way of interest payments and losses in the terms of trade.

The response of Europe and Japan has necessarily been to ally themselves with the United States; but it remains to be seen what will happen to them in the long-term as satellites of the centre.

Europe is seriously concerned about the arrogance with which the Morgan report views as a privileged area of United States interest its "expanded base in the Pacific", which includes Canada, Mexico, Japan and the recently industrialized

countries of Asia. But Europe remains paralyzed, for reasons of security, by virtue of strategic relationships of automatic alignment with the United States, and for economic reasons arising out of its own inability to put into effect a joint economic policy, beginning with monetary policy. The United Kingdom and West Germany, each in its different way, played a decisive role in the collapse of social democratic plans in Europe, and socialist France sadly succumbed as well.

It is to be hoped that when they react politically it will not be too late and they will not be condemned to play the part of second periphery of the United States.

If the United States succeeds in maintaining its present policy with the same vigour until 1988 without causing a domestic or international financial collapse (a prospect which is becoming increasingly remote), it will have completed a decade—from 1978 to 1988—of absorbing liquidity, capital and loans from the rest of the world. It will also have completed five years of growth at the cost of the relative stagnation of its most important capitalist competitors. It will have financed the modernization of the tertiary sector and the renewal of its industrial stock by utilizing the external economies of the rest of the world. The resumption of hegemony would thus conclude by converting the American economy into a centric and not merely a dominant one. Whatever similarity there may be to the Britain of the nineteenth century, the analogy is unsound, given the continental size of the United States and the existence of the Soviet Union.

The structural problems which the United States still has to solve and which it cannot solve by means of borrowing and short-term capital relate to the transformation of its basic infrastructure. This requires a prior process of consolidation of the banking system and restructuring of the domestic debt. Compared to the volume of the United States debt and its fiscal deficit, the debts of the Third World are no more than a drop in the ocean. In 1982 we lost the initiative and the capacity to put pressure on the American banks. If the financial structure were remodelled, and only then, the United States would be able to allow the dollar to slide again. If the dollar is devalued before that happens, there will obviously be a massive flight of capital, and the American financial system might fail in con-

sequence. This is why, unless it cannot be avoided, the United States should not allow any significant devaluation of the dollar at least until 1988.

If this hypothesis proves true and if the United States does not reform the relationship of the FED and the Treasury Department with the banks, Brazil and the other Latin American countries will be forced to renegotiate their foreign debts year by year, unless they take individual and collective measures of co-operation to cope with that state of affairs. Whatever happens, Brazil will be forced to pay at least part of the interest it owes to international bankers and to try to capitalize the remaining part. The export effort which it has been making in recent years is nothing new, but it is linked to a totally different pattern from the one which prevailed up to 1978.

In fact, in the 1970s and in particular the period of chaotic borrowing which began in 1977, Brazil made an enormous export effort and succeeded in diversifying its foreign trade structure. During this period Brazil's trade balance showed a surplus with respect to Latin America, Africa and the socialist countries, and was in deficit only with the countries of the Middle East. Brazil's trade position was relatively balanced with respect to the United States and Europe up to 1978. From that year up to the present it has had to cope with violent fluctuations in the international markets in non-convertible currencies and was compelled, especially from 1982, to carry out a complete transformation of its trade structure. It has begun to show surpluses on an increasing scale with the United States and Europe and is more or less in balance with the other areas to which it exports, in addition to making an enormous effort to introduce oil substitutes.

If the United States wants Brazil to pay its debt service it must allow Brazil to accumulate a trade surplus equivalent to the amount of interest owed. This is not happening at present, for Brazil is maintaining a surplus with the United States greater than the interest payments being made to American bankers, although less than the total payments to the whole international banking system. This is clearly an unsustainable situation, both for Brazil and for the European banks. When Brazil's surplus with the United States ceases to grow owing to the slowing-down

of the American economy and this is not offset by increase of the surplus with Europe and Japan (owing to low growth rates, protectionism and the steady climb of the dollar), Brazil's only alternative will be to negotiate hard. Even a conservative and deflationary policy will be of no use, given the low import levels and rates already achieved.

The problem of protectionism, of course, continues to be a major source of conflict, but the United States will be prepared to yield to the limit that Brazil needs in order to pay the interest owed to its bankers. Even so, Brazil will find it difficult to maintain a surplus with the United States greater than the total amount of interest. If it renegotiated the debt and had less interest to pay, then the amount of surplus needed would automatically be less. This means that the prospects for growth in imports depend on the two arms of a pincer: the conditions on which the debt is renegotiated and American and European protectionism. In short, we are entirely subordinate to American economic policy with regard to exports, exchange rates and debt.

For this reason, the exchange-rate policy pursued in recent years has left completely out of account the structure of export prices and its effect on inflation and the terms of trade. Brazil has carried out devaluations going beyond what was required by its domestic price structure, solely in order to be able to compete. Contrary to what has been said, in terms of the domestic cost structure of exports Brazil is overvaluing and is therefore losing with respect to trade prices. In other words, once again it is being obliged to do the opposite of the United States.

The United States is not about to give up its special relationship with Japan, West Germany, Canada and Mexico (nor could it do so) because these are economic and political areas which it must control in some way. In my opinion, the countries of the Southern Cone are not important in the growth strategy of American trade. In some markets Brazil is the second-largest supplier of farm products, in areas opened up by the cyclical fluctuations in American supply. And it is these areas which will see the sharpest and fiercest competition if the United States seeks to maintain its position in the international market in the long term. Textiles, footwear, iron and steel, and machinery are sec-

tors in which it will clash with the other countries in the struggle for the American market. From the standpoint of direct American investment, the appetizing sectors have already been declared publicly and repeatedly. The United States has a prime interest in the sectors of information technology, banking and armaments, sectors over which it wishes to maintain undisputed hegemony and which offer the greatest opportunities of long-term expansion for American capital already established in the country.

Apart from these disputed areas, it remains to be seen whether Brazil will be able to conduct itself as a sovereign debtor and renegotiate its foreign debt without compromising its interests and without creating false expectations which

will prove unattainable in practice and a further source of frustration to its people. It would be intolerable, however, for Brazil's right to survival and self-determination not to be recognized, on the pretext of automatic alignment and false notions about the country's importance and its preferential relationship with the United States.

The so-called "naive arrogance of native South American nationalism" is disappearing, despite the efforts of the conservatives to revive it as a bogeyman. A sovereign country is one which recognizes the realities of the world but does not let itself be intimidated by them, choosing the correct options and negotiating seriously and responsibly in an effort to overcome the limits of the present and make room for the future.

Crisis, adjustment and economic policy in Latin America

David Ibarra*

The crisis in Latin America has a *sui generis* character, the elucidation of which has impelled the author to venture into virtually unexplored fields of interdisciplinary analysis and to make generalizations covering a variety of national situations. Within this framework, he asserts that many of the central problems which look like conjunctural distortions—shortages of foreign exchange, deficits in public finance—in reality stem from imperfect structural adjustments both in the international economy and within the Latin American countries, the treatment and cure of which will be much more than a short-term matter.

To all this is added a set of circumstances which hinder the application of appropriate solutions, such as the decline in the industrialized centres' ability to provide development aid, and the undermining of the leadership capacity of governments by the doubts cast on the ideological and programmatic commitment to guarantee sustained growth, a target difficult to attain when economic self-determination has sunk to its lowest in the recent history of the region.

Should this diagnosis be correct, the remedies are not to be found in the prescription-book of economic stabilization policies, although this does not mean that it is superfluous. The task of making stagnation acceptable, or growth rates far below those recorded in the past, poses questions that go beyond the economic sphere. In this sense, the true answers are to be found in the political sphere, because only there could the foundations be laid for the social consensuses which would enable State and society to join in a national commitment with the aim of regaining self-determination and access to development.

*Formerly Director, ECLAC Mexico Office.

Note: Preliminary versions of this paper were presented at the Expert Meeting on Crisis and Development in Latin America and the Caribbean (Santiago, Chile, 29 April to 3 May 1985) and at the 100th Twentyfifth Anniversary Meeting (Madrid, 26 June 1985).

Introduction

It is by now a commonplace to assert that Latin America's economic crisis is the most profound, the most protracted and the most generalized since the Second World War. It is not so often said that after four years of declining per capita income and of sacrifices on the part of the bulk of the population, the intentions of the adjustment policy applied, with the natural lags and variants, by the great majority of governments are still far from being fulfilled.

The per capita product decreased by over 9% between 1980 and 1984 (ECLAC, several yearly issues). Its level today is similar to that attained seven or eight year ago. National income must have been still further compressed, to judge from the deterioration of the terms of trade (23%) and the increases in external debt servicing. There are countries, and in particular social sectors within them, that may well have lost between one-fourth and one-third of their former income.

One encouraging sign is that the balance-of-payments current account deficits have plummeted down from over US\$ 40 billion to US\$ 3 billion in the above-mentioned years. But perhaps that is not so much a symptom of convalescence as an indication that adjustment has followed an essentially recessive course (ECLAC, 1984). It should be noted that the trade balance climbed from a negative figure of US\$ 1.6 billion to a positive one of US\$ 37.6 billion. This remarkable result is not attributable to an increase in sales abroad—which shrank by a little over 2% in the period—despite the fact that movements in internal relative prices were generally favourable to the products described in technical jargon as marketable or tradeable. The correction of the balance, then, was linked to a brusque recessive contraction in imports which reached figures of about 40%.¹

¹The data cited probably give an over-pessimistic picture, inasmuch as the gestation periods in the development of new lines of production and new external markets are not explicitly taken into account. By way of illustration, it is worth while to point out that in 1984 the nominal value of Latin America's exports rose by almost 10%, as a result of the recovery of the United States economy in combination with the strategic effort made mainly by the larger Latin American countries with more flexible production capacities (Brazil, Mexico, Argentina, Venezuela).

In the years referred to the external debt increased from US\$ 275 to US\$ 360 billion, not so much because further freely disposable resources had been received but rather in consequence of the capitalization of interest agreed upon *de facto* in the renegotiation processes (Iglesias, 1985). With a slight recent trend towards improvement, debt servicing was equivalent to 35% of total exports of goods and services (1984) and also represented the principal item in government budget deficits. Indebtedness has become a burden whose weight is helping not only to suppress the traditional contribution of external saving to capital formation in the developing countries—in Central America, for example it had come to represent between 40% and 50%—but also to compel countries in crisis to become net exporters of capital or to set Draconian limits to the investment and development promotion capacity of governments over periods that seem likely to stretch beyond the present decade.

Despite the easing of world inflationary pressures and the fairly widespread implementation of severe measures to restrict the expansion of domestic demand (curtailments of public expenditure and of credit, increases in taxation and interest rates, incomplete adjustments to restore the purchasing power of wages, rationing of the foreign exchange supply), inflation, far from languishing, seems to be gaining new strength as time goes by. In the three-year period 1979-

1981, the weighted consumer price index kept to growth rates of not much more than 50% yearly, but thenceforward it went up by leaps and bounds, until it reached a rate of 175% in 1984 (Iglesias, 1985). In practice, in many countries the spectacular internal stabilization efforts have proved vain; what is more, the all too common presence of marked distortions in relative prices seems to forebode new upward readjustments in the future.

Crisis and adjustment policy together have weakened the public and private capital formation process—the investment coefficient declined from 22% to 16% between 1981 and 1983—detracting from the flexibility of the economies as regards the promotion of structural changes or the absorption of their inevitable costs. And this is a determining factor in the countries' capacity to perfect their internal economic autonomy, or to gain a better footing in the international economy.

Hence it can be inferred that the Latin American crisis has its own peculiar connotations. It would therefore seem justifiable to make some attempt, even if only at the level of a first approximation, to identify its true causes. In particular, it is worth while to ask what are the characteristics that distinguish the depression of today from the cyclical fluctuations of the postwar period, giving it unwonted depth and nullifying the action of the time-honoured remedies.

I

The direction of the changes in the international economy

It is undeniable that the last half-century has witnessed a gradual but certainly cumulative series of changes which are now substantially altering the operation of the world economy. The most manifest symptom of these changes is a tightening of the bonds of interdependence—dependence of countries upon one another, together with the corresponding loss of economic self-determination on the part of national units. The chain effects following upon the upheavals in the petroleum market or in interest

rates reveal the existence of intricate mechanisms of international transmission of distributive pressures, as well as the impossibility of restoring for any length of time—except, perhaps, in the United States—national policies that run counter to the exigencies of the international cycle.

The materialization of more and more technological advances and innovations of other kinds, superimposed upon the former determinants of the composition of international trade, is rendering obsolete and incompletely

and perhaps unfairly altering the international division of labour still in force between the Third World and the industrialized centres. To check the accuracy of this first proposition, suffice it to list some of the ongoing processes of change, without probing far into their deep significance: many branches of economic activity that made steady and world-wide progress in the last three-quarters of a century are showing signs of decadence, while there is a vigorous upsurge of new spearhead sectors, as they are called, which, albeit not yet consolidated, are benefiting by a demand in process of formation and unsatisfied (UNIDO, 1983 and 1984); for that very reason, market and investment preferences for lines of production with a high technological content are gaining a firm footing, while traditional capital-intensive or labour-intensive projects are relegated to a secondary plane; albeit offering decisive advantages, the world-scale integration of the financial and merchandise markets means that, under pain of productive marginality, economic decisions formerly regarded as the special province of State regulations are placed outside the control of national governments; furthermore, rapid changes are beginning to take place in what used to constitute the energy basis of industrial organization, so that nowadays it can be confidently predicted that fossil fuel will shortly cease to be the *sine qua non* ingredient of modern production. The current energy pattern, already partly exhausted, could not be transplanted or fully reproduced throughout the world, without causing ecological catastrophes or overstepping environmental bounds and limits set by physical resources (Fajnzylber, 1983).

These readjustments will undoubtedly end by opening up a new development horizon, with beneficial results for both civilizers and civilized. Nevertheless, in the transition period through which we are passing, the gestation of these phenomena exerts a disconcerting influence, creates uncertainty, enforces sacrifices and enormously complicates—as is the case in Latin America—the government of social policies and of economic policies. Let us look at some of the consequences which seem to be overthrowing the ordered world of postwar prosperity.

In the first place, the stability of the comparative advantages that propped up the former international division of labour and the theories

of international trade is being seriously undermined. From one standpoint, for example, the competitiveness in manufactures painfully acquired by the developing countries through the use of highly labour-intensive techniques may well melt away in face of the proliferation of automated methods of production (robotization). From another angle, electronic control of production might eliminate the predominance of economies of scale and lead to greater differentiation of supply, with obvious benefits for the countries with small populations and markets.

Be that as it may, what is at stake is the restructuring of the foundations on which the new international division of labour must be erected. But perhaps this new division, however closely its emergence is attended by the intention of assigning great benefits to the pioneers, cannot be stabilized, or stabilize international economic relations, without a consensual formulation of agreements among all the countries involved. Nowadays, comparative advantages depend less and less upon the initial endowment of natural resources, or upon the plentifulness of capital or labour, and much more upon a stable world climate with a propensity to concerted action, as well as upon each country's persevering efforts to attain excellence in specific areas of production (Feinberg, 1983).

It should be noted that together with the unremitting pressures as regards the distribution of the benefits of international trade, a yet more basic question now arises: namely, the sharing-out of exportable production among the different countries. The fundamental problem for the Latin American economies is that of defining which will be their stable sources of foreign exchange in the future, rather than striving to obtain better prices for the primary products which they already export, which, in a good many cases, are decreasingly in demand, and which are exposed to the risk of being displaced by substitutes or by rival products with more advanced technology.²

²Although a foothold has been gained in trade in manufactures, mainly under the regional and subregional integration programmes, in many respects the attainment of a dynamic insertion in international trade is still lagging a long way behind. Of the 18 most important export products, only

Secondly, the process of industrial integration on a multinational scale—whose promoting agents are the older and younger generations of transnational corporations—is benefiting global productive efficiency and the employment of factors *in situ*. But it does not yet offer satisfactory answers with respect to the distribution of income among the participant countries, or to formulas for offsetting the loss of economic self-determination, especially in periods of depression or when an unfavourable change takes place in the composition of certain countries' external demand (UNIDO, 1984). Here there is an incomplete process of institutional and legal change, inasmuch as the *de facto* incorporation of countries into a fused production system has not been perfected by an international set of rules establishing a system of reciprocal guarantees among the participant States.

The third effect of the uncompleted changes in the international economy has been to weaken, even if only for the time being, the industrialized centres' capacity to contribute to the development of the peripheral areas, since they are finding themselves compelled to devote the bulk of their energies to internal adjustments. The reduction of concessional aid to development, the obstacles to the replacement of capital and to the expansion of the lending power of the multilateral financing institutions, the rise in interest rates itself, all bear eloquent witness to this diminished capacity (ECLAC, 1984, 1985 a and 1985 b; Prebisch, 1981; Feinberg and Kallab, 1984; Haq, 1985). So does the fact that to the old-style protectionism with which the advanced countries covered, for example the non-competitiveness of their agricultural activities, is now added a new form of protectionism which arises out of the ageing of industries that are reluctant to give way before the redeployment of production on a universal scale.

Nevertheless, the most striking manifestation of what is being stressed here consists in the fact that for the first time since the Industrial Revolution in England, the leading western economy has become a net importer of capital; instead of exporting surplus financial resources, it

has to draw upon international saving to defray internal expenditure, entirely reversing the traditional mechanics of balance-of-payments adjustments.

Lastly, it must be realistically admitted that the adjustments and changes in process of gestation within and among the industrialized countries are determining a programme of work in the international sphere under which treatment of the developing areas is relegated to a secondary place. Prior to reforming the old North-South *modus vivendi*, attention will undoubtedly first be devoted to the issues of trade, division of production, opening-up of financial and merchandise markets or financing of the reciprocal trade balances of the members of the First World (Bergsten and Krause, 1975; Norr, 1975). It seems unlikely, therefore, that the question of Latin American indebtedness will be thoroughly tackled while there is still disagreement as to the management of exchange régimes, of interest rates, of control of capital movements or of formulas for symmetrically adjusting persistent disequilibria in the balance-of-payments position of the main industrial countries (Clein, 1982).

Similarly, it may perhaps be idle to trust in a vigorous and sustained recovery of the world economic centres and even to rely upon their aid to development during the present decade. First they have to make sacrifices and concentrate resources—as industrial restructuring in Europe shows—on adapting manpower and physical facilities to the accelerated modernization enforced by the international technology race and the consolidation of the new spearhead sectors.

The generalized character of the crisis in Latin America suggests that its origin is mainly external, i.e., determined by the adjustments in the international economy. Similar effects are felt by countries markedly differing in size, degree of industrialization, political and administrative organization and economic development strategies.

In any event, for the reasons stated, solutions for the crisis cannot come from outside. Latin America must seek them in the organization of its own strength and enterprise, even in order to break through the inertia of the economic policy priorities of the industrialized centres. The way is not clear, there are countless obstacles; besides, the price of experimenting, failing and trying

five (meat, fish meal, wool, soya and petroleum) could reap the benefit of high income-elasticities; the remainder are already recording static or declining growth rates.

again will have to be—is already being—paid. In the new circumstances, economic growth will no longer be easily achieved; governments will have to mobilize the whole of society around a nationalist and democratic effort, so that the sac-

rifices of economic reconstruction can be made tolerable and are not the cause of unbridgeable social fissures. Accordingly, the time has now come to examine, even if briefly, the internal situation of the Latin American countries.

II

The Latin American sphere

In the interval between the end of the Second World War and the mid-1970s Latin America made noteworthy progress in building new economic structures, bettering the average living conditions of the population, forming new social strata, and becoming industrialized and urbanized. During this period, the Latin American product was quintupled and industrial output sextupled, employment in the modern economic sectors increased fivefold, and a thriving middle class came into being.

The convergence of rising external demand and the thrust of domestic import substitution paved the way both for an intensive economic modernization process and for acceptance of what we shall call here “development ideology”. It was at once the cause and effect of prosperity that the legitimacy of the Latin American State, as well as its capacity for convocation and for political mobilization, gradually shifted away from the older Latin American reformist traditions and the ideals of economic justice and open participation in politics, and rested more and more firmly on the capacity of governments to foster and achieve economic growth (*Pensamiento iberoamericano*, 1984).

This growth, with its power to increase the income of almost all social strata without the necessity of directly tackling the difficult questions of distribution, became a substitute for social reform, a harmonizing influence that mitigated political tensions and the integration factor *par excellence* of the Latin American societies. Thus, it passed almost unnoticed that the goal of economic growth had ceased to be an instrumental objective—the means of attaining higher ends—and had become the very backbone of action on the part of the Latin American States and the source of the legitimacy of their

governments. With this in view, the new ideology postulated that economic progress would be bound to generate, almost automatically, political modernization and social justice.

The new approaches were rapidly consolidated, because in many instances they deferred open conflicts and made it possible to give almost everyone a little more, to maintain a concentration of income compatible with a respectable capital formation process, to open the way for the emergent economic groups and to render tolerable—in the expectation of better things—the widening gaps in levels of living and consumption that separate us from the industrialized societies. It was not everywhere, however, that harmony reigned. The intensive economic growth that had taken place since the war subjected each country’s body of institutions to severe pressures. In some cases, genuine modernization of political and social life has occurred; in others it has not been possible to escape the formulas of authoritarianism; and in yet a third group, democratization and authoritarianism have alternated in shaky equilibrium, with no clear and definitive settlement of the question.

Even so, the outstanding fact is the switch-over from politics to economics. Growth, by virtue of its efficacy in facilitating the reconciliation of interests and in concentrating the energies of society on a limited set of problems, assumed the leading role and eliminated from public discussion what had traditionally constituted the very essence of political action. The instrumental advantages were many; it should be noted, by way of illustration, how the thorny problems of upward social mobility were solved in gradual and orderly fashion through the multiplication of jobs which accompanies economic expansion.

It is not surprising, therefore, that gov-

ernments should have gone on from being passive arbiters in economic affairs to become by *antonomasia* promoters of economic development and agents responsible for achieving it. And that is why the Latin American State has wholeheartedly joined in the world trends which determine a spectacular increase in the breadth of public functions and in the weight they carry in the economies.

A first component of government expenditure is aimed at correcting the effects of distributive inequalities, an intention prompted in the internal sphere by considerations of equity, if not by the political need to reduce potential sources of conflict, and in the external sphere by the revolution in expectations brought about by the Welfare State and the consumerism of the industrialized nations.

A second item in public budgets that has been rapidly expanding through time is constituted by outlays on the promotion of economic development, i.e., expenditure relating to programmes specifically designed to facilitate the development of private enterprise.

In Latin America there is a Statist tradition whereby governments encourage or assume responsibility for specific activities in terms of general development interests. But State interventionism does not figure as a means of socializing economies, but as a formula for making up their leeway in a shorter space of time or as a corrective of the defects of economic behaviour with a view to keeping it faithful to the service of individual interest, expressed through market laws. Even government-owned enterprises, rather than competing with or displacing those of a private character, support and complement them. These public bodies are usually providers of physical infrastructure (roads, ports, dams, airports), of basic services (energy, transport, financing, education) or of inputs in common use (minerals, steel, chemical products, fertilizers), which benefit the expansion of private businesses in all sorts of different ways.

Setting aside the financing of the control machinery of the forces of law and order, the economic necessity of stimulating the private entrepreneurial sector, together with the political need to protect the weaker population groups, peremptorily called for expansion of the Latin American public sectors in the sphere of produc-

tion and of distribution (Cardoso and Faletto, 1979). To put it concisely, for several decades dynamic equilibrium was achieved on the basis of rapid growth of the product—sufficient to combine substantial increases in productivity and net absorption of manpower from the subsistence sectors—, accompanied by a capital formation process which evolved slightly faster and by public expenditure which was also gaining importance in the composition of aggregate demand. The incorporation of manpower previously left marginal to the modern sector of the economy satisfied social demands and mitigated biases towards concentration in income distribution. On their side, the technical and professional middle classes met with similar responses in the multiplication of opportunities for moving up into better jobs, created by economic expansion itself.

The model described, albeit functional at a given time in the past, could not be indefinitely prolonged without adjustments. Its limits were first encountered when the State apparatus began failing to meet, or only partly meeting, the proliferation of social demands—to some extent suggested by the achievements of advance societies—while, on the other hand, the increase in public expenditure became a burden and a factor of rigidity in the market economy.

To pick out only one element in the intensification of social demands, reference may usefully be made to demographic pressures. The region's population growth rates are still among the highest in the world, despite having already entered upon their declining phase. The rate of expansion of the labour force, however, will remain at maximum figures—between 3% and 4% per annum—until the end of the present century. This enormously restricts the real influence of economic policy as regards satisfying the aspirations of large segments of the population: the marginal sectors, the rising generations or the groups of women that are seeking to enter the labour market in the modern economic sectors.

Hence the widespread propensity of the Latin American governments to incur deficits in their public accounts and to run into debt abroad. While demands became more numerous and more pressing, the readiness of enterprises and populations to pay heavier taxes or finance

public expenditure with genuine savings was definitely lessening. Confronted with this paradox, governments continued to regard public expenditure as still the key to growth and with it the stability of the whole social edifice. Accordingly, they resorted in varying proportions to deficit financing or to external borrowing, in the hope of gaining time for the completion of internal changes or of seeing favourable modifications take place in the international sphere.³ With insufficient or falling income the curtailment of public outlays might be necessary, but it ran counter to the postulates of development ideology and, above all, eroded the governments' social bargaining capacity, at the very time when they needed it most (Stepan, 1979).

Furthermore, in the economic sphere the foregoing constraints coincided in a good many countries with problems deriving from the exhausted validity of national development patterns, due either to the slackening of the dynamic impulse of import substitution, or to market size limitations, or to shortcomings in methods of integration in the international economy, or to the necessity of tackling other structural or organizational changes in production (Collier, 1973; O'Donnell, 1973). In any case, the renovation of national development patterns made considerable demands on government budgets in respect of providing the new physical and services infrastructure for private enterprise, socializing a significant proportion of the costs of investment in productive activities or of their restructuring, and subsidizing the branches where it was desired that investors should concentrate future growth efforts.

Nevertheless, the factor precipitating the crisis was of external origin. The scarcity of foreign exchange markets which followed upon the second oil shock (1979), complicated by the fall in export demand and prices and the interruption of international credit flows precluded continuity in the pursuit of the development objective, inasmuch as the capacity for manoeuvre of traditional economic policy was surpassed.

³It should be noted, for example, that during the 1974-1976 recession in the world economy the Latin American countries, still having room for manoeuvre, almost without exception carried on their growth strategies *à l'outrance*, following a clearly anticyclical policy.

And here occurs a pernicious reversal of the questions of the cycle and of structural change. Looking after the immediate problem of the shortage of foreign exchange implies a previous transformation of the insertion of countries in the international economy. It is not a matter of simply exporting larger quantities than are sold already, since they would neither find a market nor bring in long-term profits, but of striving to place a new constellation of products as yet not even moderately clearly identified.

Overwhelmed by the disequilibria in external payments, in public finance and in inflation, governments have found themselves compelled to renounce growth, to introduce severe adjustment programmes and to permit the accentuation of the existing disparities in income distribution. But in doing so, they not only place at risk the delicate dynamic equilibrium of the social forces, but break with the ideologically accepted view of the State's responsibility for raising the population's standards of living in consonance with democratic progress. This is why in Latin America the economic crisis may culminate in a political crisis, in a crisis of the legitimacy of States that find themselves incapable of meeting the highest objectives to which they have committed themselves in what might be described as a basic social consensus. It is not that outbreaks of social violence are foreseen; rather, the risks are those associated with a stage of impoverishment and tension in relations between the State and the civil community, which make the reorganization of the Latin American societies an extremely difficult undertaking.

It is often maintained that Latin America has been more profoundly affected by the international depression than, for example, the developing Asiatic countries of the Pacific Basin, their heavier external debt being identified as the causal factor. The analysis is accurate. What is overlooked is the complex of socio-political circumstances in respect of which the two regions differ and which are determinants of everything from the behaviour pattern of the economies to the definition of viable policy options.

In the American continent the western values of liberty, democracy and political pluralism have perhaps penetrated more deeply; whereas less intensive is the social cohesion born of a

national identity in which individualism is subordinated to the consciousness of belonging to a collective body with interests transcending those of its members. The former characteristic leads even authoritarian governments to choose comparatively more complex blends of economic and social objectives, because there is also a wider variety in the demands of the population on which

their political legitimacy depends. The latter, in another way, likewise brings with it complications in the conduct of public affairs, especially in the selection of non-coercive mechanisms for inducing economic agents willingly to direct their behaviour towards the attainment of objectives of national scope (Lipset, 1982; Lowi, 1979; Hirschman, 1982).

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Remarks and Comments

A reply

Carlos Massad. **The real cost of the external debt for the creditor and the debtor**, *CEPAL Review*, No. 19, April 1983, pp. 183-195.

A note on the formal analysis of real debt servicing

Professor Massad has published an interesting study on the real cost of the external debt. However, there are some errors in the formal analysis (pp. 191-192) which we would like to point out.¹

The real cost of debt servicing per unit of debt, ℓ , is defined in equation 8 (p. 191), as follows:

$$\ell = I/D + (A+I)/T \cdot D - (A+I)/D \quad (1)$$

where I = interest payments, A = amortization, T = terms of trade index and D is the nominal debt. Total debt servicing, S , is defined as $S = A + I$.

By re-writing the equation (1) $\{\ell = (A+I-T \cdot A)/T \cdot D\}$ and taking the total differential, we obtain

$$d\ell = \left\{ \frac{(1-T)}{T \cdot D} \cdot dA + \frac{1}{T \cdot D} \cdot dI - \frac{(A+I-T \cdot A)}{T \cdot D^2} \cdot dD - \left\{ \frac{A}{T \cdot D} + \frac{(A+I-T \cdot A)}{T^2 \cdot D} \right\} \cdot dT \right\} \quad (2)$$

Using $S = A + I$ and rearranging, we obtain

$$d\ell = \left\{ \frac{(T \cdot A - S)}{T \cdot D} \cdot dD + \frac{(1-T)}{T \cdot D} \cdot dA - \frac{S}{T^2 \cdot D} \cdot dT + \frac{1}{T \cdot D} \cdot dI \right\} \quad (3)$$

This equation should be compared with equation (11) in Massad (1984). The second and third terms are different. Re-writing (3), and making use of the *rate* of change, we obtain

$$d\ell = \left\{ \frac{(T \cdot A - S)}{T \cdot D} \cdot \left\{ \frac{dD}{D} \right\} + \frac{(A - T \cdot A)}{T \cdot D} \cdot \left\{ \frac{dA}{A} \right\} - \frac{S}{T \cdot D} \cdot \left\{ \frac{dT}{T} \right\} + \frac{1}{T \cdot D} \cdot \left\{ \frac{dI}{I} \right\} \right\} \quad (4)$$

This should be compared to equation (14) in Massad. The second, third and fourth terms are now different. The difference with respect to the fourth term may be due to a printing error. The "third-term" difference is due to a wrong sign. The "second-term" difference is harder to explain, but inspection of Massad's equation (10) shows that he has calculated as if $\partial \ell / \partial A = \partial \ell / \partial A - \partial \ell / \partial D$, which is obviously not correct.²

Roger Lindqvist and Soren Wibe
University of Umea (Sweden)

¹There are also some other minor errors in the article. On p. 188 the text should read " $T > 1$ " and on p. 192 it should read " $d\ell = -0.073 dD/D \dots$ ".

²The author was perhaps misled by his assumption that "... debt D , ... is a function of the amortization ... A , so that $\partial D / \partial A = -1$ " (p. 193). However, that debt is a function of amortization (and/or other things) with $\partial D / \partial A = -1$ cannot be used when differentiating ℓ partially with respect to A and D .

I appreciate the careful scrutiny of my article carried out by Lindqvist and Wibe. Their comments coincide with those of Lily Massad (unpublished).

1. $T < 1$ is obviously a misprint, as is clear from the text of my article (p. 188).

2. $d\ell = 0.073 dD/D \dots$ is also a misprint; table 5 shows, correctly, the negative sign that Lindqvist and Wibe rightly note as missing in the text.

3. Equation (4) as presented by Lindqvist and Wibe also corrects some printing errors: The sign of the third term should be negative, as they point out, and as can be deduced from the text of my article (p. 192).

4. The fourth term in my equation (14) should read $\frac{1}{T} \cdot \frac{dI}{D} \cdot \frac{dI}{T}$, as Lindqvist and Wibe correctly point out. A printing problem is also involved, as is clear from my equation (13). The fourth term of equation (13) is multiplied and divided by I , to obtain $\frac{dI}{I}$; a similar procedure was followed with the other terms of the right-hand side of that equation to obtain (14).

5. Finally, their more substantive comment concerning the simultaneous use of equation (8) and the relationship $\partial D / \partial A = -1$ for obtaining the total differential of the real (unitary) cost of debt servicing (equations (10) to (14)) really does point to a mathematically incorrect procedure. In correcting it, however, care should be taken to preserve the economic relevance of the analysis.

As my article suggests, amortization and increase in debt should be considered among the factors intervening in the determination of the real cost of debt servicing. If this is done, then my equation (10) is correct, provided dD is interpreted as representing the change in the gross flow of debt, A the gross amortization and D the end-of-period debt stock.

If, instead of the end-of-period debt stock, the (arithmetic) mean debt stock in the period is used, then my equation (10) must be slightly modified as follows:

$$d\ell = \left[-\frac{I}{2D^2} - \frac{A+I}{2D^2 T} + \frac{A+I}{2D^2} \right] dU + \left[\frac{1}{DT} - \frac{1}{D} + \frac{1}{2D^2} + \frac{A+I}{2D^2 T} + \frac{A+I}{2D^2} \right] dA + \left[-\frac{A+I}{T^2 D} \right] dT + \frac{1}{TD} \cdot dI$$

where U stands for the gross flow of new debt, A for gross amortization and the rest of the symbols retain their meaning.

A recalculation of the relevant regressions provides results which are consistent with those expected from the theoretical analysis and which are not substantially different from those reported in my article.

My thanks to Lindqvist, Wibe and Lily Massad.

Carlos Massad
Co-ordinator, UNDP/ECLAC
Joint Project "Monetary System",
and Professor of Economics,
Universidad de Santiago de Chile

Recent ECLAC publications

El desarrollo de la seguridad social en América Latina (The development of social security in Latin America) (LC/G.1334), "Estudios e Informes de la CEPAL" series, No. 43, Santiago, Chile: 1985. 348 pages.

During the past hundred years social security has made notable progress in many Latin American countries and has played an important role both as regards preventing loss of income by heads of households as a result of social risks, and with respect to the development of curative medicine. Programmes for the protection of public employees and members of the armed forces have existed in the region since as far back as the end of the last century, and as from the early 1920s were extended to groups of workers in strategic sectors such as public services. The year 1984 witnessed the seventieth and sixtieth anniversaries, respectively, of the promulgation of the first laws in the hemisphere to cover workers against accidents at work and vocational diseases (Uruguay) and against old age, disablement, death and illness (Chile). These pioneer countries anticipated the introduction of similar programmes in the United States, and even today the former are ahead of the latter as regards programmes relating to illness, maternity and family allowances. As in other areas, Latin America takes the lead in the Third World where the development of social security is concerned.

But the progress of social security has not been uniform throughout the region, and encounters serious problems even in the countries where most headway has been made. History suggests that social security is like a staircase that ends in the void; the higher the level reached in coverage of risks and of the population, the greater the financial imbalance which seems inevitably bound to culminate in crisis. In an attempt to cope with this situation some Latin American countries have restructured social security; the most radical overall reforms, in opposite directions, are represented by the State take-over of the system in Cuba and the privatization of the Chilean system. An additional point is that the way in which it is financed may affect the substitution of capital for labour, the generation of savings and investment, and income distribution.

Recognizing the close relationship between social security and development, ECLAC decided to carry out the study under review, embracing the 20 Latin American countries. In order that social security problems and the various policies introduced to deal with them might be examined in greater depth, six countries were selected for case studies: Chile, Costa Rica, Cuba, Mexico, Peru and Uruguay.

The study comprises eight chapters. The first describes the development of social security in Latin America, using an arrangement of the countries based on 12 variables, and discusses current problems relating to the organization, coverage of population and risks, financing, benefits and cost of social security, as well as its impact on savings, employment and income distribution. Chapters two to seven contain analyses of the six cases which were selected for study from the groups in which the development of social security had

reached high and intermediate stages, care being taken to represent countries differing from one another, in particular, in respect of their economic systems and social security policies. In each case the past trends and present structure of social security are described and the problems faced are analysed, together with the policies or measures designed to resolve them. Chapter eight sets forth the conclusions and recommendations of the study.

Market structure, firm size and Brazilian exports (LC/G.1335), "Estudios e Informes de la CEPAL" series, No. 44, Brasilia: 1985. 104 pages.

More than a decade ago ECLAC, in co-operation with the Institute for Applied Socio-Economic Research (Instituto de Pesquisa Econômico-Social Aplicada - IPEA), sponsored a pilot study on relationships between market structures and exports of manufactures in Brazil.* The data collected on a sample of 283 firms exporting in 1967 suggests that export performance declined in relation to firm size, and (with the exception of foreign firms), rose in relation to capital intensity.

Since the late 1960s the growth and diversification of Brazil's exports of manufactures have been impressive. Accordingly, it is now possible to collect a mass of data from which very definitive conclusions can be drawn concerning the impact of market structure and economic policies on export performance.

The first chapter of this study consists in a non-technical summary of policy repercussions; the author aims at making it accessible to the general public. Details are found in the following chapters. Chapter II discusses several hypotheses drawn from existing literature on international trade and industrial economics. Chapter III provides a description of the data base together with a study of the relationship between firm size and exports and between firm size and export subsidies. In the last two chapters the main econometric analyses are to be found: chapter IV offers specifications and calculations of a model of export probability determinants, while chapter V seeks to discover the determinants of the different export performances of enterprises.

The economy of Latin America and the Caribbean in 1983: main trends, the impact of the crisis and the adjustment process (LC/G.1340), "Cuadernos de la CEPAL" series, No. 49, Santiago, Chile: 1985. 108 pages.

Three main facts basically characterized the economic evolution of Latin America in 1983. The first was the aggravation of the crisis which began in 1981 and which by 1982 had already reached dimensions unheard-of since the Great Depression of the 1930s. The second was the notable adjustment effort made by many economies in the region to reduce the deep-seated disequilibria generated in the external sector in preceding years. The third was the extraordinary contraction undergone by the net inflow of capital for the second year in succession and the similarly exceptional scale on which Latin America, in consequence, had to transfer resources to the exterior.

*Fernando Fajnzylber, *Sistema industrial e exportação de manufaturados*, Relatório de Pesquisa No. 7, IPEA/INPES, Rio de Janeiro, 1971.

A study of these facts is the nucleus of the "Cuaderno", which reproduces the first two parts of the *Economic Survey of Latin America and the Caribbean, 1983*, providing a general description of economic trends in the region during the year in question. The main sections were devoted to economic growth, inflation, employment, prices and wages, foreign trade, financial constraints and the renegotiation of the external debt.

La planificación del transporte en países de América Latina
(Transport planning in Latin American countries) (LC/G.1341), "Estudios e Informes de la CEPAL" series, No. 45, Santiago, Chile: 1985. 247 pages.

ECLAC, in conjunction with the appropriate Department of the Ministry of Works and Public Services of the Republic of Argentina, organized a First Latin American Seminar on Transport Planning; the present study assembles several of the papers analysed on that occasion, together with others prepared in response to questions of interest which were raised at the Seminar. Some of the mistakes made in the past are identified and a description is given of certain possible ways of improving the efficiency of transport planning in the region in coming years, from the standpoint both of planning methodology proper, and of institutional content.

Transport planning is a relatively new discipline which is rapidly evolving in many countries, including several in Latin America which have made headway in recent years both in the technical and in the institutional field. Some aspects of this progress are described in the various chapters of the present book, which concentrates attention on the recent contributions of Latin American analysts and institutions. Generally speaking, such contributions are related to the characteristics of the region and are intended to resolve problems of importance for the Latin American countries.

The papers included were selected for their relevance to existing conditions in the region. One deals with the way in which shadow prices could be turned into account in evaluations of infrastructure projects and appraisals of institutional changes. It is considered that the present economic atmosphere in Latin America, characterized by a shortage of capital and foreign exchange and a labour supply in excess of demand (although market prices do not always reflect these facts) calls for economic evaluation expressed in terms of shadow prices.

Another paper discusses estimates of the patterns of origin and destination of traffic, using background data that can be compiled on the basis of traffic counts. Models of this type are particularly useful in many countries of the region, in which such counts are made as a matter of routine, whereas information derived from surveys is seldom available.

In the institutional sphere, two articles are included on experiments which might be of interest to transport planning agencies in the countries of the region. One deals with the department responsible for federal transport planning in Brazil; the other, with vocational training as part of the National Transport Plan in Argentina. In many Latin American countries, the shortage of national transport planning

professionals and technicians has acted as a severe constraint on the development of this activity.

It is hoped that the book will help to encourage the exchange of experience among regional agencies concerned with transport planning, in the context of technical co-operation among developing countries, an activity to which ECLAC attaches particular importance.

La crisis en América Latina: su evaluación y perspectivas
(The crisis in Latin America: appraisal and prospects) (LC/G.1344), "Estudios e Informes de la CEPAL" series, No. 46, Santiago, Chile: 1985. 119 pages.

From the early post-war years up to 1980 the dynamism of the Latin American economies and the changes in their production and technology attained great significance, and economic growth was accompanied by a process of social transformation and change. These trends were not uniform throughout the region. The degree of progress and development differs to a marked extent from one country to another, and there have also been sweeping changes in economic policies and appreciable modifications of the economic growth rate in the course of the past 30 years. Nevertheless, this evolution is in striking contrast with the depth and duration of the present crisis.

The study under review identifies five stages or phases in the economic development of Latin America. The first, beginning a few years after the end of the war and stretching up to the mid-1960s, was for many countries the era of import substitution. The second extends up to 1974, and in it important changes in economic policy were promoted, in particular the adoption of measures making for greater external openness.

The two-year period 1974-1975 constitutes a third phase which is distinguished by the supreme importance of the changes in the region's economic and financial conditions and in the world panorama, of which the subsequent repercussions were to make themselves felt up to the present time.

A fourth phase, corresponding to 1976-1980, was characterized by a moderate recovery of economic growth, although with substantial inter-country differences.

Lastly, since 1981 the Latin American countries in general have been immersed in an economic and financial crisis which may be regarded as the most protracted and the most profound since the world depression of the 1930s.

The crisis was triggered by various factors, both internal and external. The former are linked to characteristics proper to the national economies and the nature of the strategies and policies adopted by governments, which in many cases have been strikingly inappropriate or have amplified the unfavourable effects of the world economic recession and of the slackening of international trade. But, within the framework of the structure and present operation of the Latin American economies, it is the external factors that in the majority of countries are the most manifest determinants of the nature and scope of the crisis; these factors have joined forces with the internal structural conditions that have traditionally hampered the evolution of a dynamic and equitable process of economic and social development.

This study also examines the Latin American countries' economic growth prospects up to the end of the decade. In this connection, economic forecasts have been prepared whose essential characteristic is the objective of obtaining by 1990, in each of the countries of the region, a level of per capita domestic product similar to that recorded in 1980. For the region as a whole this implies an average global growth rate of approximately 4% per annum in the period 1984-1990. The following are among the main conclusions that can be drawn from this analysis: a) the lack of economic dynamism will considerably worsen the unemployment and the

underemployment problem; b) throughout the whole period and up to the end of the decade the region as a whole will probably be transferring real resources in terms of an excess of exports over imports; c) the possibilities of increasing imports are likely to remain limited; d) countries will find themselves compelled to undertake constant renegotiation of their debt maturities; and e) notwithstanding the foregoing constraints deriving from the insufficiency of economic dynamism and the size attained by the export surplus, the external debt will probably go on increasing.

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