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25

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April 1985

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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The Latin American economy during 1984: a preliminary overview

*Enrique V. Iglesias**

As is customary, at the end of 1984 the Executive Secretary of ECLAC presented a review of developments in the Latin American economy during the past year, and the text of this review is reproduced in the present article. It covers both the general evolution of the region and that of the individual countries, with special attention to production and employment, inflation, and the main aspects of the external sector, such as external trade and the terms of trade, the balance of payments, and the external debt.

In his conclusions, the Executive Secretary notes that during the period under review the downward trend which had been displayed by the economies of the region was halted, and in some cases even reversed. Such a favourable development must be viewed with great caution, however, since the negative side-effects and the fragility of the whole process are very marked. In that connection, he highlights the close dependence of the recent Latin American recovery on the progress of the United States economy, especially in view of the sluggish expansion of the European economy, the possible weakening of the Latin American countries' export capacity, the uncertainty with regard to future interest rates, the deterioration in the terms of trade, the heavy debt servicing burden, etc.

In these circumstances, it is vital for the countries of the region to resume their economic growth. For this, governments must take resolute and coherent action to improve the international environment, consolidate Latin American unity in the face of the crisis, and promote the search for a political solution among all the parties involved in the present serious situation.

*Former Executive Secretary, ECLAC.

The inadequate recovery of economic activity, the sharp increase in the rate of inflation for the fourth consecutive year, and a significant improvement in the external sector situation were the three central features of Latin America's economic evolution in 1984. According to the provisional and partial figures at ECLAC's disposal, it is estimated that Latin America's total gross domestic product increased by 2.6%, after having fallen by 1% in 1982 and by a little over 3% in 1983 (see table 1 and figure 1). Furthermore, the interruption of the downward trend which economic activity had been showing since 1981 was widespread, since the gross domestic product increased in 15 of the 19 countries for which comparable data are available and decreased only in two.

However, inasmuch as the economic recovery was very slight in most countries, and also in consequence of population growth, the per capita product rose by only 0.2% in the region as a whole and once again diminished in 12 of the 19 countries. In these circumstances, Latin America's per capita product was almost 9% lower in 1984 than in 1980 and was similar to that already obtained by the region in 1976. The inadequacy of the recovery was also evidenced by the fact that in most of the countries for which relatively reliable data are available urban unemployment rates continued to rise, while they declined only slightly in the rest.

Nevertheless, and notwithstanding the decrease that had taken place in world inflation in 1984, price increases once again speeded up in Latin America, attaining record rates. The simple average growth rate of consumer prices soared from 66% in 1983 to 116% in 1984, while the average rate weighted by the population went up between those years from 130% to over 165%.

The lack of dynamism in economic activity and the marked accentuation in inflation were accompanied, however, by a considerable improvement in the external sector. As a result of the notable adjustment effort made by many countries of the region and of more favourable world trade trends in 1984, Latin America succeeded in further reducing its balance-of-payments deficit on current account. This deficit, which between 1982 and 1983 had dropped from over US\$ 40 billion to US\$ 9 billion, fell in 1984 to only US\$ 3.1 billion. The imbalance on current account was thus 94% less than that recorded on average during the two-year period 1981-1982. This new reduction of the deficit on

Table 1
LATIN AMERICA: MAIN ECONOMIC INDICATORS^a

Indicators	1975	1977	1979	1980	1981	1982	1983	1984 ^b
Gross domestic product at market prices (billions of dollars at 1970 prices)	257	285	318	336	341	338	327	336
Population (millions of inhabitants)	302	318	334	342	350	358	367	375
Per capita gross domestic product (dollars at 1970 prices)	849	897	953	982	975	943	893	895
Per capita gross national income (dollars at 1970 prices)	848	898	951	985	962	912	860	858
Growth rates								
Gross domestic product	3.6	5.1	6.5	5.6	1.7	-1.0	-3.1	2.6
Per capita gross domestic product	1.1	2.5	3.9	3.1	-0.7	-3.3	-5.3	0.2
Per capita gross national income	-0.5	2.6	4.5	3.5	-2.3	-5.3	-5.7	-0.2
Consumer prices ^c	57.8	40.0	54.1	56.5	56.8	84.5	130.8	175.4
Terms of trade (goods)	-13.5	6.1	4.1	3.3	-8.4	-9.0	-6.2	0.2
Current value of exports of goods	-7.8	19.3	34.6	29.4	7.3	-7.9	-0.2	9.3
Current value of imports of goods	6.5	15.0	25.8	32.4	7.8	-19.9	-28.6	4.4
Billions of dollars								
Exports of goods	33.6	46.7	67.5	87.3	93.8	86.4	86.2	94.8
Imports of goods	39.2	46.9	67.1	88.9	95.8	76.7	54.7	57.2
Trade balance (goods)	-5.6	-0.2	0.4	-1.6	-2.0	9.7	31.4	37.6
Net payments of profits and interest	5.6	8.2	13.7	18.0	27.7	37.6	34.5	37.3
Balance on current account ^d	-14.0	-11.8	-19.6	-28.1	-40.6	-40.6	-9.0	-3.1
Net movement of capital ^e	14.2	17.0	28.6	29.7	37.8	19.2	4.4	10.6
Global balance ^f	0.2	5.2	9.0	1.6	-2.8	-21.4	-4.5	7.5
Total gross external debt ^g	89.4	107.3	182.0	221.0	275.4	315.3	340.9	360.2

Source: ECLAC, on the basis of official figures.

^aProduct, population and income figures refer to the group formed by the countries included in table 2, except Cuba (19 countries). Consumer price figures relate to those 19 countries plus Barbados, Guyana, Jamaica and Trinidad and Tobago, except for the years 1982 and 1983, where Guyana is excluded, and 1984, where Guatemala and Guyana are excluded. The data on the external sector relate to the 19 countries mentioned above.

^bProvisional estimates subject to revision.

^cVariation from December to December.

^dIncludes net unrequited private transfer payments.

^eIncludes long and short-term capital, unrequited official transfer payments and errors and omissions.

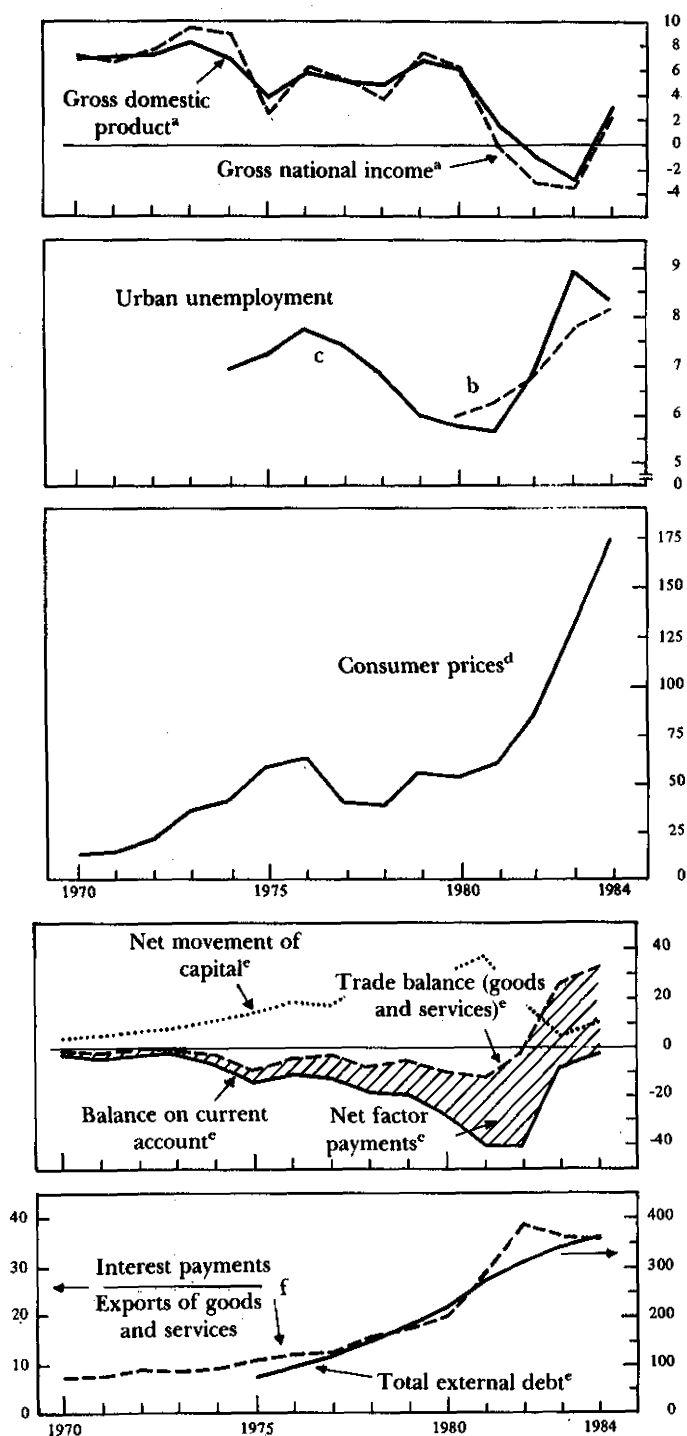
^fRelates to the variation in international reserves plus counterpart items.

^g1975 to 1977: includes officially guaranteed public and private external debt, plus long- and short-term non-guaranteed debt with financial institutions reporting to the Bank for International Settlements. Does not include guaranteed and non-guaranteed debt with other commercial banks, or non-guaranteed supplier loans. 1978 to 1984: see notes to table 13.

current account was mainly due to the increase in the surplus obtained on merchandise trade, which, after increasing from US\$ 9.7 billion in 1982 to US\$ 31.4 billion in 1983, shot up to an all-time high of US\$ 37.6 billion in 1984 (see table 1). Furthermore, conversely to what had happened in the two preceding years —during

which the bigger positive balance recorded on merchandise trade was entirely due to successive and very intensive reduction in the value of imports—, in 1984 it resulted exclusively from the expansion of exports, the value of which rose by over 9%, thanks to vigorous growth of almost 10% in the volume of external sales.

Figure I
LATIN AMERICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bWeighted average annual rate for the cities mentioned in figure IV.

^cWeighted average annual rate for the cities mentioned in footnote^b, except cities in Brazil.

^dWeighted percentage variation from December to December.

^eBillions of dollars.

^fPercentages. Excluding Panama.

The recovery of exports in the first place made it possible to finance a moderate increase (4.4%) in the value of imports—the first increment on record since 1981—and, secondly, more than offset the negative effect produced on the current account balance by the rise in net payments of profits and interest. These remittances climbed from US\$ 34.5 billion in 1983 to US\$ 37.3 billion in 1984, in consequence of the increase in the external debt and the rise in average interest rates in the main international financial markets. Nevertheless, the proportion of the value of exports of goods and services absorbed by net payments of interest and profits in 1984, although still very high (33.5%), was slightly lower than in 1983 (35%) and 1982 (37%).

In 1984, too, there was a recovery in the net inflow of capital, marking a break in the pronounced downward trend that had characterized the two preceding years. After plummeting from a record peak of US\$ 37.8 billion in 1981 and to barely US\$ 4.4 billion in 1983, the net amount of loans and investment obtained by Latin America rose to US\$ 10.6 billion in 1984 (see figure 1). Thanks to this increase, and also owing to the reduction of the deficit on current account, the balance of payments closed with a surplus of more than US\$ 7.5 billion. This positive balance—the first since 1980—permitted a partial recov-

ery in the level of international reserves, which had dropped by over US\$ 25 billion in the three preceding years. Even so, the net inflow of capital continued to fall far short of the amount of net remittances of interest and profits. In 1984, therefore, Latin America was obliged for the third year running to make a substantial transfer of resources abroad. This transfer reached approximately US\$ 26.7 billion—a sum which, although lower than that of US\$ 30 billion recorded in 1983, implied a reduction in the region's capacity to import equivalent to about 24% of the value of exports of goods and services.

On the other hand, in 1984 the growth rate of Latin America's total external debt continued to slacken. According to provisional estimates the balance of the disbursed external debt amounted to a little over US\$ 360 billion at the end of the year, so that it had increased by 5.6%, i.e., at a lower rate than that of 8% corresponding to 1983 and far below those of 14% and 24% shown, respectively, in 1982 and 1981.

Furthermore, as the growth rate of the external debt was also slower than that of exports, in 1984 the debt/export coefficient decreased for the first time in the last four years. Even so, this coefficient (3.3) was not only still very high in international terms but also far exceeded the levels recorded in Latin America up to 1982.

I

Main trends

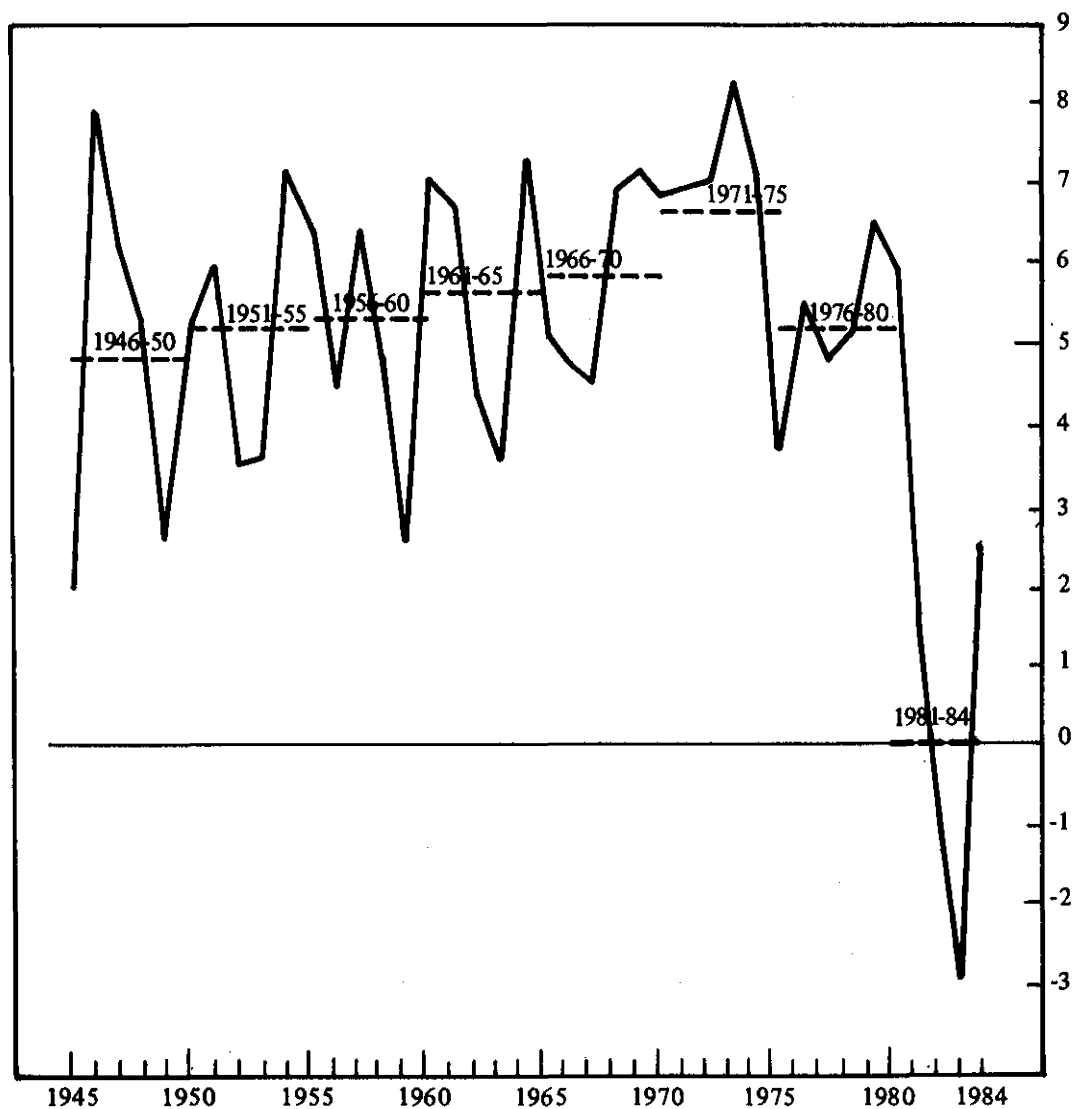
1. *Production and employment*

The year 1984 witnessed an interruption of the sharp downward trend which the growth rate of Latin America's economic activity had been showing since 1979. The region's gross domestic product, which had increased by only 1.7% in 1981 and which fell by 1% in 1982 and by rather over 3% in 1983, went up by 2.6% in 1984 (see figure 11).

In the region as a whole, however, the increase in economic activity barely exceeded that of the population. The per capita product therefore rose by only 0.2% in relation to the very low

level to which it had sunk in 1983. In fact, in most cases the economic recovery was so weak that although total economic activity expanded in 15 of the 19 countries considered, the per capita product decreased in 12 of them (see tables 2 and 3). Owing to this further decline and, above all, to the marked reduction registered in the three preceding years, the downward trend of the per capita product over the years 1981-1984 attained proportions unusually large in many countries. Thus, during the period in question the per capita product dropped by about 25% in Bolivia; almost 22% in El Salvador; approximately 16% in Uruguay, Venezuela and Guatemala; between

Figure II
LATIN AMERICA: ANNUAL GROWTH RATES OF GROSS DOMESTIC PRODUCT



Source: ECLAC, on the basis of official information.

13% and 14% in Peru and Costa Rica; 12% in Argentina, Haiti and Honduras; 11% in Chile, and 9% in Brazil.

Moreover, the recovery of economic activity tended to be concentrated in the region's large and medium-sized economies, and was, in contrast, very weak in most of the smaller countries.

In Brazil—a country which by itself generates about one-third of Latin America's total domestic product—economic activity increased

about 3.5%, thus offsetting the decline in the preceding year. The reversal of the downward trend which productive activity had been showing since 1981 was principally due to the new and spectacular expansion of the volume of exports, which increased by 16%, largely as a result of the boom in sales to the United States. A further stimulus was provided by fresh progress in import substitution. Sectorally, the bases of the recovery were an expansion of agricultural pro-

Table 2
LATIN AMERICA:
EVOLUTION OF TOTAL GROSS DOMESTIC PRODUCT

Country	Growth rates					Cumulative rates	
	1975-1978	1979-1980	1981	1982	1983	1984 ^a	1981-1984 ^a
Argentina	4.8	3.7	-6.2	-5.1	3.1	2.5	-6.0
Bolivia	5.1	1.2	-0.9	-8.7	-7.6	0.5	-16.1
Brazil	6.5	6.8	-1.6	0.9	-3.2	3.5	-0.3
Colombia	4.9	4.7	2.3	0.9	0.8	3.0	7.4
Costa Rica	5.7	2.8	-2.3	-7.3	2.3	3.0	-4.5
Cuba ^b	6.0 ^c	2.9	15.6	2.6	5.2	...	24.8 ^d
Chile	1.7	8.0	5.7	-14.3	-0.8	5.5	-5.4
Ecuador	7.0	5.1	3.9	1.8	-3.3	2.0	4.5
El Salvador	5.5	-5.3	-8.3	-5.6	0.0	1.5	-12.2
Guatemala	5.5	4.2	0.7	-3.5	-2.7	0.0	-5.5
Haiti	3.7	7.5	-2.8	-2.5	-0.6	3.0	-3.0
Honduras	5.8	4.7	1.2	-1.8	-0.5	2.0	0.9
Mexico	5.3	8.8	7.9	-0.5	-5.3	2.5	4.0
Nicaragua	1.2	-10.0	5.3	-1.2	4.0	0.5	8.8
Panama	3.5	9.7	4.2	5.5	0.4	0.0	10.3
Paraguay	9.2	11.4	8.7	-1.0	-3.0	3.0	7.4
Peru	1.5	4.0	3.9	0.4	-10.8	3.5	-3.8
Dominican Republic	4.7	5.3	4.0	1.7	3.9	1.5	11.6
Uruguay	4.1	6.0	1.9	-9.7	-4.7	-2.0	-13.9
Venezuela	5.9	-3.4	-0.3	0.7	-4.8	-1.5	-6.1
Total ^e	4.8	6.1	1.7	-1.0	-3.1	2.6	0.0

Source: ECLAC, on the basis of official figures.

^aProvisional estimates subject to revision.

^bRelates to total social product.

^cRelates to the period 1976-1978.

^dRelates to the period 1981-1983.

^eAverage, excluding Cuba.

duction by over 8% and the reactivation of manufacturing. The latter's output, which had dropped by more than 6% in 1983, increased by about 6% in 1984, achieving especially vigorous growth as from the middle of the year. Nevertheless, and partly owing to a further considerable decline in the construction sector, the average rate of unemployment in the country's most important cities was higher in January-October than in the corresponding period in the two preceding years, although it steadily decreased from June onwards (see table 4).

In Mexico, too, economic activity recovered in 1984. But the increase of about 2.5% obtained

in the gross domestic product did not suffice to compensate its reduction by over 5% in the preceding year, nor was it enough to neutralize completely the population increment. As in Brazil, exports were the main dynamic factor; their volume, after expanding by over 40% in the preceding two-year period, increased by 10% in 1984. The recovery was likewise facilitated by the greater availability of imports. The volume of these latter, which in the two preceding years had contracted by the extraordinary proportion of 68% as a result of the slump in economic activity and above all of the severe measures adopted to reduce the external imbalance, increased by 26%

Table 3
LATIN AMERICA:
EVOLUTION OF PER CAPITA GROSS DOMESTIC PRODUCT^a

Country	Dollars at 1970 prices				Growth rates					Cumulative rates
	1970	1980	1983	1984 ^b	1980	1981	1982	1983	1984 ^b	1981-1984 ^b
Argentina	1 241	1 334	1 166	1 177	-0.9	-7.7	-6.6	1.4	0.9	-11.8
Bolivia	317	382	295	288	-2.1	-3.5	-11.1	-10.0	-2.2	-24.6
Brazil	494	887	798	809	4.8	-3.8	-1.3	-5.3	1.3	-8.9
Colombia	598	824	804	812	1.9	0.1	-1.2	-1.4	1.0	-1.5
Costa Rica	740	974	834	837	-2.1	-4.9	-9.7	-0.3	0.4	-14.1
Cuba ^c	...	...	...	...	-1.9	14.9	2.0	4.6	...	22.6 ^d
Chile	958	1 045	895	928	6.2	4.1	-15.7	-2.4	3.6	-11.2
Ecuador	413	723	678	673	1.9	1.0	-1.1	-6.1	-0.7	-6.9
El Salvador	422	433	344	339	-11.3	-10.9	-8.3	-2.9	-1.4	-21.8
Guatemala	448	589	512	497	0.9	-2.1	-6.2	-5.4	-2.8	-15.5
Haiti	90	114	99	100	5.1	-5.2	-4.9	-3.1	0.4	-12.2
Honduras	313	356	318	314	-0.8	-2.3	-5.1	-3.8	-1.4	-12.0
Mexico	978	1 366	1 284	1 280	5.5	5.1	-3.1	-7.7	-0.3	-6.3
Nicaragua	418	337	331	322	6.7	2.0	-4.4	0.5	-2.8	-4.7
Panama	904	1 174	1 214	1 188	10.5	1.9	3.2	-1.8	-2.2	1.1
Paraguay	383	642	612	611	7.9	5.4	-3.9	-5.9	-0.1	-4.8
Peru	659	690	593	598	1.2	1.2	-2.2	-13.2	0.9	-13.3
Dominican Republic	398	601	615	611	3.6	1.6	-0.7	1.5	-0.7	1.7
Uruguay	1 097	1 426	1 226	1 195	5.3	1.2	-10.3	-5.3	-3.5	-16.2
Venezuela	1 239	1 310	1 147	1 097	-5.1	-3.3	-2.2	-7.4	-4.4	-16.2
Total ^e	709	982	893	895	3.1	-0.7	-3.3	-5.3	0.2	-8.9

Source: ECLAC, on the basis of official figures.

^aAt market prices.

^bProvisional estimates subject to revision.

^cRefers to total social product.

^dRefers to 1981-1983.

^eAverage, excluding Cuba.

in 1984, thus permitting the partial replenishment of stocks and the more normal operation of activities dependent upon imported inputs.

The domestic product also grew by about 2.5% in Argentina. But, in contrast with what happened in Brazil and Mexico, this increase, on the one hand, represented a prolongation of the recovery that had begun in the preceding year—when economic activity had been stepped up by 3%—and, on the other hand, was linked to the greater buoyancy of internal demand rather than to export expansion. Demand was given impetus, especially during the first half of the year, by the considerable increase in real wages, but tended to decline in the last quarter, when a more restrictive economic policy began to be ap-

plied with the aim of reducing the exceptional rate attained by inflation. Thanks to the headway made in total economic activity, the urban unemployment rate was slightly lower in the first semester than during the three preceding years and continued to be by far the lowest in Latin America (see figure III).

The expansion of economic activity was greatest in Chile, where the gross domestic product rose by over 5%, thus partly recovering from its downward plunge during the preceding two-year period. The most dynamic sector was manufacturing, whose output increased by about 10%, under the stimulus of a more expansionary fiscal policy and of various measures designed to limit imports of certain consumer manufactures.

Table 4
LATIN AMERICA:
EVOLUTION OF URBAN UNEMPLOYMENT

(Average annual rates)

Country	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Argentina ^a	3.4	2.6	4.5	2.8	2.8	2.0	2.3	4.5	4.8	4.1	4.0
Bolivia ^b	...	...	...	7.9	4.5	7.6	7.5	9.7	9.4	12.1	13.3
Brazil ^c	...	...	...	...	6.8	6.4	7.2	7.9	6.3	6.7	7.5
Colombia ^d	12.7	11.0	10.6	9.0	9.0	8.9	9.7	8.2	9.3	11.8	13.5
Costa Rica ^e	...	...	5.4	5.1	5.8	5.3	6.0	9.1	9.9	8.5	7.9
Chile ^f	8.3	15.0	16.3	13.9	13.3	13.4	11.7	9.0	20.0	19.0	18.6
Mexico ^g	7.4	7.2	6.8	8.3	6.9	5.7	4.5	4.2	4.1	6.9	6.3
Nicaragua ^h	...	...	...	...	...	21.4	18.3	15.9	18.5	18.9	19.8
Panama ⁱ	7.5	8.6	9.0	...	9.6	11.6	9.8	11.8	10.3	11.2	...
Paraguay ^j	...	...	6.7	5.4	4.1	5.9	4.1	2.2	5.6	8.4	...
Peru ^k	4.1	7.5	6.9	8.7	8.0	6.5	7.1	6.8	7.0	9.2	10.9
Uruguay ^l	8.1	...	12.7	11.8	10.1	8.3	7.4	6.7	11.9	15.5	14.5
Venezuela ^m	7.6	8.3	6.8	5.5	5.1	5.8	6.6	6.8	7.8	10.5	13.9

Source: ECLAC and PREALC, on the basis of official figures.

^aGreater Buenos Aires. Average April-October; 1984, April.

^bLa Paz, 1977, 1978 and 1979, second semester; 1980, average May-October; 1983, second semester; 1984, first semester.

^cMetropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Average for 12 months; 1980, average June-December; 1984, average January-October.

^dBogotá, Barranquilla, Medellín and Cali. Average for March, June, September and December; 1984, average for March, June and September.

^eNational urban. Average for March, July and November; 1984, March.

^fGreater Santiago. Average for four quarters; 1984, average for three quarters. As from August 1983 data relate to the metropolitan area of Santiago.

^gMetropolitan areas of Mexico City, Guadalajara and Monterrey. Average for four quarters. 1984, average for first two quarters.

^h1979 to 1981, non-agricultural activities; 1982 to 1984, estimates.

ⁱNational urban; 1980, urban unemployment recorded in the population census taken in that year; 1981, 1982 and 1983, metropolitan area.

^jAsunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo, annual average; 1981, first semester; 1982, second semester.

^kMetropolitan Lima. 1970, August-September; 1978, average for July-August; 1979, August-September; 1980, April; 1981, June; 1982, 1983 and 1984, official estimate for the whole country.

^lMontevideo. Average for two semesters. 1984, average January-September.

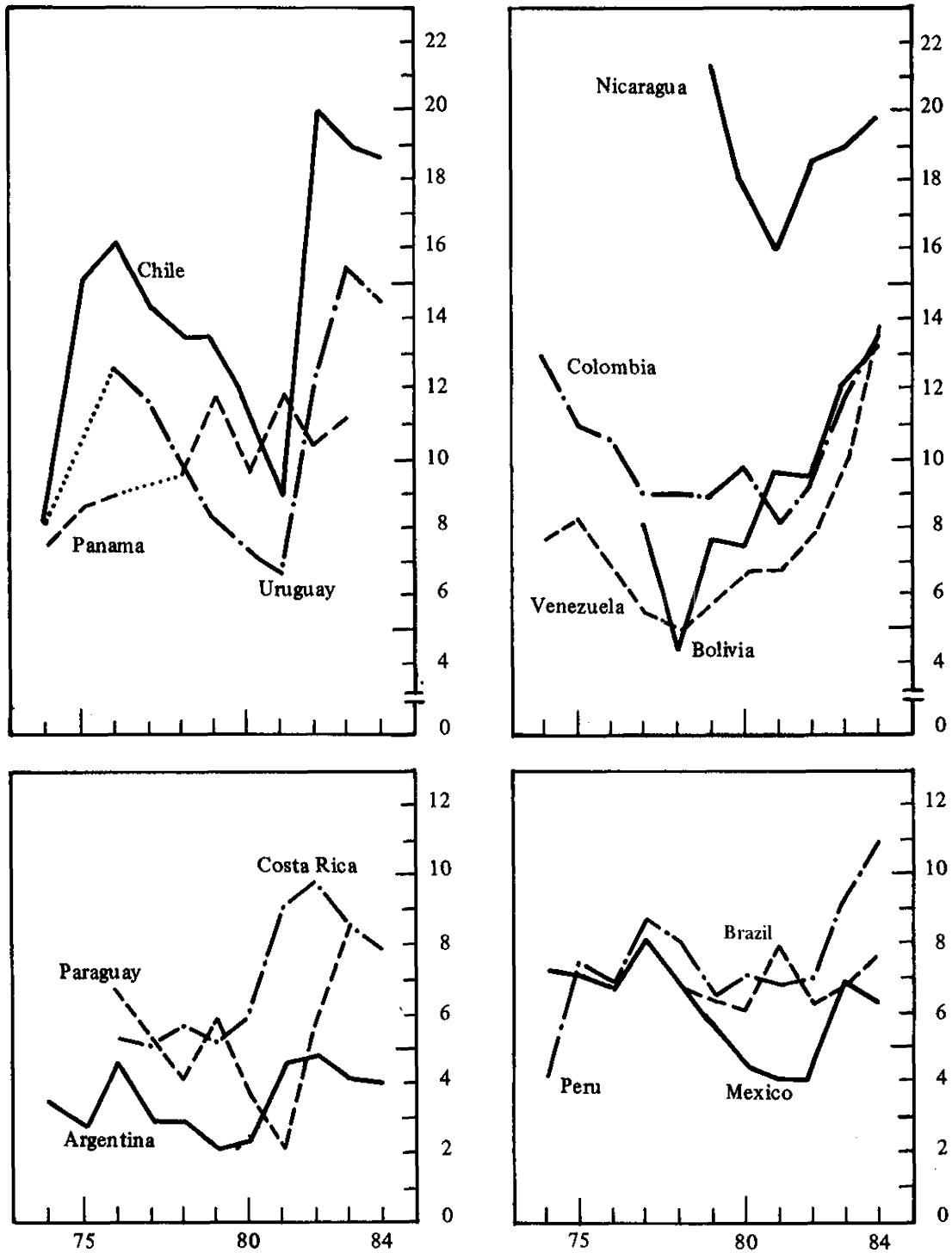
^mNational urban. Average for two semesters; 1984, first semester.

Greater public expenditure was the main cause of the 7% increase in construction, while agricultural production expanded by over 6%, thanks to the marked recovery in harvests of wheat and other traditional products and to the increase of about 35% in the value of exports of fruit. Despite the progress made by the main sectors of production, the unemployment rate fell only slightly in the country as a whole and remained above 18% in Santiago. This result was influenced both by the drastic reduction in the

Government's emergency employment programmes effected at the beginning of the year and by the slackening of the growth rate of economic activity during the second semester.

The rate of economic growth likewise rose in Colombia, where it had been gradually but persistently decreasing during the four preceding years. As in Chile, the two sectors that contributed most to the increase of approximately 3% in the gross domestic product were manufacturing and construction. While the former

Figure III
LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT



Source: ECLAC, on the basis of official information.

benefited by the rise in the real exchange rate and particularly by the increase of tariffs, the latter was encouraged by the large-scale mobilization of financial resources for housing construction and by public expenditure. In Colombia too, however, the growth of economic activity occurred mainly in the first half of the year and subsequently tended to lose impetus. Moreover, the recovery of industry and construction did not suffice to reverse the rising trend of urban unemployment which had been apparent since 1982. During the first nine months of the year the average unemployment rate in the country's four most important cities climbed to 13.5%, the highest figure recorded in the last eleven years.

The gross domestic product increased by about 3.5% in Peru, after falling by nearly 11% the year before. In essence, the growth achieved in 1984 was due to the recovery of the primary sectors, whose production in 1983 had suffered the severely damaging effects of an exceptional combination of natural disasters. Thus, the agricultural product went up by about 6%, partly making up for its 9% decline in the preceding year; the production of the fishing sector increased by about 40%, i.e., in much the same proportion as it had decreased in 1983; and the product of mining, which had contracted in that year by 8%, expanded in 1984 by about 5%. In contrast, industrial production increased by less than 2%, thus recovering only a minimal part of the ground lost in 1983, when it had declined by 16%, while construction underwent a new reduction of 1%, after having contracted by more than 20% in 1983. In these circumstances, the rate of open unemployment shot up for the third year running and reached an unprecedented level of almost 11% (see table 4).

The evolution of economic activity was relatively similar in 1984 in Paraguay and Ecuador, both of which countries, like Peru, had had to face the effects of exceptionally hostile weather conditions in 1983.

In Ecuador, the gross domestic product, after falling by rather more than 3% in 1983, rose by about 2% in 1984 which was a lower rate than that of population growth. As in the case of Peru, the increase in the product stemmed mainly from the recovery of primary activities. Thus, agricultural production, which in 1983 had con-

tracted by 27% as a result of the devastation caused by torrential rainfall and floods, expanded by 18%; there was a 4% improvement in the fishing sector, offsetting the preceding year's decline; and the joint product of mining and the petroleum industry expanded by about 7.5%. In contrast, manufacturing declined by 2% for the second year in succession and construction increased by less than 1%, after having contracted by 12% in 1983.

In Paraguay, for its part, the product rose by 3%: a rate similar to that of the decline it had suffered in the preceding year. In this country too, however, the expansion of total productive activity was insufficient to offset the effect of population growth, and the per capita product therefore decreased for the third year in a row. As in Ecuador, the most dynamic sector was agriculture, whose product increased by about 6%, after having fallen by 2.5% in the preceding year. And, likewise as in Ecuador, construction continued to decline, as it had in 1982 and 1983, although less steeply.

Neither did the expansion of total production suffice to prevent decreases in the per capita product in 1984 in Bolivia, the Dominican Republic and all the Central American countries, with the sole exception of Costa Rica (see table 3). In most of them productive activity was still being undermined by the uncertainty and instability arising out of the acute political tensions and social conflicts, as well as by the unfavourable evolution of international prices for some of their main export products, such as sugar, bananas, cotton and tin.

Lastly, economic activity declined in 1984 by a little less than 2% both in Venezuela and in Uruguay.

In Venezuela this decrease meant that the per capita product dwindled for the seventh year in succession, its cumulative reduction in 1978-1984 thus amounting to 24%. The main causes of the further downward movement of economic activity in 1984 were the contraction of about 5% in the petroleum industry and the fall of approximately 2% in the other sectors of production. In 1984 the petroleum sector continued to face an adverse international conjuncture which compelled OPEC to reduce its members' production quotas towards the end of the year, including that of Venezuela, for which a cut of 7.5% was

decided upon in the last quarter. The contraction in other activities, in its turn, was due mainly to the very low level at which domestic demand remained and to the uncertainty created by the changes introduced in the exchange system and the prolonged negotiations with the foreign commercial banks for the refinancing of the external debt. In consequence of the decline in economic activity, open unemployment increased for the sixth year in succession and reached almost 14% in the first semester: the highest figure recorded since the existence of reliable statistical data (see figure III).

In Uruguay the reduction of the product by almost 2% in 1984 compounded its much bigger decreases in the two preceding years. This further decline in economic activity reflected both the very unfavourable behaviour of exports—whose volume contracted by more than 14%—and the lack of dynamism displayed by the sectors oriented towards meeting domestic demand, among which the slump of about 16% in construction was particularly striking. Economic activity in general was cramped by the limited amount of financing available, the high level of indebtedness of enterprises and the wait-and-see attitude adopted by entrepreneurs *vis-à-vis* the outcome of the presidential elections at the end of the year. In these circumstances, the rate of unemployment in Montevideo continued to hover around 14.5% and, given the acceleration of inflation, real wages once again decreased (see figure IV).

2. Inflation

Despite the weakness of the economic recovery in most of the countries of the region, the increase in unemployment in many of them, and the attenuation of external inflationary pressures, the rate of increase of prices rose in half the Latin American economies and in the region as a whole reached a new all-time high in 1984. The simple average rate of increase of consumer prices shot up from 66% in 1983 to 116% in 1984 and the rate weighted by the population jumped in the same period from 130% to 165%.

The rate of inflation gathered enormous speed in Argentina and, above all, in Bolivia, and continued to be very high in Brazil and Peru. The rate of increase of prices also accelerated sharply,

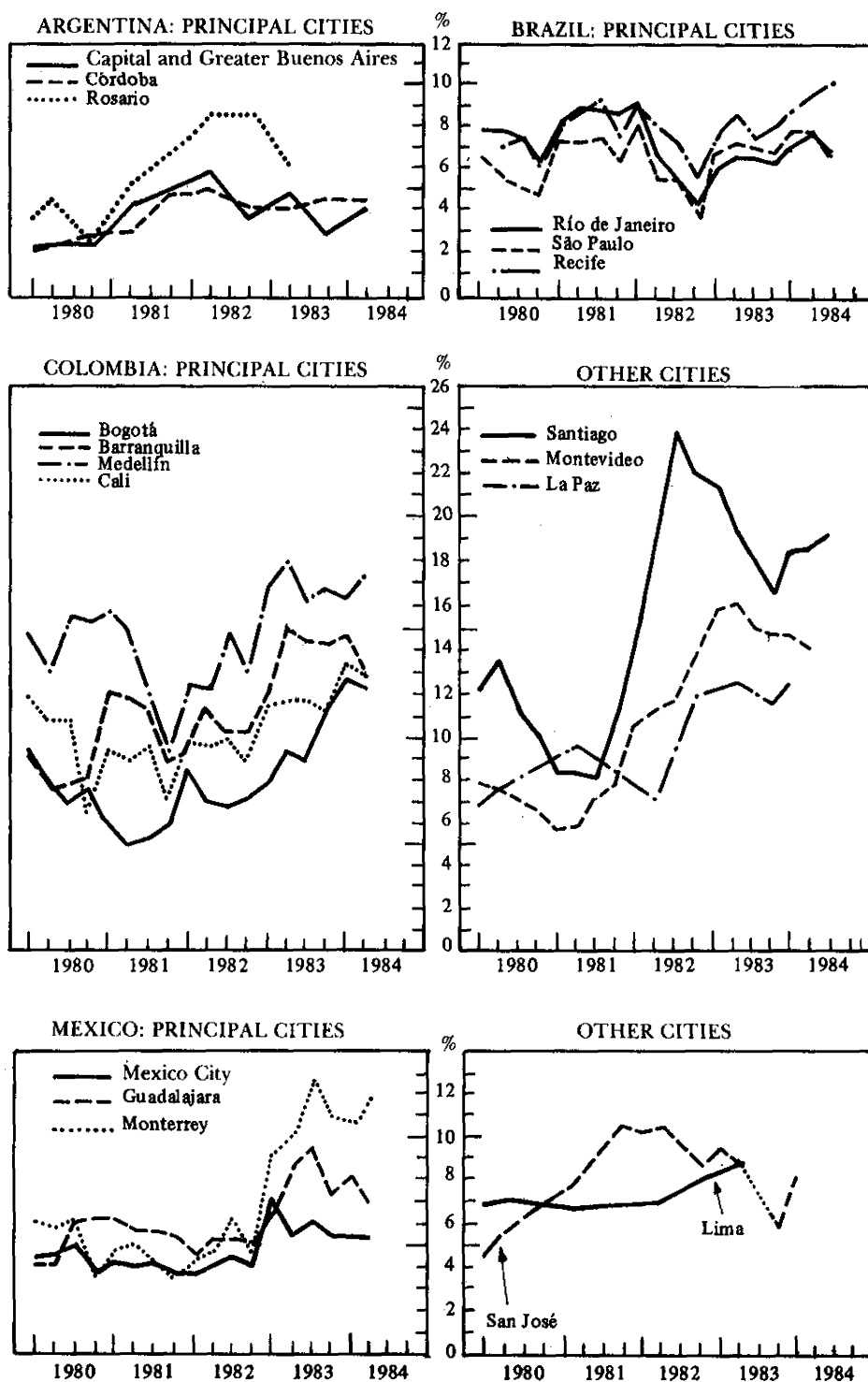
although starting from very different levels, in Uruguay, Nicaragua, Jamaica, Paraguay, Costa Rica, Venezuela and the Dominican Republic. In contrast, inflation declined in Mexico, although it was still high both in historical and in internationally comparative terms; it dropped sharply in Ecuador, it remained at the same levels as the year before in Chile and Colombia; and it was very low in El Salvador, Haiti, Honduras, Barbados and Panama (see table 5).

Figures unprecedented in the economic history of Latin America were reached by inflation in Bolivia, where consumer prices soared by almost 1 100% between September 1983 and September 1984 and will probably rise even higher by the end of the year. At the end of November the exchange system was unified through devaluations of the peso which represented increases of nearly 330% in the case of the exchange rate formerly applicable to essential imports and over 70% in that of the supplementary exchange rate formerly applicable to all other imports. At the same time, the Government raised the official prices of a number of basic foods in proportions that ranged from 40% to 200%, increased fuel prices between 500 and 1 100% and decreed a substantial adjustment of wages and salaries, all of which measures are bound to affect price levels as from December.

The inflationary process also accelerated notably in Argentina. As may be seen in figure V, the annual rate of increase of consumer prices, after rising to 430% at the end of 1983, continued rising with extraordinary rapidity up to October 1984, when it exceeded 700%. This intensification of the inflationary process was primarily attributable to the salary and wage policy applied at the beginning of the year, the rise in interest rates in non-regulated markets and the accentuated inflationary expectations of the majority of economic agents. Nevertheless, the upward trend in the rate of inflation levelled off to some extent in November when a more restrictive economic policy began to be applied.

Inflation also continued very high in Brazil, where it hovered around 200%, and in Peru, where the rate of increase of consumer prices exceeded 100% for the second consecutive year. In Peru the factors most responsible for inflation were once again the high fiscal deficit and the continuous readjustments in the exchange rate.

Figure IV
LATIN AMERICA:
EVOLUTION OF UNEMPLOYMENT IN SOME PRINCIPAL CITIES



Source: ECLAC, on the basis of official information.

Table 5
LATIN AMERICA:
EVOLUTION OF CONSUMER PRICES
(Variation from December to December)

Country	1976	1977	1978	1979	1980	1981	1982	1983	1984
Latin America^a	62.2	40.0	39.0	54.1	56.5	56.8	84.5	130.8	175.4
Countries with tradition- ally high inflation	74.5	47.1	45.7	61.9	61.5	71.7	102.8	156.6	208.0
Argentina	347.5	150.4	169.8	139.7	87.6	131.2	209.7	433.7	675.0 ^b
Bolivia	5.5	10.5	13.5	45.5	23.9	25.2	296.5	328.5	1 682.3 ^c
Brazil ^d	44.8	43.1	38.1	76.0	95.3	91.2	97.9	179.2	194.7 ^b
Colombia ^e	25.9	29.3	17.8	29.8	26.5	27.5	24.1	16.5	16.4 ^b
Chile	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.6	22.2 ^b
Mexico	27.2	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2 ^b
Peru	44.7	32.4	73.7	66.7	59.7	72.7	72.9	125.1	105.8 ^b
Uruguay	39.9	57.3	46.0	83.1	42.8	29.4	20.5	51.5	63.8 ^b
Countries with tradition- ally moderate inflation	7.9	8.8	9.8	20.1	15.4	14.1	12.6	17.2	17.0
Barbados	3.9	9.9	11.3	16.8	16.1	12.3	6.9	5.5	3.9 ^f
Costa Rica	4.4	5.3	8.1	13.2	17.8	65.1	81.7	10.7	15.7 ^g
Ecuador ^h	13.1	9.8	11.8	9.0	14.5	17.9	24.3	52.5	19.1 ^g
El Salvador	5.2	14.9	14.6	14.8	18.6	11.6	13.8	15.5	13.1 ^g
Guatemala	18.9	7.4	9.1	13.7	9.1	8.7	-2.0	15.4	...
Guyana	9.2	9.0	20.0	19.4	8.5	29.1	...	...	...
Haiti ⁱ	-1.4	5.5	5.5	15.4	15.3	16.4	6.2	12.2	8.6 ^j
Honduras	5.6	7.7	5.4	18.9	15.0	9.2	9.4	10.2	6.9 ^k
Jamaica	8.3	14.1	49.4	19.8	28.6	4.8	7.0	14.5	33.1 ^l
Nicaragua	6.2	10.2	4.3	70.3	24.8	23.2	22.2	32.9	40.0 ^c
Panama	4.8	4.8	5.0	10.0	14.4	4.8	3.7	2.0	1.1 ^g
Paraguay	3.4	9.4	16.8	35.7	8.9	15.0	4.2	14.1	25.4 ^g
Dominican Republic	7.0	8.5	1.8	26.2	4.2	7.4	7.1	9.8	21.2 ^m
Trinidad and Tobago	12.0	11.4	8.8	19.5	16.6	11.6	10.8	15.4	13.4 ^f
Venezuela	6.9	8.1	7.1	20.5	19.6	10.8	7.9	7.0	15.7 ^g

Source: International Monetary Fund, *International Financial Statistics*, November 1984, and official information supplied by the countries.

^aTotals for Latin America and partial figures for groups of countries represent average variations by countries, weighted by the population in each year.

^bVariation between November 1984 and November 1983.

^cVariation between November 1984 and November 1983.

^dUp to 1979, figures represent the Consumer Price Index in the city of Rio de Janeiro; from 1980 onwards, the variation in the national total.

^eUp to 1980, figures represent the variation in the Consumer Price Index for manual workers; from 1981 onwards, the variation in the national total, including manual workers and employees.

^fVariation between August 1984 and August 1983.

^gVariation between October 1984 and October 1983.

^hUp to 1982, figures represent the variation in the Consumer Price Index in the city of Quito; from 1983 onwards, the national Consumer Price Index, urban area.

ⁱThe series represents the variation between September of the year indicated and September of the preceding year.

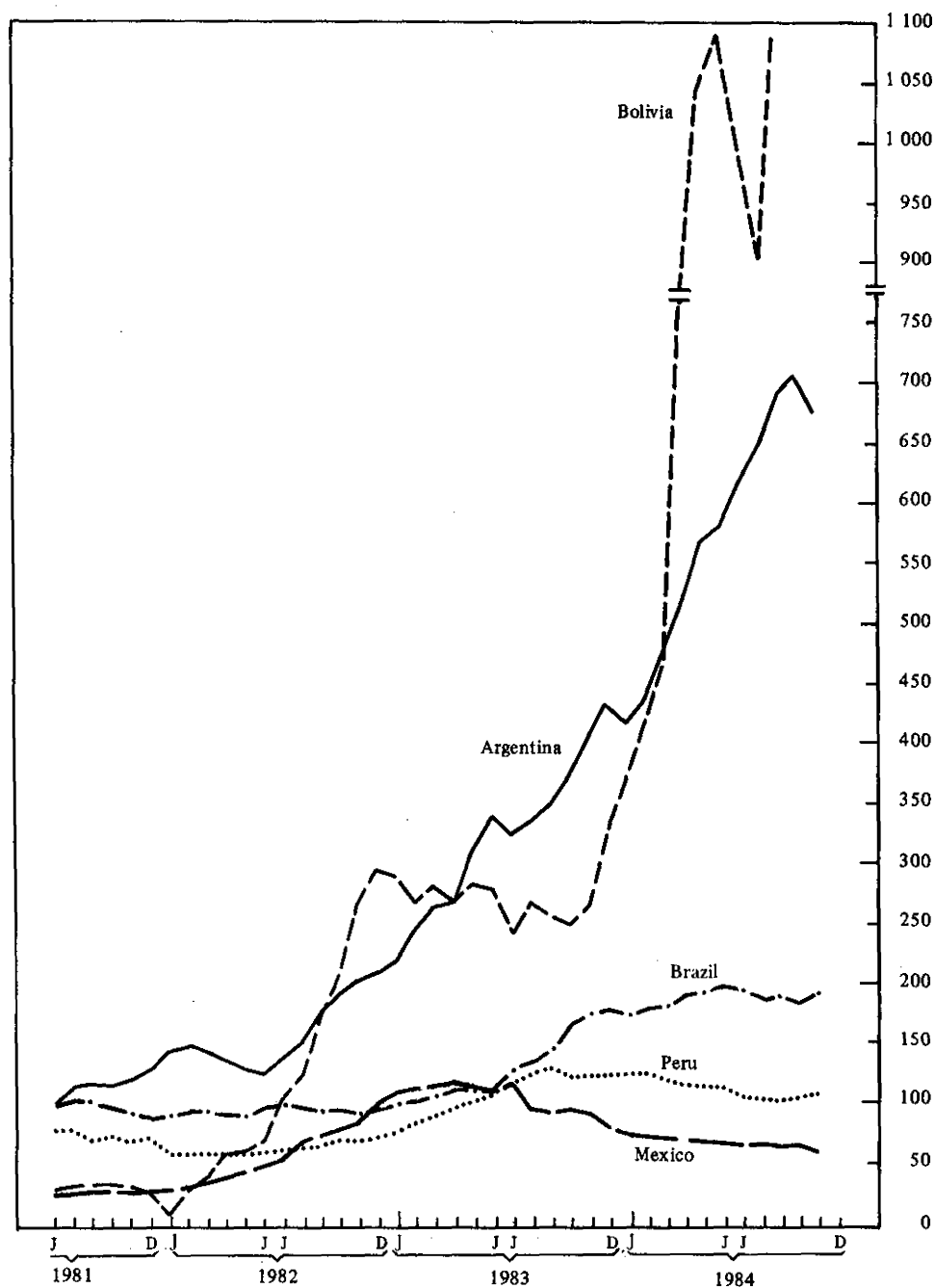
^jVariation between June 1984 and June 1983.

^kVariation between March 1984 and March 1983.

^lVariation between July 1984 and July 1983.

^mVariation between May 1984 and May 1983.

Figure V
LATIN AMERICA (SELECTED COUNTRIES):
TWELVE-MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEX



Source: ECLAC, on the basis of official information.

As for Brazil, the high rate of inflation there reflected not only the indexing of almost all the main variables which affect costs, but also the

elimination of subsidies on the price of petroleum and other basic commodities.

The inflationary process intensified marked-

ly for the second consecutive year in Uruguay, Nicaragua and Paraguay and for the third successive year in Jamaica. Thus, in 1984 consumer prices rose by over 60% in Uruguay, 40% in Nicaragua, 33% in Jamaica and 25% in Paraguay.

Inflation also rose in Costa Rica after dropping spectacularly since the middle of 1982, and increased perceptibly in Venezuela and the Dominican Republic. However, in these three countries the rate of inflation was hovering in the neighbourhood of 15% as the year ended and, in the case of Venezuela, was lower than had been originally predicted on the basis of the devaluation of the bolívar and the changes introduced in the exchange system at the beginning of the year.

On the other hand, the downturn which the inflation in Mexico had begun to show in the middle of 1983 persisted in 1984 (see figure v). However, consumer prices still rose by nearly 60% by the end of the year. This rise, which is considerably higher than the one of 40% set as a goal by the economic authorities, helped to produce a new drop in the purchasing power of wages and salaries and a more rapid erosion than had been predicted in the real level of the exchange rate, which made it necessary to increase the daily devaluation of the peso at the beginning of December.

Inflation also fell, but much more markedly, in Ecuador. After reaching a historical high of over 60% in September 1983 as a consequence, primarily, of the sharp drop in the supply of agricultural commodities caused by the floods that year, the rate of inflation then fell continuously, dropping below 20% at the end of 1984. This persistent decline in the intensity of the inflationary process was largely due to the normalization of food supplies and prices due to the recovery of agriculture and the application of a restrictive monetary and fiscal policy by the economic authorities.

By contrast with what had happened in previous years, in Chile and Colombia the situation in respect of inflation at the end of 1984 was essentially the same as in 1983, in that in Chile, the increase in consumer prices remained in the neighbourhood of the 23% recorded the preceding year, while in Colombia the inflation of close to 16.5% recorded in 1983 was repeated.

However, in Chile the similarity in these fig-

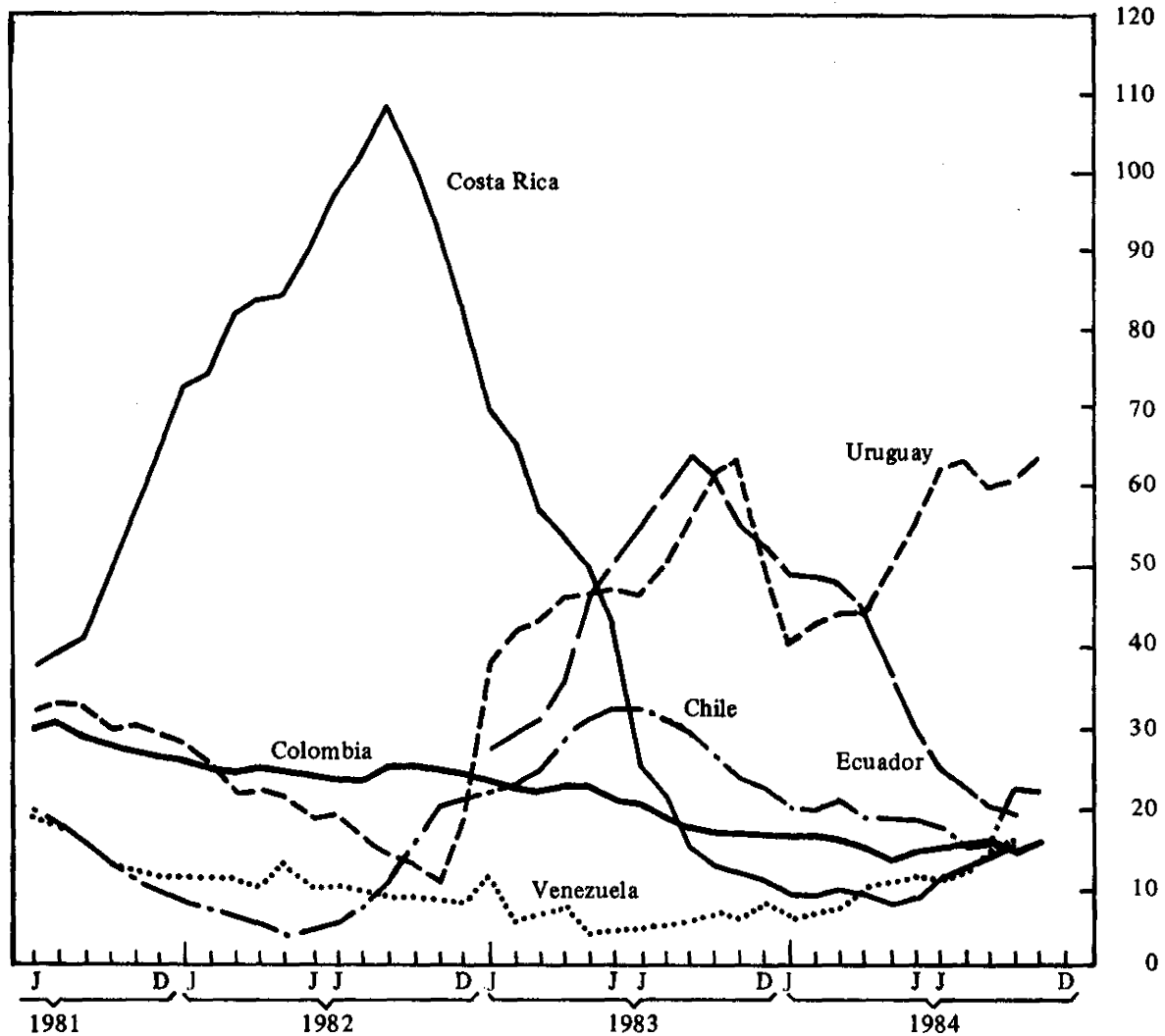
ures conceals appreciable differences shown by the rate of the inflation during the two years. As may be seen in figure vi, up to August 1984 the inflation continued on the downward course initiated in the middle of the preceding year. In fact, in the first eight months of the year, consumer prices rose by less than 8%. This trajectory was, however, changed by the increase of nearly 24% in the exchange rate decreed in September, which caused a sudden increase in prices the following month.

In Colombia, on the other hand, the inflation trajectory retained the notable stability which has characterized it in recent years. The rate of increase of prices continued to fall gradually and almost constantly during the first part of the year and increased only slightly at the end, as a result, primarily, of the readjustments introduced in the prices of certain products such as gasoline, which had lagged behind.

3. *The external sector*

The adjustment effort made by many Latin American economies and the more dynamic climate created by world trade made it possible for the situation in the external sector to improve appreciably in 1984. The trade surplus for the region as a whole reached the unprecedented figure of US\$ 37.6 billion, which was four times as high as the one recorded barely two years previously. Moreover, the larger surplus occurred because exports grew more rapidly than imports and not because imports fell more intensively than exports as had happened in the two preceding years. An increase in the trade surplus also made it possible for the second consecutive year to reduce the negative balance on current account, which amounted to the equivalent of less than one-tenth of the negative balances recorded in 1981 and 1982. The decrease in the deficit on current account and the moderate increase in the net inflow of capital helped to generate a surplus in the balance of payments of close to US\$ 7.5 billion, thereby reversing the downward trend which international reserves had shown since 1981. Moreover, in 1984 the growth rate of the external debt continued to slacken and the terms on which the countries of the region renegotiated their international banking commitments improved.

Figure VI
LATIN AMERICA (SELECTED COUNTRIES): TWELVE-MONTHLY
VARIATIONS IN THE CONSUMER PRICE INDEX



Source: ECLAC, on the basis of official information.

a) *Foreign trade and the terms of trade*

After having fallen by nearly 8% in 1982 and having declined slightly in 1983, the value of exports of goods in Latin America rose by over 9% in 1984. This advance was due entirely to the vigorous expansion in the volume of external sales, which rose by nearly 10%. Unlike what had happened the preceding year, only a small proportion of this expansion was offset by a drop in unit value (see table 6).

Although the increase in the value of exports of the region as a whole was to a large extent attributable to the spectacular growth of Brazil's external sales, which rose by 23%, it also reflected progress made by exports in other countries. Thus, their value rose by over 13% in the Dominican Republic and Costa Rica, by 11% in Argentina and Haiti, by over 8% in Venezuela and by between 5% and 7% in El Salvador, Honduras, Mexico, Ecuador and Guatemala. However, in all these countries, with the exception of Mexico

Table 6
LATIN AMERICA:
EXPORTS OF GOODS
(Indexes: 1970 = 100, and growth rates)

Country	Value				Unit value				Quantum			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a
Latin America	692	-7.9	-0.2	9.3	297	-10.3	-8.1	-0.5	233	2.7	8.6	9.8
Oil-exporting countries	843	-3.8	-4.1	6.0	443	-16.1	-10.3	-3.3	190	14.8	7.0	9.6
Bolivia	382	-9.0	-8.6	-3.8	429	-3.5	3.1	3.6	89	-5.7	-11.4	-7.3
Ecuador	1 060	-7.9	0.9	5.3	456	-7.7	-7.8	0.9	233	-0.2	9.5	4.4
Mexico	1 743	10.7	0.7	5.7	334	-13.0	-10.5	-4.0	522	27.3	12.5	10.1
Peru	291	1.3	-8.4	-0.2	263	-10.4	3.6	-9.5	111	13.1	-11.6	10.3
Venezuela	611	-18.2	-10.2	8.4	1 140	-7.8	-7.3	-3.0	54	-11.3	-3.2	11.9
Non-oil-exporting countries	599	-12.0	4.0	13.9	230	-7.9	-4.9	4.1	261	-2.4	9.3	9.4
Argentina	491	-16.6	2.8	11.1	253	-12.0	-7.4	4.0	194	-5.3	11.1	6.8
Brazil	984	-13.3	8.6	23.1	237	-7.2	-5.9	6.0	415	-6.6	15.4	16.1
Colombia	387	-0.1	-6.6	1.6	313	8.9	-4.0	8.3	124	-8.3	-2.7	-6.2
Costa Rica	417	-13.1	-2.3	13.3	259	-5.5	-2.2	6.7	161	-8.1	-0.1	6.1
Chile	330	-3.1	3.3	-4.1	126	-17.2	-0.1	-5.0	262	16.7	3.4	0.5
El Salvador	332	-11.8	4.0	7.1	285	4.8	-5.5	3.3	117	-15.8	10.0	3.7
Guatemala	386	-7.6	-9.0	4.9	223	-7.7	-12.8	3.4	173	0.0	4.4	1.6
Haiti	510	15.5	2.7	11.1	274	1.0	-4.1	5.0	186	14.4	7.2	6.2
Honduras	417	-13.7	2.6	6.9	267	-4.0	-2.0	-0.4	156	-10.0	4.8	7.2
Nicaragua	240	-20.1	5.5	0.1	204	-6.0	-9.6	7.4	118	-15.0	16.7	-6.6
Panama	193	0.4	-8.1	-20.9	236	-15.1	0.6	-5.0	82	18.3	-8.6	-16.6
Paraguay	582	-0.6	-17.7	16.4	268	-12.7	-9.3	5.0	217	13.9	-9.2	10.9
Dominican Republic	417	-35.4	2.0	13.9	259	-30.0	6.9	4.1	161	-7.7	-4.6	9.4
Uruguay	445	2.2	-7.9	-13.9	234	-6.5	-7.3	0.6	190	9.3	-0.6	-14.4

Source: ECLAC, on the basis of official figures.

^aPreliminary estimates subject to revision.

and Haiti, the increase in the value of exports was not enough to offset their decline during the two preceding years.

On the other hand, the value of exports stagnated completely in Nicaragua, because of the drop in the volume exported, and in Peru, as a consequence of the decline in unit value. A decrease in unit value, brought about primarily by the drop in international copper and fish meal prices, was also the cause of the 4% decrease in the value of the exports of Chile, while a marked contraction in the volumes exported was responsible for the decline in the value of the external sales of Bolivia and Uruguay.

Also by contrast with what happened in the

two preceding years, in 1984 the value of imports increased. The rise by somewhat more than 4% was, however, very meagre after the precipitous drop in external purchases which took place in both 1982 and 1983.

In addition to being weak, the expansion of imports was concentrated in a small number of countries. Thus, the value of imports rose significantly only in Mexico (26%), Costa Rica (18%), Chile and Ecuador (12%), El Salvador (9%) and Uruguay and Venezuela (8%). However, it was only in Costa Rica that the increase achieved in 1984 meant that the volume of imports that year was greater than in 1981 (see table 7).

In the other economies of the region, with

Table 7
**LATIN AMERICA:
 IMPORTS OF GOODS**
(Indexes: 1970 = 100, and growth rates)

Country	Value				Unit value				Quantum			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a	1984 ^a	1982	1983	1984 ^a
Latin America	447	-19.9	-28.6	4.4	313	1.5	-2.1	-0.3	143	-18.7	-27.2	4.7
Oil-exporting countries	433	-20.1	-44.4	14.1	266	0.0	-4.2	1.4	163	-20.1	-41.9	12.4
Bolivia	337	-37.0	12.4	-5.6	311	-2.6	-3.3	4.7	108	-35.3	16.2	-9.9
Ecuador	633	-7.6	-35.4	12.0	244	0.0	-1.0	0.0	259	-7.6	-34.8	12.2
Mexico	447	-40.0	-46.5	29.6	277	6.0	-7.3	2.5	161	-43.4	-42.3	26.1
Peru	348	-2.1	-26.8	-10.8	320	2.0	3.3	4.0	109	-4.1	-29.2	-14.2
Venezuela	429	12.0	-50.1	8.4	243	-5.7	-5.5	0.2	177	18.8	-47.2	8.2
Non-oil-exporting countries	456	-19.7	-15.9	-0.8	352	-3.2	-5.6	0.1	130	-17.1	-11.0	0.8
Argentina	285	-42.2	-15.2	3.6	314	-4.9	-4.4	2.0	91	-39.4	-11.3	1.5
Brazil	573	-12.2	-20.4	-7.0	410	-3.6	-6.1	-2.4	140	-8.9	-15.3	-4.6
Colombia	589	13.5	-11.9	-0.7	259	-4.4	-6.3	2.3	227	18.7	-6.1	-3.0
Costa Rica	387	-28.4	14.6	24.4	372	5.3	2.8	5.1	104	-32.0	11.5	18.2
Chile	377	-44.1	-22.7	16.1	367	-7.7	-7.9	-0.3	103	-39.4	-16.0	16.3
El Salvador	467	-8.1	-2.8	13.3	345	5.7	1.7	3.5	135	-13.0	-4.4	9.2
Guatemala	425	-16.6	-17.8	7.3	362	6.3	3.2	4.2	118	-21.6	-20.3	3.2
Haiti	719	-15.5	2.7	-1.9	350	7.3	2.5	5.0	206	-21.2	2.0	-6.6
Honduras	370	-24.2	11.8	-1.3	315	1.0	-1.0	1.0	117	-25.0	12.9	-2.3
Nicaragua	436	-21.6	7.6	0.2	360	5.3	3.8	1.4	121	-25.5	3.7	-1.2
Panama	333	0.0	-13.5	-11.4	450	4.9	1.6	3.8	74	-4.6	-14.9	-14.9
Paraguay	757	-7.9	-22.5	5.2	332	3.7	-4.2	4.0	228	-11.2	-19.1	1.1
Dominican Republic	437	-13.4	3.2	-6.4	320	2.2	-1.7	0.3	137	-15.3	4.9	-6.6
Uruguay	387	-34.8	-28.7	6.0	319	-7.1	-8.4	-1.8	121	-29.8	-22.2	8.1

Source: ECLAC, on the basis of official figures.

^aPreliminary estimates subject to revision.

the sole exception of Argentina and Guatemala, where the volume of external purchases increased slightly after severe drops in the two preceding years, the volume of imports continued to decrease and tended to limit the recovery of economic activity.

There was also a break in 1984 in the marked and persistent deterioration shown by the terms of trade of Latin America since 1980. As may be seen in table 8, the terms of trade for the region as a whole remained almost stable in 1984. However, this stability was the result of opposing tendencies shown by the terms of trade in the petroleum-exporting countries and in the other

economies of the region. In the former, the terms of trade declined for the fourth consecutive year, while in the group of non-oil-exporting economies they rose by 4.5% after having shown a slight rise the preceding year.

However, since in these economies the terms of trade had deteriorated markedly in the period 1979-1982, the respective index was still 26% less than in 1978, and in 1984 it remained at one of the lowest levels recorded since 1930. Conversely, in the case of the petroleum-exporting countries, the deterioration in the terms of trade during the past four years was not such as to nullify the notable progress made in the 1979-

Table 8
LATIN AMERICA: TERMS OF TRADE (GOODS)

(Indexes: 1970 = 100, and growth rates)

Country	Indexes				Growth rates				Cumulative rates	
	1975	1980	1983	1984 ^a	1981	1982	1983	1984 ^a	1979-1980	1981-1984 ^a
Latin America	114	121	95	95	-8.4	-9.0	-6.2	0.2	7.0	-21.7
Oil-exporting countries	188	235	175	166	-5.7	-16.0	-6.4	-4.6	40.8	-29.3
Bolivia	111	139	139	138	-5.0	-1.0	6.6	-0.9	15.7	-0.6
Ecuador	162	239	185	188	-10.0	-7.7	-6.8	1.7	36.7	-21.3
Mexico	106	164	129	120	-1.0	-18.0	-3.4	-6.8	37.9	-26.8
Peru	104	130	95	82	-17.6	-12.1	0.2	-13.3	50.6	-37.1
Venezuela	340	511	485	470	-1.0	-2.2	-1.9	-3.2	63.8	-8.0
Non-oil-exporting countries	83	76	63	66	-14.4	-4.9	0.8	4.5	-13.7	-14.3
Argentina	99	93	79	81	-4.7	-7.5	-3.2	2.4	17.2	-12.6
Brazil	85	66	53	58	-16.6	-3.8	0.2	8.8	-23.7	-12.5
Colombia	82	126	114	121	-22.5	13.9	2.3	6.3	-16.2	-3.9
Costa Rica	77	94	69	70	-14.3	-10.2	-4.9	2.0	-5.0	-25.3
Chile	52	47	37	34	-21.0	-10.4	7.8	-7.4	-4.1	-28.0
El Salvador	87	103	83	83	-12.6	-0.8	-7.1	0.4	-22.6	-19.1
Guatemala	69	92	62	62	-8.2	-13.2	-15.6	-0.6	-19.2	-33.3
Haiti	92	98	78	78	-9.4	-5.8	-6.6	0.0	-12.9	-20.2
Honduras	91	105	86	85	-13.0	-5.0	-1.0	-0.8	-7.1	-18.9
Nicaragua	79	78	54	57	-11.3	-10.7	-13.0	6.5	-19.6	-26.6
Panama	109	72	57	53	-0.1	-19.0	-1.0	-8.4	-2.5	-26.7
Paraguay	104	96	80	81	4.6	-15.8	-5.3	0.9	-22.1	-15.9
Dominican Republic	148	101	78	81	3.6	-31.5	8.6	4.0	19.0	-19.8
Uruguay	74	80	72	73	-11.7	0.6	1.3	1.8	-5.7	-8.4

Source: ECLAC, on the basis of official figures.

^aPreliminary estimates subject to revision.

1980 biennium. Thus, in all these economies, with the exception of that of Peru, the index of the terms of trade was still far higher than that of any non-oil-exporting country, with the sole exception of Colombia (see table 8).

The stabilization of the terms of trade and the marked increase in the volume of exports meant that in 1984 the purchasing power of the latter experienced its first significant increase since 1980 (see table 9 and figure VII). However, this rise was the net result of very uneven changes in the purchasing power of exports in different countries of the region. Thus, while this variable increased at an extraordinary rate (25%) in Bra-

zil and rose from between 10% and 12% in Argentina, Paraguay and the Dominican Republic and by about 7% in Venezuela, Ecuador and Mexico, it fell markedly in Panama (-28%), Uruguay (-11%) and Bolivia (-9%) and also dropped in five other countries.

b) *The balance of payments*

As a consequence of the much greater rise in the value of exports than in that of imports, the surplus on trade in goods experienced a new and significant increase in 1984. In actual fact, the amount of US\$ 37.6 billion to which the surplus

Table 9
LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1970 = 100, and growth rates)

Country	Indexes				Growth rates				Cumulative rates	
	1975	1980	1983	1984 ^a	1981	1982	1983	1984 ^a	1979/ 1980	1981/ 1984 ^a
Latin America	132	208	201	221	1.8	-6.6	1.9	9.7	28.4	6.3
Oil-exporting countries	166	308	303	317	1.9	-3.5	0.1	4.5	71.1	2.9
Bolivia	133	165	135	123	-6.3	-7.6	-5.8	-8.8	12.3	-25.5
Ecuador	280	466	409	438	-6.5	-7.8	2.0	7.0	29.1	-6.0
Mexico	127	458	586	626	17.3	1.3	7.6	6.8	101.2	36.6
Peru	74	140	94	91	-22.8	-2.5	-10.7	-3.3	61.8	-35.0
Venezuela	214	301	217	251	-6.2	-13.8	-10.9	8.1	68.6	-16.4
Non-oil-exporting countries	109	152	150	169	-3.3	-7.2	10.2	13.2	1.0	11.8
Argentina	78	139	142	157	10.6	-12.9	6.0	10.6	1.7	12.9
Brazil	135	179	193	240	4.0	-10.2	15.3	24.7	5.4	34.3
Colombia	124	194	150	150	-25.5	4.0	0.1	-0.2	-1.1	-22.8
Costa Rica	107	142	106	113	-5.3	-17.3	-4.6	6.1	-6.7	-20.5
Chile	67	109	95	89	-24.1	3.9	11.2	-6.5	27.9	-18.1
El Salvador	121	156	94	97	-29.3	-16.5	2.5	3.1	-0.3	-37.7
Guatemala	101	172	106	107	-18.7	-12.9	11.7	0.8	-0.1	-37.9
Haiti	99	193	150	146	-33.2	8.8	7.2	2.9	14.5	-24.5
Honduras	94	164	128	133	-13.2	-14.6	5.1	3.8	8.1	-19.0
Nicaragua	113	82	66	67	6.4	-22.3	-2.5	2.1	-49.1	-18.0
Panama	118	77	60	43	-11.9	-3.8	-9.2	-28.0	-14.9	-44.6
Paraguay	139	203	159	175	-4.4	-4.0	-10.7	10.5	-19.2	-13.5
Dominican Republic	224	150	116	130	18.1	-36.7	3.7	12.2	6.5	-13.3
Uruguay	83	140	156	139	4.9	8.7	-2.6	-11.0	0.2	-0.9

Source: ECLAC, on the basis of official figures.

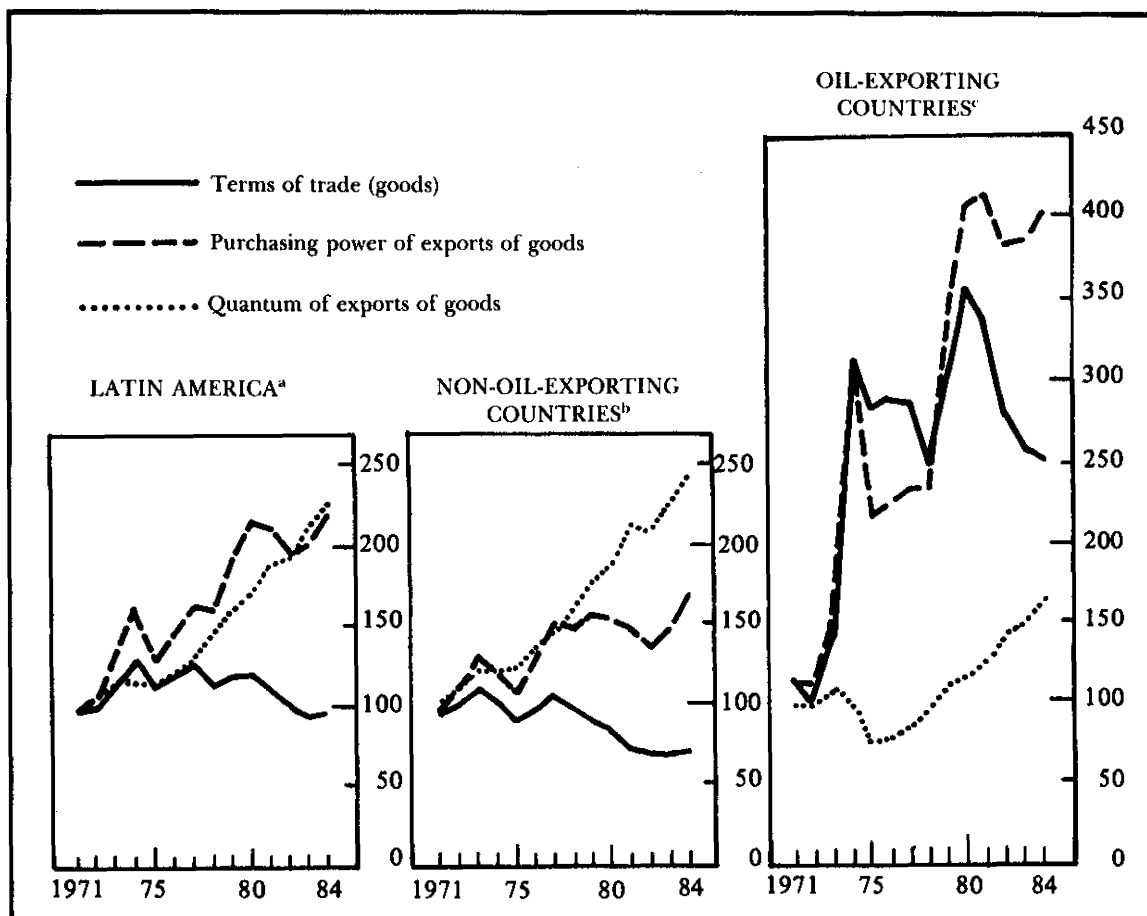
^aPreliminary estimates subject to revision.

rose was not only 20% higher than in 1983 but was nearly four times higher than that recorded only two years previously (see table 10).

This result was primarily attributable to the enormous expansion in the positive balance obtained by Brazil, which nearly doubled, rising from less than US\$ 6.5 billion in 1983 to US\$ 12.6 billion in 1984, thereby well exceeding the initial forecasts. It was also due, however, to the significant increase for the second year running in the trade surplus of Argentina and Venezuela, the doubling of that achieved by Peru, and the reduction in the deficit on trade in goods in Colombia, Haiti, Honduras, Panama and the Dominican Republic.

In the region as a whole the surplus achieved on trade in goods made it possible to finance the entire net payments of interests and profits in spite of the fact that they rose from US\$ 34.5 billion in 1983 to US\$ 37.3 billion in 1984. Thanks to this and also to the new and marked decrease in net payments for services in 1984, the deficit on current account fell by 65% and amounted to less than one-tenth of that recorded only two years previously (see table 11). However, the reduction in the overall deficit on current account was the result of trends in opposing directions observed in the different economies of the region. The country most responsible for this drop was Brazil, which recorded a deficit of a

Figure VII
LATIN AMERICA: EVOLUTION OF SOME FOREIGN TRADE INDICATORS
(Indexes: 1970 = 100)



Source: ECLAC, on the basis of official information.

^aNineteen countries.

^bFrom 1970 to 1975, includes 16 countries. As from 1976 Mexico and Peru are excluded.

^cFrom 1970 to 1975, includes Bolivia, Ecuador and Venezuela; as from 1976 Mexico and Peru are added.

bare US\$ 550 million, whereas only two years previously it had had a deficit of over US\$ 16.3 billion. In addition, in 1984 the negative current account balances of Argentina, Colombia, Peru, Paraguay, Nicaragua, Costa Rica and Haiti continued to decline. As for Venezuela and Mexico, they remained the only two countries in the region to obtain surpluses in their current operations, although Mexico's surplus was 10% lower than the one achieved the previous year. On the other hand, the deficit in Chile (which was exceeded only by those of Colombia and Argenti-

na) and that of Ecuador rose markedly in 1984, and a moderate increase was experienced in the negative balances of Bolivia and of the majority of the countries of Central America (see table 11).

Contrary to what happened in the preceding two years, when the reduction in the deficit on current account was accompanied and to a large extent caused by a dramatic decline in the net inflow of capital, in 1984 it coincided with a recovery in the flow of loans and investments received by the region. The value of the latter

Table 10
LATIN AMERICA: TRADE BALANCE
(Millions of dollars)

Country	Exports of goods FOB			Imports of goods FOB			Trade balance (goods)		
	1982	1983	1984 ^a	1982	1983	1984 ^a	1982	1983	1984 ^a
Latin America	86 389	86 168	94 790	76 726	54 727	57 170	9 663	31 441	37 620
Oil-exporting countries	44 877	43 033	45 620	34 349	19 117	21 820	10 528	23 916	23 800
Bolivia	828	757	730	429	482	460	399	275	270
Ecuador	2 343	2 365	2 490	2 181	1 408	1 580	162	957	910
Mexico	22 081	22 235	23 500	14 434	7 723	10 000	7 647	14 512	13 500
Peru	3 293	3 017	3 010	3 271	2 723	2 430	-428	294	580
Venezuela	16 332	14 695	15 890	13 584	6 781	7 350	2 748	7 878	8 540
Non-oil-exporting countries	41 512	43 135	49 170	42 377	35 610	35 350	-865	7 525	13 820
Argentina	7 622	7 838	8 700	4 859	4 120	4 270	2 763	3 718	4 430
Brazil	20 172	21 906	26 960	19 395	15 434	14 360	777	6 472	12 600
Colombia	3 215	3 003	3 050	5 404	4 759	4 720	-2 189	-1 756	-1 670
Costa Rica	871	851	960	780	894	1 110	91	-43	-150
Chile	3 706	3 827	3 680	3 642	2 818	3 270	64	1 009	410
El Salvador	704	732	780	826	803	910	-122	-71	-130
Guatemala	1 200	1 092	1 150	1 284	1 056	1 140	-84	36	10
Haiti	174	179	200	336	352	350	-162	-173	-150
Honduras	677	695	740	681	761	750	-4	-66	-10
Nicaragua	406	429	430	723	778	780	-317	-349	-350
Panama	345	317	250	1 441	1 246	1 100	-1 096	-929	-850
Paraguay	396	326	380	711	552	580	-315	-226	-200
Dominican Republic	768	783	890	1 257	1 297	1 220	-489	-514	-330
Uruguay	1 256	1 157	1 000	1 038	740	790	218	417	210

Source: 1982, 1983: International Monetary Fund; figures for 1983 for Costa Rica, Ecuador, El Salvador and the Dominican Republic are ECLAC estimates. Figures for Chile for 1982, 1983 and 1984: Central Bank of Chile.

^aECLAC, preliminary estimates subject to revision. Figures rounded to the nearest ten.

was, moreover, considerably higher than that of the negative balance on current transactions. As a consequence, the balance of payments closed for the first time since 1980 with a surplus of nearly US\$ 7.5 billion.

Notwithstanding the recovery of the net inflow of capital, its value continued to be very much lower than that of net payments of interest and profits. In the end, as in the two preceding years, Latin America transferred a substantial volume of resources to the exterior in 1984. In fact, this transfer amounted to close to US\$ 26.7 billion, which, although lower than the transfer of nearly US\$ 31 billion recorded the preceding year, represented a reduction in import capacity

equivalent to approximately 24% of exports of goods and services (see table 12).

The lion's share of that transfer was attributable to Mexico, Brazil, Venezuela and Argentina, although in relative terms appreciable amounts were also transferred from Ecuador, Peru, Uruguay and Bolivia. On the other hand, Paraguay, Haiti and the Central American countries, with the exception of Costa Rica, continued to receive a considerable volume of resources from the exterior (see table 11).

c) *The external debt*

According to preliminary estimates, the total

Table 11
LATIN AMERICA: BALANCE OF PAYMENTS
(Millions of dollars)

Country	Net services payments ^a			Net payments of profits and interest			Balance on current account ^c			Net movement of capital ^d			Total Balance ^e		
	1982	1983	1984 ^b	1982	1983	1984 ^b	1982	1983	1984 ^b	1982	1983	1984 ^b	1982	1983	1984 ^b
Latin America	12 745	6 596	4 030	37 641	34 465	37 330	-40 613	-8 957	-3 090	19 200	4 435	10 615	-21 413	-4 522	7 525
Oil-exporting countries	8 182	3 062	1 050	15 097	13 609	16 090	-13 257	7 185	6 590	533	-4 947	-2 300	-12 724	2 238	4 290
Bolivia	122	141	150	415	424	490	-121	-271	-340	153	252	220	32	-19	-120
Ecuador	530	367	260	847	718	950	-1 215	-128	-300	875	274	240	-340	146	-60
Mexico	2 390	549	-1 000	11 271	9 108	10 100	-5 922	4 968	4 500	1 812	-2 946	-1 000	-4 110	2 022	3 500
Peru	315	254	200	1 034	1 133	1 320	-1 777	-1 093	-940	1 637	1 027	870	-140	-66	-70
Venezuela	4 825	1 751	1 440	1 530	2 226	3 230	-4 222	3 709	3 670	-3 944	-3 554	-2 630	-8 166	155	1 040
Non-oil-exporting countries	4 563	3 534	2 980	22 544	20 856	21 240	-27 356	-16 142	-9 680	18 667	9 382	12 915	-8 689	-6 760	3 235
Argentina	434	761	1 150	4 716	5 409	5 430	-2 354	-2 436	-2 150	1 686	-13	2 550	-668	-2 449	400
Brazil	3 589	2 407	1 900	13 495	11 012	11 400	-16 314	-6 842	-550	11 120	4 946	5 220	-5 194	-1 896	4 670
Colombia	87	317	40	787	839	650	-2 897	-2 739	-2 260	2 021	829	640	-876	-1 910	-1 620
Costa Rica	-21	-5	-70	345	415	370	-206	-383	-360	331	401	330	125	18	-30
Chile	555	471	540	1 921	1 703	1 840	-2 372	-1 116	-1 930	1 026	587	1 990	-1 346	-529	60
El Salvador	72	32	50	129	196	220	-271	-239	-330	242	418	330	-29	179	0
Guatemala	231	177	260	122	114	40	-376	-225	-240	338	276	240	-38	51	0
Haiti	87	83	80	14	12	20	-182	-208	-200	137	175	220	-45	-33	20
Honduras	52	54	40	202	149	200	-249	-260	-240	204	213	240	-45	-47	0
Nicaragua	65	112	90	140	61	90	-514	-519	-530	580	588	420	66	69	-110
Panama	-849	-886	-820	236	306	240	-538	-409	-330	524	440	350	-14	31	20
Paraguay	92	-25	10	-14	53	70	-391	-252	-270	329	257	135	-62	5	-135
Dominican Republic	-97	-164	-230	254	299	330	-457	-454	-230	311	276	230	-146	-178	0
Uruguay	266	200	-60	197	288	340	-235	-60	-60	-182	-11	20	-417	-71	-40

Source: 1982, 1983: International Monetary Fund; the figures for 1983 for Costa Rica, Ecuador, El Salvador and the Dominican Republic are ECLAC estimates subject to revision. Figures for Chile, 1982, 1983 and 1984: Central Bank of Chile.

^aExcluding net payments of profits and interest.

^b1984: ECLAC, preliminary estimates subject to revision. Figures rounded to the nearest ten.

^cIncluding net private unrequited transfer payments.

^dIncluding long- and short-term capital, official unrequited transfer payments and errors and omissions.

^eCorresponds to variation in international reserves (of opposite sign) plus counterpart items.

Table 12
LATIN AMERICA: NET FINANCING DISPOSABLE AFTER PAYMENT OF
PROFITS AND INTEREST

(Billions of dollars)

Year	Net inflow of capital	Net pay- ments of profits and interest	Net disposable financing (3) = (1)-(2)	Real net disposable financing ^a	Exports of goods and services	Net disposable financing/ exports of goods and services ^b (6) = (3) / (5)
	(1)	(2)	(3)	(4)	(5)	(6)
1973	7.8	4.2	3.6	8.3	28.9	12.5
1974	11.4	5.0	6.4	12.5	43.6	14.7
1975	14.2	5.5	8.7	15.5	41.1	21.2
1976	18.2	6.8	11.4	19.4	47.3	24.1
1977	17.0	8.2	8.8	14.1	55.9	15.7
1978	26.1	10.2	15.9	23.7	61.4	25.9
1979	28.6	13.6	15.0	19.8	82.0	18.3
1980	30.0	18.0	12.0	13.9	105.8	11.3
1981	37.7	27.7	10.0	10.6	114.1	8.8
1982	19.2	37.6	-18.4	-19.1	101.9	-18.1
1983	4.4	34.5	-30.1	-30.9	100.5	-30.0
1984 ^c	10.6	37.3	-26.7	-26.7	113.0	-23.6

Source: International Monetary Fund, *Balance of Payments Yearbook* (several issues); and ECLAC estimates, on the basis of official figures.

^aObtained by deflating column 3 by the United States wholesale price index, base 1984 = 100.

^bPercentage.

^cPreliminary estimates subject to revision.

external debt of Latin America at the end of 1984 amounted to approximately US\$ 360 billion. Thus, it appears to have increased by close to 5.5%, thereby continuing the more moderate growth trend of external indebtedness begun in 1982 (see table 13).

The rate of increase of the debt was also lower than that of exports of goods and services in 1984. Consequently, the debt/exports ratio fell for the first time in the past four years. However, the magnitude of this coefficient (3.3) was still very high in international terms and was also very much higher than that of approximately 2.3 recorded, on average, during the period 1978-1981.

Moreover, owing both to the increase in the debt and to the rise in average interest rates in the main international financial markets in 1984, as may be seen from figures VIII and IX, the interest payments made by Latin America increased by close to 10%, i.e., at a rate somewhat lower than

that of the increase in exports of goods and services. Therefore the ratio of interest payments to exports fell only slightly —to 35%— and continued to be very much higher than the ratios recorded prior to 1981. This relation was much higher in Bolivia (57%), Argentina (52%) and Chile (45%) but was, on the other hand, considerably lower in Colombia (21%), Paraguay (19%), and especially in the countries of Central America and the Caribbean (see table 14).

Finally, in 1984 the terms on which the countries of Latin America renegotiated their external debt improved. The commissions and the spreads over and above the basic interest rates, as well as the rescheduled maturities and the repayment periods for new credits obtained in the second and third rounds of negotiations, represented an advance over the extremely unfavourable terms granted in 1982 and 1983. The change was especially marked in the cases of Mexico, Venezuela and Argentina, whose agreements with the respective bank committees pro-

Table 13
LATIN AMERICA: TOTAL DISBURSED EXTERNAL DEBT

(End-of-year balance in billions of dollars)

Country	1978	1979	1980	1981	1982	1983	1984 ^a
Latin America	150 893	181 978	221 059	275 422	315 336 ^b	340 937 ^b	360 170 ^b
Oil-exporting countries	64 390	77 585	92 324	118 963	135 657 ^b	145 672 ^b	153 460 ^b
Bolivia ^c	1 762	1 941	2 220	2 450	2 373	3 065	3 200
Ecuador	2 975	3 554	4 652	5 868	6 187	6 689	6 860
Mexico	33 946	39 685	49 349	72 007	85 000 ^{bd}	90 000 ^{bd}	95 900 ^{bd}
Peru	9 324	9 334	9 594	9 638	11 097	12 418	13 500
Venezuela ^c	16 383	23 071	26 509	29 000	31 000	33 500	34 000
Non-oil-exporting countries	86 503	104 393	128 735	156 459	179 679	195 265	206 710
Argentina	12 496	19 034	27 162	35 671	43 634	45 500	48 000
Brazil ^f	52 285	58 907	68 354	78 580	87 580	96 500	101 800
Colombia	4 247	5 117	6 277	7 930	9 421	10 405	10 800
Costa Rica	1 870	2 333	3 183	3 360	3 497	3 848	4 050
Chile ^g	6 664	8 484	11 084	15 542	17 153	17 431	18 440 ^h
El Salvador	986	939	1 176	1 471	1 683	2 000	2 300
Guatemala	821	934	1 053	1 409	1 504	1 766	1 910
Haiti ^c	210	248	290	372	410	446	600
Honduras	971	1 280	1 510	1 708	1 800	2 079	2 250
Nicaragua ^c	961	1 131	1 579	2 163	2 797	3 385	3 900
Panama ^c	1 774	2 009	2 211	2 338	2 820	3 275	3 550
Paraguay	669	733	861	949	1 204	1 469	1 560
Dominican Republic	1 309	1 565	1 839	1 837	1 921	2 572	2 850
Uruguay	1 240	1 679	2 156	3 129	4 255	4 589	4 700

Source: ECLAC, on the basis of official information; Brazil and Venezuela: ECLAC, on the basis of data from the Bank for International Settlements.

^aPreliminary figures.

^bFigures not comparable with those prior to 1982, owing to the inclusion of the Mexican commercial bank debt.

^cPublic debt.

^dIncluding commercial bank debt. Estimates on the basis of data supplied by the Secretariat of Finance and Public Credit.

^eIncluding the public debt plus the non-guaranteed long- and short-term debt with financial institutions reporting to the Bank for International Settlements.

^fIncluding the total medium- and long-term debt plus the short-term debt with financial institutions reporting to the Bank for International Settlements.

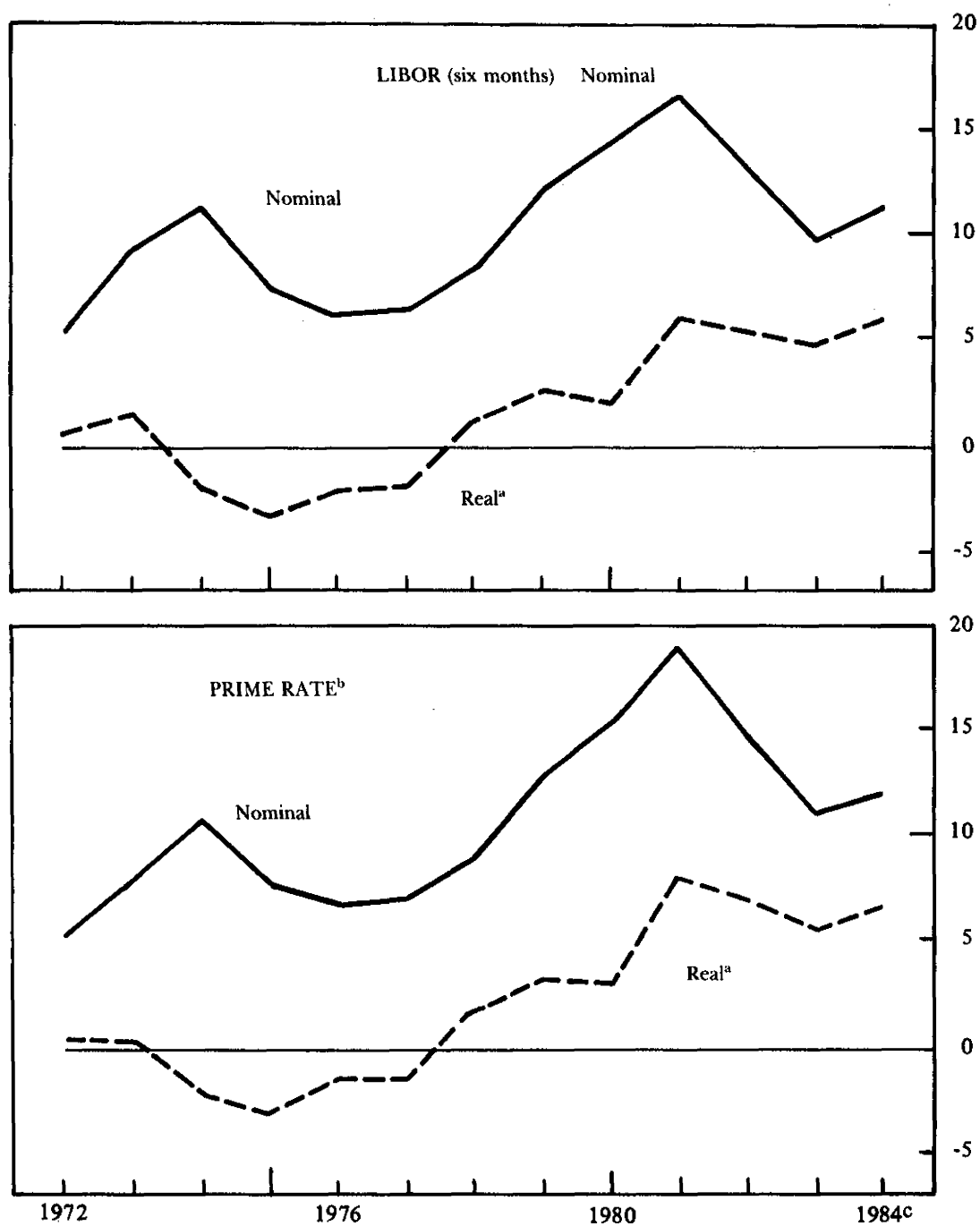
^gShort-, medium- and long-term debt, excluding debt with IMF and short-term credits for foreign trade operations.

^hIn the month of September.

vided for a marked reduction in commissions, or even their elimination; a considerable decrease in the spread over the basic rates; longer repay-

ment periods for the corresponding debts, and longer amortization periods (see tables 15 and 16).

Figure VIII
 NOMINAL AND REAL INTERNATIONAL INTEREST RATES
 (Percentages)



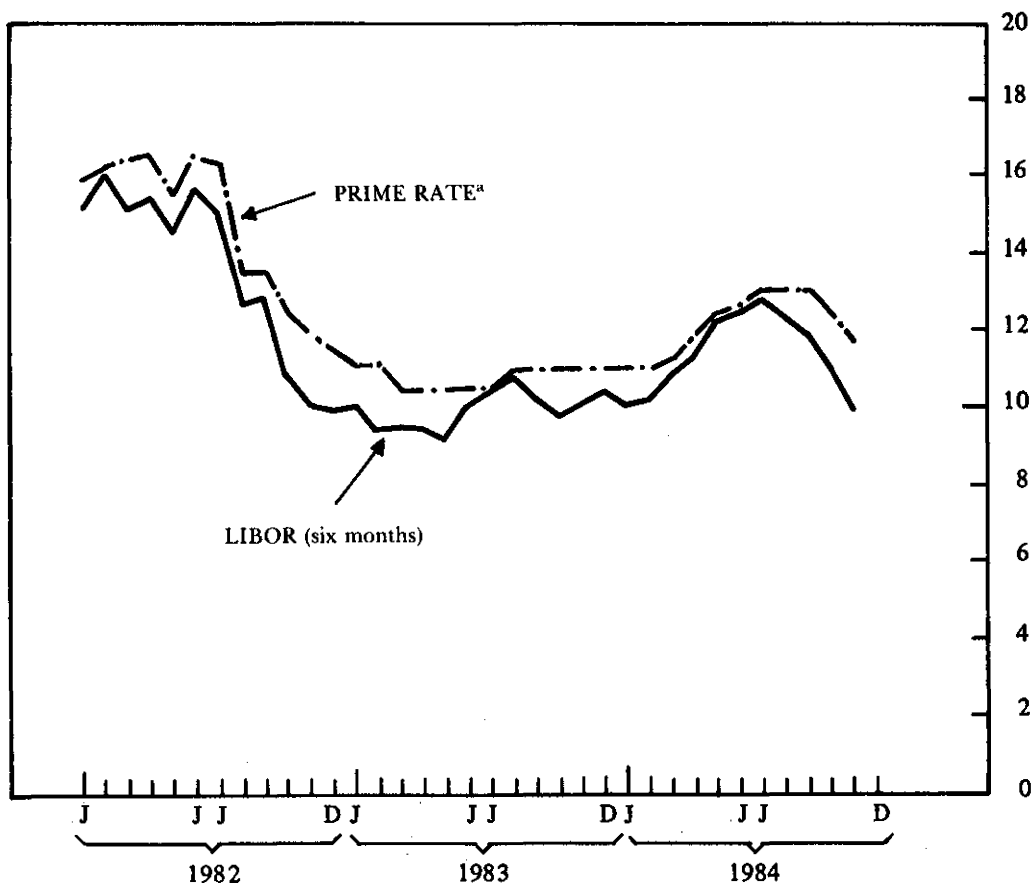
Source: ECLAC, on the basis of data from Morgan Guaranty Trust, *World Financial Markets*, and from *Economic Report of the President*, Washington, February 1984.

^aNominal rate deflated by the consumer price index of the industrialized countries.

^bPreferential rate granted by United States banks to their best clients.

^cAverage January to November.

Figure IX
 NOMINAL INTERNATIONAL INTEREST RATES
 (Percentages)



Source: ECLAC, on the basis of data supplied by the International Monetary Fund.
 *Preferential rate granted by United States banks to their best clients.

Table 14
LATIN AMERICA: RATIO OF TOTAL INTEREST PAYMENTS TO EXPORTS
OF GOODS AND SERVICES^a

(Percentages)

Country	1977	1978	1979	1980	1981	1982	1983	1984 ^b
Latin America	12.4	15.5	17.4	19.9	26.4	39.0	35.8	35.0
Oil-exporting countries	13.0	16.0	15.7	16.5	22.3	32.0	31.0	33.0
Bolivia	9.9	13.7	18.1	24.5	35.5	43.6	49.3	57.0
Ecuador	4.8	10.3	13.6	18.2	24.3	30.1	26.0	31.5
Mexico	25.4	24.0	24.8	23.1	28.7	39.9	36.7	36.5
Peru	17.9	21.2	14.7	16.0	21.8	24.7	31.2	35.5
Venezuela	4.0	7.2	6.9	8.1	12.7	21.0	20.3	25.0
Non-oil-exporting countries	11.9	15.1	18.8	23.3	31.3	46.6	40.7	36.5
Argentina	7.6	9.6	12.8	22.0	31.7	54.6	58.4	52.0
Brazil	18.9	24.5	31.5	34.1	40.4	57.1	43.4	36.5
Colombia	7.4	7.7	10.1	13.3	21.6	25.0	21.7	21.5
Costa Rica	7.1	9.9	12.8	18.0	25.5	33.4	41.8	32.0
Chile	13.7	17.0	16.5	19.3	34.6	49.5	39.4	45.5
El Salvador	2.9	5.1	5.3	6.5	7.5	11.9	14.2	15.0
Guatemala	2.4	3.6	3.1	5.3	7.5	7.8	7.6	4.0
Haiti	2.3	2.8	3.3	2.0	3.2	2.4	4.9	5.0
Honduras	7.2	8.2	8.6	10.6	14.5	22.4	17.7	19.0
Nicaragua	7.0	9.3	9.7	15.7	15.5	33.2	19.3	18.5
Paraguay	6.7	8.5	10.7	14.3	15.9	14.9	24.3	19.0
Dominican Republic	8.8	14.0	14.4	14.7	10.5	22.6	24.9	23.5
Uruguay	9.8	10.4	9.0	11.0	13.1	22.4	27.6	31.5

Source: 1977-1983: International Monetary Fund, *Balance of Payments Yearbook*; 1984: ECLAC, on the basis of official data.

^aInterest payments include those on the short-term debt.

^bPreliminary estimates subject to revision.

Table 15
LATIN AMERICA: TERMS OF RESCHEDULING OF THE EXTERNAL DEBT OWED TO
PRIVATE BANKS IN THE FIRST ROUND OF RESCHEDULINGS: 1982/1983^a

Country	Amounts involved (millions of dollars)	Maturities rescheduled or year of drawing new credit	Terms			
			Spread over LIBOR	Period (years)		Commissions ^b
				Total	Grace period	
Brazil						
Amortization rescheduled	4 800	1983	2.50	8.0	2.5	1.50
New credits	4 400	1983	2.13	8.0	2.5	1.50
Costa Rica						
Amortization rescheduled	620	1982-1984	2.25	8.5	4.0	1.38
New credits	—	—	—	—	—	—
Cuba						
Amortization rescheduled	140	Sep. 1982-1983	2.25	8.0	3.0	1.25
New credits	—	—	—	—	—	—
Chile						
Amortization rescheduled	3 460	1983-1984	2.13	8.0	4.0	1.25
New credits	1 300	1983	2.25	7.0	4.0	1.25
Ecuador						
Amortization rescheduled	2 200	Nov. 1982-1983	2.25	7.0	1.0	1.25
New credits	430	1983	2.38	6.0	1.5	1.25
Honduras						
Amortization rescheduled	120	1982-1984	2.38	7.0	3.0	1.38
New credits	—	—	—	—	—	—
Mexico						
Amortization rescheduled	23 000	Aug. 1982-1984	1.88	8.0	4.0	1.00
New credits	5 000	1983	2.25	6.0	3.0	1.25
Nicaragua						
Amortization rescheduled	550	...	—	12.0	5.0	—
New credits	—	—	—	—	—	—
Panama						
Amortization rescheduled	180	1983	2.25	6.0	2.0	1.50
New credits	100	1983	2.25	6.0	2.0	1.50
Peru						
Amortization rescheduled	380	1983	2.25	8.0	3.0	1.25
New credits	450	1983	2.25	8.0	3.0	1.25
Dominican Republic						
Amortization rescheduled	570	1982-1983	2.25	6.0	2.0	1.25
New credits	—	—	—	—	—	—
Uruguay						
Amortization rescheduled	630	1983-1984	2.25	6.0	2.0	1.38
New credits	240	1983	2.25	6.0	2.0	1.38

Source: ECLAC, on the basis of official data and information from various national and international sources.

^aFor further information on the first round of reschedulings see Part Two of the *Economic Survey of Latin America and the Caribbean 1983*, ECLAC publication, LC/L. 302, November 1984, and *Economic Survey of Latin America 1982*, pp. 74-84.

^bCalculated as a percentage of the total amount of the transaction and paid once only at the time of signing the loan contract. It should be noted that evidence has been found that some commissions were not declared, and consequently the figures could underestimate payments under this head.

^cNicaragua pays a maximum rate of 7%; the difference between the prevailing interest rate and the 7% ceiling will be capitalized.

Table 16
LATIN AMERICA: TERMS OF RESCHEDULING OF THE EXTERNAL DEBT OWED TO
PRIVATE BANKS IN THE SECOND AND THIRD ROUNDS OF RESCHEDULINGS^a

Country	Amounts involved (millions of dollars)	Maturities rescheduled or year of drawing new credit	Terms			
			Spread over LIBOR	Period (years)		Commissions ^b
				Total	Grace period	
Second round of reschedulings: 1983/1984						
Brazil						
Amortization rescheduled	5 400	1984	2.00	9.0	5.0	1.00
New credits	6 500	1984	2.00	9.0	5.0	1.00
Cuba						
Amortization rescheduled	103	1984	1.88	9.0	5.0	...
New credits	—	—	—	—	—	—
Chile						
Amortization rescheduled	—	—	—	—	—	—
New credits	780	1984	1.75	9.0	5.5	0.63
Ecuador						
Amortization rescheduled	600	1984	1.75	9.0	4.0	0.88
New credits	400	1984	...	...	...	...
Mexico						
Amortization rescheduled	—	—	—	—	—	—
New credits	3 800	1984	1.50	10.0	5.0	0.63
Peru						
Amortization rescheduled	1 560	1984-Jul. 1985	1.75	9.0	5.0	0.75
New credits	—	—	—	—	—	—
Third round of reschedulings: 1984/1985						
Argentina						
Amortization rescheduled	13 900	1982-1985	1.38	12.0	3.0	—
New credits	4 200	1985	1.63	10.0	3.0	0.63
Mexico						
Amortization rescheduled	43 000	1985-1990	1.13	14.0	—	—
New credits	—	—	—	—	—	—
Venezuela						
Amortization rescheduled	28 500	1983-1988	1.13	12.5	—	—
New credits	—	—	—	—	—	—

Source: ECLAC, on the basis of official data and information from various national and international sources.

^aFor further information on the second round of reschedulings see Part Two of the *Economic Survey of Latin America and the Caribbean 1983*, ECLAC publication, L/C/L. 302, November 1984.

^bCalculated as a percentage of the total amount of the transaction and paid once only at the time of signing the loan contract. It should be noted that evidence has been found that some commissions were not declared, and consequently the figures could underestimate payments under this head.

II

Conclusions

In past reports we described the present economic crisis in Latin America as being the worst since the black years of the Great Depression. The crisis unleashed in 1981 has in fact been the severest, most widespread and longest crisis suffered by Latin America in the past half century and has proved to be very costly both economically and socially. In order to cope with the difficult balance-of-payments situation, the region was forced to embark on painful economic adjustment processes, which have already been in effect for four years and have had great social and even political implications.

In the economic sphere, it was necessary to cut imports drastically in order to generate surpluses on the trade balance which would make it possible to service the debt. This process was in practice accompanied by an abrupt contraction in domestic expenditure which in many cases also led to a decline in production and employment levels.

Thus, the region's per capita product fell in 1983 to the level at which it had stood as far back as 1976. In addition, in many countries unemployment rose alarmingly, and there was an increase in both visible underemployment (persons who work less than a normal workday) and invisible underemployment (which is reflected in a proliferation of unstable activities where productivity is very low and which are not covered by social security or by the benefits of labour legislation). This deterioration in the employment situation was accompanied by marked drops in real wages, which in many countries now stand at levels close to those recorded early in the past decade. At the same time, food, health and living conditions deteriorated, in some cases patently, and basic social investments and expenditure were sacrificed, which will naturally affect the possibilities for raising the standards of living in the next few years.

Taken together, these factors go a long way towards explaining the social pressures observed in various countries in the region. In addition to this, some Latin American countries are victims of political instability and even armed conflict, all

of which adds up to a disquieting social situation.

As shown by the figures presented in the sections above, in 1984 there was a halt and in some cases a tendency towards reversal of the downward trend which some main economic indicators had been showing. This fact must, however, be evaluated level-headedly rather than greeted with optimism which might prove to be naive. As we have pointed out on many occasions, global figures are not necessarily indicative or representative of the situation existing in all the countries of the region, since they tend to reflect more faithfully the economic picture of the economies of larger size.

Thus, as is borne out by recent experience, those countries with a greater capacity to respond to relative price changes and with closer links to the United States market were able to increase their exports to that country markedly. The greater flexibility of their production apparatus also enabled them to put import substitution into practice rapidly. To do this they had recourse to idle or underutilized installed capacity, some of which had been generated by the heavy investments made in preceding periods and some of which was due to the marked drop in domestic demand. This was true in particular of Brazil and Mexico.

Other countries, however, were unable to make this kind of progress in respect of either increased exports or import substitution, although they too had introduced marked changes in their relative prices. In some of them the short-term inelasticity of their production sectors or their traditional links with external markets which were less dynamic or receptive than the North American market represented important obstacles to the achievement of significant progress in the adjustment process.

However, the relatively favourable performance of some of the larger economies in the region and the capacity shown by them and a few other countries for managing very difficult balance-of-payments situations has in recent months produced a general feeling of relief in some international circles. Although this feeling

is justified up to a point in view of the capacity shown by some Latin American countries for restructuring their domestic economy so as to be able to cope with the balance-of-payments crisis, it would be dangerous for it to grow into unqualified optimism *vis-à-vis* the immediate future. It is obvious that in the next few years it will be necessary first to consolidate the undoubted progress which has been made so far and second to correct those negative aspects which still persist. This is the purpose of the following observations.

1. *Contributions to an evaluation of the adjustment process*

In the adjustment process which has been carried out so far, a distinction must be drawn between, first, certain positive factors; second, some elements which are responsible for the fact that this process is still fragile and vulnerable, and finally some persistent and obviously negative factors which could reverse the generally favourable changes that began to appear in 1984.

a) *Positive elements*

In the course of 1984 some positive elements appeared in the region's adjustment policy which had a decisive effect on the performance of some economies, especially those of larger size. These elements include:

i) The reactivation of the world economy, and especially that of the United States, with the result that the growth of the OECD countries was over 4% — a moderate rate, but one which is well above the rate of around 2.5% recorded in the two preceding years. The greater growth of the industrialized countries helped to generate considerable expansion in the volume of international trade. It was characterized in particular by the bigger demand for imports by the United States economy, which was in turn reflected in a trade deficit in that country of the order of US\$ 125 billion.

ii) The more favourable performance of the central economies and the rapid expansion of the North American demand for imports had a favourable effect on exports from the countries of the region. Thus, during the first eight months of 1984, Latin America increased its ex-

ports to the North American market by somewhat more than 20%, and some of the countries with greater export capacity, which redirected their sales to the United States more rapidly, experienced an even higher rate of increase.

iii) Agreements to reschedule the external debt negotiated by many Latin American countries with the International Monetary Fund and with international private banks helped to bring the more difficult and pressing balance-of-payments situations under control. As pointed out above, these negotiations went through various phases, in the course of which the terms for refinancing the debts were appreciably improved. Attention should be drawn in particular to the terms of renegotiation achieved by Mexico and Venezuela and those of the agreement recently reached between Argentina and its bank committee, all of which included pluriannual reschedulings of due dates, considerably longer maturities, and a sizeable reduction in the spreads over basic rates and other bank intermediation costs (see tables 15 and 16).

iv) The favourable trend followed by international interest rates in recent months, following a period of marked rises. If the recent two-and-one-half point reduction in international rates is maintained throughout 1985, the region will benefit by a net saving in debt servicing of approximately US\$ 6.5 billion per year.

v) The increase in Latin America's international reserves. This increase, coming after the declines recorded in the past three years, gives a certain amount of leeway in the management of external payments and, if it lasts, will tend to improve the countries' credit and its terms so that their external debt commitments can be renegotiated more favourably.

These positive elements on the external front have been strengthened, moreover, by a growing capacity for dialogue among the countries of the region concerning the problem of the debt and the external adjustment. In slightly less than one year, important meetings have been held at Quito, Cartagena and Mar del Plata, by contrast with what happened in previous periods, when the topic of the debt tended to be dealt with strictly at the bilateral level. Although in the region the case-by-case treatment of the processes of debt renegotiation has not been ques-

tioned, a general awareness has been building up among political representatives at the highest level and Latin American economic and financial authorities concerning the need for a stronger regional dialogue in order to identify collective action at the international level of improving the general atmosphere of the current negotiations.

b) *Weakness and shortcomings*

Recognizing the positive elements described above does not of course mean overlooking those aspects which still give cause for legitimate concern regarding the prospects for the immediate future and in particular the probable behaviour of the world economy during 1985, that being a factor which will have a marked effect on the viability and cost of the present adjustment policies.

Persistent causes for concern include:

i) The marked dependence of the recent expansion of Latin American exports on the rate of domestic growth and the increase of imports in the United States. The degree and manner in which this country may reduce its high trade deficit in the future might have a marked effect on the future of the region's exports and restrict one of the mechanisms which has so far been most important in dealing with balance-of-payments problems.

ii) In addition to the preceding cause for concern there is the lack of asymmetry in the recovery of other industrial centres (especially those in Europe) with which many countries of the region are linked commercially. The scant economic dynamism shown by these countries in recent years, together with the processes of structural adjustment on which they have embarked, have helped to generate high rates of unemployment which in turn create strong protectionist pressures, limiting the possibilities for expansion of some of the potentially more dynamic categories of Latin American exports.

iii) The path followed by interest rates in the future will continue to be a factor of extraordinary importance for the countries of the region and, in some cases, will in the short term be of greater importance even than the performance of the terms of trade. Considerable uncertainty exists in this respect. While in some circles a steady drop in interest rates is predicted,

in others it is felt that they may well begin to climb again, which would considerably hamper the present adjustment processes, bring about a considerable rise in the cost of debt servicing and complicate the processes of renegotiation.

iv) Possible weakening of export capacity. To a fairly large extent, the rapid increase in the volume of exports recorded in the past two years was based on domestic production surpluses which remained available for export as a result of the sharp drop in domestic demand. It therefore follows that if economic growth is resumed and gathers force in our countries, some of that surplus might be decreased or even depleted, being absorbed by domestic demand. Ultimately, it will be necessary to increase production capacity, which requires time and, above all, more domestic and external savings to finance the necessary investments.

c) *Purely negative factors*

In addition to the positive factors and the fragility of the adjustment process, to which attention has been drawn above, we must note the persistence of some unequivocally negative factors.

i) The unfavourable performance of the terms of trade has affected and continues to have a very severe effect on many countries of the region which depend on exports of raw materials. Contrary to what happened on the occasion of other reactivations of the world economy, on this occasion the terms of trade of the Latin American countries have remained at abnormally low levels or have risen very little. In this respect, it is worth recalling that the international prices of commodities as decisive for the exports of some countries of the region as sugar and copper have fallen in real terms to their lowest levels in the past half century. In these circumstances, for many countries of the region there is naturally less possibility of rapidly increasing the value of their exports, and the social and political costs of the adjustment process are of course more difficult for them to bear.

ii) The majority of the countries of the region have had to continue to transfer resources to the exterior as a consequence of the high interest rates prevailing on international markets and the decline in the net inflow of capital. This transfer,

in addition to its substantial size, is having a harmful effect in that it has to be carried out at a period in which the terms of trade have fallen to extremely low levels.

iii) The high cost of servicing the external debt has in more than a few cases begun to constitute an inflationary factor, since a considerable portion of the public deficit originates precisely in the payment of interest on the debt. Difficulties in balancing public budgets in these conditions induce governments to have recourse to deficit financing which often has an inflationary effect and aggravates the other pressures on prices and costs.

iv) Finally, it is a known fact that external private capital is still being withheld and that this applies in particular to the provision of additional net financing of bank origin. Private external investment has also yet to recover.

2. *The social and political imperative of growth*

The prolonged economic recession of recent years, the severity of its social costs and its disquieting political implications mean that for all the countries of the region there is an imperative need to get back on the path to economic expansion. This objective now seems more attainable than it did a year or two ago.

One fact in support of this view is that although slow and uncertain, recovery has already begun in almost all the countries of the region. Another, more fundamental positive sign is the existence of abundant human, natural and capital resources which are idle or underutilized and could be mobilized to initiate a sustained and vigorous recovery providing it is possible to limit the external constraints and efficacious and austere policies are applied at the domestic level.

It should be borne in mind that the drops in production and income levels in recent years will make it necessary to expend considerable effort in the majority of our countries just to return by the end of the decade to those standards of living we had already achieved when it began. Moreover, even this goal, which in a very real sense means recognizing that there will be a "lost decade" from the point of view of economic and social progress, does not appear viable in every case. In fact, some countries of the region will not

return to the standards of living they enjoyed at the end of the 1970s until the first half of the 1990s.

It is therefore clear that we cannot rely exclusively on market forces in overcoming the difficult problems of the present. Surmounting them will require decisive and consistent action on the part of the governments, both to consolidate economic recovery and to lay the foundations for a more autonomous, dynamic and equitable style of development than in the past.

It is for this reason that, in spite of the attenuation in 1984 of some of the more negative characteristics of the adjustment process, we continue to feel the need for additional action both to achieve an improvement in the international setting and to enhance the quality of domestic policies.

a) *Improvement of the international climate*

The international climate will improve for the countries of the region to the extent that two key objectives are met. These are first, consolidated and increased growth in the central countries and, second, harmonization of external relations with the objective of the sustained growth of the Latin American economies.

i) *Consolidation and extension of the recovery of the centres.* The consolidation and extension of the recovery in the centres is essential if the international climate of adjustment is to improve. However, that recovery will help to strengthen our economies only if it is accompanied by an increase in international trade, a reduction of interest rates and the recovery of the terms of trade.

Historically, the growth of the central economies has stimulated the expansion of the volume of world trade. However, it must be emphasized that, as shown by the recent trends of the international prices of several basic Latin American export commodities, greater activity in the central economies does not always lead to the restoration of the old levels and structures of trade. With growing intensity, commodity import substitution policies, economizing on the use of raw materials and energy thanks to scientific and technological innovation and the use of substitutes, are changing the intensity of the relationship which existed between the

growth of the central economies and the international demand for commodities. Moreover, levels and trends with regard to interest rates and terms of trade are also of basic importance in reducing the real cost of debt servicing.

The outlook in this connection is, however, affected by the persistence of protectionist measures, which have tended to increase in recent years, especially as applied to commodities such as agricultural products, textiles and products of the iron and steel industry, which are highly sensitive in terms of exportable Latin American production. A recent GATT report issued in mid-December 1984, raises a serious warning concerning these tendencies, which not only jeopardize the achievement of increased levels of trade but also reduce the capacity of the Latin American countries to obtain the foreign currency they need to service their external debt and to finance the increase in imports which is indispensable if they are to reembarc on economic growth.

ii) *Bringing debt renegotiation more in line with the objectives of growth.* As we have noted on previous occasions, the heavy net transfer of resources to the exterior which Latin America has effected in the past three years has produced a situation which, should it persist, would decisively limit the growth of the region's economies. In this respect, it should be borne in mind that for interest payments alone some Latin American countries have had to transfer the equivalent of between 3% and 10% of their gross domestic product.

Thus, it is indispensable to bring these payments within limits which are compatible with the financing of increased imports and the increased investments needed for the growth process. We therefore feel that, having gone beyond the emergency stage of the adjustment processes, the region should initiate co-operation policies such as those outlined below with their creditors and in collaboration with the industrial countries:

—New approaches to renegotiation of the external debt designed to reduce the amount expended on servicing it to levels comparable with the achievement of adequate rates of economic growth. If this is to be accomplished, the real interest rates applicable to the external debt should approach their historic levels of around 2%. So long as this remains impossible,

alternative options should be explored for negotiating agreements with the creditor banks aimed at putting ceilings on the share of exports which can be earmarked for interest payments on the debt. The establishment of such limits, which would differ from country to country, would reduce the tremendous vulnerability experienced by the economies of the region due to their having to meet fixed external financial commitments in circumstances in which their foreign currency earnings from trade and external financing fluctuate violently. In our opinion, agreements in the future between countries and the IMF should explicitly incorporate this growth condition and should take account of its implications by developing more flexible ways of coping with debt servicing.

—A more active policy is called for on the part of multilateral public financing agencies. It is paradoxical that in recent years the volume of resources of public origin has in practice followed a procyclical trend. In relative terms, the region received more net resources from multilateral public financing agencies in the past decade than in the present one, when such capital should play a basic compensatory role. If it is to play this role, not only is a greater volume of resources needed but those resources must be directed towards the investments with the highest priority in the present circumstances, and it must also be possible to disburse them rapidly. By the same token, consideration should be given to imaginative ways in which international public financing agencies may act as mobilizers of private resources. To this end, funds of multilateral origin could act as a catalyst in attracting investment resources from private banking sources.

—The mobilization of private investment must play an important role. This means suitably adapting both domestic policies and the incentives offered by the capital exporting countries. In this respect, it must be emphasized that because of the need for the Latin American economies to recover, and since their long-term structural adjustment calls for industrial reconversion, external savings must supplement the indispensable national savings efforts.

iii) *The special case of countries with less capacity to react to and defend themselves against the crisis.* Special consideration should be given to the case of countries which have less capacity to take

advantage of the stimulation of external demand or which, because of the limited size of their domestic market, have greater difficulty in effecting efficient import substitution. The experience of recent years has shown that within the region there are countries which have less capacity to bear the costs incurred on account of adjustment policies and are not always able to take full advantage of the opportunities offered by international trade. If adjustment policies are to be successful in these countries, there is a need for new investment and a substantial reallocation of production resources, and both of these take time and require special support from public finance agencies. It is for this reason that in the case of these countries, both the multilateral and bilateral public financing agencies should play a leading role, supplementing the adjustment measures negotiated with the IMF. If this does not happen, the costs of the adjustment process may well be excessively burdensome and difficult to bear both socially and politically.

b) *The quality of domestic policy*

This is not the time to go into details on the fundamental role which domestic policy must play in resuming the growth process and promoting the structural transformation of the Latin American countries: a topic to which we have referred on past occasions. However, we must insist on the need to improve the quality and consistency of these policies in view of the fact that, as a consequence of the crisis, the room to manoeuvre has shrunk considerably.

In the short term, it is urgent to promote and consolidate recovery and to get back on the path to economic growth, while at the same time applying policies which ensure equitable distribution of the costs of adjustment among the various sectors. In particular, there is an urgent need to improve the situation in the more underprivileged social sectors, which suffer most in a crisis such as that experienced by the region in recent years. The need to make economic and social policies more efficient becomes even more apparent when consideration is given on the one hand to the existence of powerful inflationary processes in many countries and, on the other, to the inevitable austere context in which the majority of those countries will have to develop in the rest of this decade.

In the medium term, the countries of the region must try to increase the room for manoeuvre in the management of their policies and must achieve a greater degree of autonomy from external restrictions. The present situation, in which the amount of the external debt is so large compared to the value of exports, makes the development process extraordinarily vulnerable. It is for this reason that the active promotion of exports and the efficient substitution of imports must necessarily form part of any development policy.

In the long term, the region should profit from the lessons to be learned from the crisis as it advances towards the establishment of a new style of development, in which not only can the economic growth imperative be satisfied but the challenges presented by changes in the international situation can be met in a flexible way and the benefits of progress can be distributed more fairly than in the past.

3. *Political dialogue and meeting of minds in Latin America*

The present adjustment processes have been considered from two apparently contradictory angles. On the one hand, in the centres it has been felt that this was a purely technical matter which should be tackled exclusively through negotiation with the private commercial banks and through support policies and the supervision of the International Monetary Fund.

The Latin American countries, for their part, have embarked on a course of bilateral agreements while at the same time laying increasing stress on the political dimensions of the crisis and on the need for global support mechanisms for decreasing the costs incurred on account of the adjustment process and also distributing these costs more equitably between themselves and the creditor bodies. These positions have been based on the serious economic and social repercussions of the adjustment process and have given recognition to the unavoidable internal responsibility for both the origin of the crisis and its solution.

The countries of the region have also taken the line that a political approach might improve the international climate and create conditions in which the adjustment can be better borne, with

reciprocal benefits for debtors and creditors. The reports recently adopted at Quito, Cartagena and Mar del Plata have stressed this dimension. At the same time, they have pointed out that just as responsibility for the gestation of the crisis was shared among external and internal factors, the same must be true of the responsibility for solving or surmounting it.

We believe that these two points of view—the technical and the political—are now more likely to be reconciled and to give way to a mutually beneficial dialogue. On the one hand, the Latin American countries have borne most of the costs of the adjustment and have—with a few exceptions—managed to bring the more serious aspects of their indebtedness under control. On the other hand, in the creditor countries there is beginning to be some perception and recognition of those elements which increase the cost of adjustment for the debtor countries and are beyond their means of control, as happened in the case of the high interest rates and the prolonged depression of the terms of trade.

We also feel that since the involuntary loans made by the international private banking system in recent years have encountered resistance from medium-sized and small banks, there will be a tendency for the debt to concentrate in the big financial institutions of the industrialized countries. This will make it still more apparent that it is politically advantageous to the creditor countries to improve the international terms of the adjustment.

We believe that in this context the opening of a political dialogue along the lines suggested by the Latin American countries becomes more viable and interesting for the parties to it. Such a dialogue could, without interfering with the present adjustment mechanisms, analyse such topics as the following:

a) Creation of contingency mechanisms, in addition to those which now exist, so that events which might change the present terms of the adjustment can be dealt with. It must be borne in mind that the available defence mechanisms have already been used and that it would therefore be of benefit to all concerned to analyse arrangements for dealing with unexpected situations which are not desired by any of the actors in the process.

b) Analysis of legally and economically viable

formulas for ensuring that in the process of renegotiating the debt, the servicing of the debt is brought into line with the aims of sustained long-term development of the economies of the region. There are a considerable number of proposals in this connection, and it will be useful to analyse them with a view to reaching a full consensus on this matter.

c) Greater harmony between the IMF support and supervision policies and the complementary action taken by multilateral credit institutions such as the World Bank and the Inter-American Development Bank, along the lines suggested above. This action should lead not only to the provision of additional capital for such institutions but also to the more rapid disbursement of new capital and the mobilization of private resources in creative and innovative ways.

Some of these topics could be the subject of both formal and informal discussions at the forthcoming meetings of the Development Committee of the Fund and the Bank and of the IMF Interim Committee, to be held in April 1985.

To promote the holding of such a debate on constructive lines it is essential to have a meeting of minds at the Latin American political level. In this connection, the next stage in the consultations among governments, which will be held in the Dominican Republic, will provide an occasion for moving ahead in this dialogue on the lines indicated at the previous meetings, i.e., informal contacts should be initiated with the treasuries and monetary authorities of the industrialized countries with a view to holding a constructive dialogue free of any reciprocal lack of confidence which may have existed when a situation of greater uncertainty prevailed.

Finally, this account of the notable challenges and costs caused by the crisis would be incomplete if no mention were made of the gradual erosion which is becoming apparent in the capacity to take a long-term view of the situation. The economic and political actors, overwhelmed by the severity and urgency of the problems at hand, have concentrated on short-term solutions, and on more than a few occasions a feeling of discouragement and confusion has spread. There is uncertainty concerning what roads to take in the future, towards what goals to orient the transformation of production, what roles to assign to the private and public sectors and, in

general, how to put new styles of development together.

ECLAC, in accordance with its most cherished traditions, has decided to promote a full scale debate concerning the future of the region, which will draw on the lessons of the past in exploring new development projects designed to regain the social and temporal perspective needed to produce an economic and political

transformation capable of bringing the region out of the crisis.

To this end, and in line with the suggestions made at the latest ECLAC session, the Secretariat will convene a technical meeting in 1985 to submit to the member governments the central policy lines needed to face up to the challenges and take advantage of the opportunities that the future holds for the region.

The transnational corporations and Latin America's international trade

*Eugenio Lahera**

The transnational corporations have a high potential for internationalizing their productive process, which would lead us to expect from them a large volume of external trade. However, the vast majority of their sales in Latin America are made in the various national markets. This paradox is explained by the fact that direct foreign investment in our countries was made in order to take advantage of different types of protectionism. The most important exception has been in the extractive sectors, control of which has gradually been transferred to local investors.

The external trade carried on by the transnational corporations shows a deficit, is highly concentrated, and is to a large extent conducted within the same firm; furthermore, goods for resale represent a high percentage of the total. The dynamism of the exports made by the transnationals has been lower than that of regional exports as a whole and they have not shown a greater capacity for penetrating the markets of the industrialized countries than national firms. The international specialization of the local branches of transnationals has not always strengthened national development.

Nevertheless, the aggregate figures conceal important differences. In some countries the transnational corporations have made a positive contribution to the trade balance, have opened new export markets or developed new lines of exportable products, and their participation in the processes of regional integration has been noteworthy. The main explanation of the differences observed lies in public policies: the aims of the transnationals and those of the host States do not always coincide and it requires an imaginative public policy to explore the points of intersection of the two. This is particularly important in the present situation of crisis in the external financial sector of the region.

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Introduction

It is often stated in the specialized literature that the transnational corporations make a positive contribution to the external sector of the host countries, since they bring capital into the country and increase its trade surplus. Thus, it would seem in a crisis situation like the present, these firms might be part of the solution to the crisis of Latin America's external sector.¹

The contribution of the transnational corporations to the regional balance of payments can be classified under three heads. The first is the income and expenditure account immediately related to direct foreign investment: on the one hand, there is the inflow of such investment into the region (after discounting the reinvested profits); on the other, there are the remittances of profits, repatriation of capital and payment of debts by the local branches to their parent companies. This account usually shows a deficit for the region, since the outflow of capital is greater than the inflow (IMF, 1984). It could hardly be otherwise, since the aim of setting up a subsidiary is to obtain greater profits than the investment made. If it were not so, the transnational corporation would withdraw from the market, since it would be subsidizing one of its branches with profits obtained in another. For this account to be positive, a considerable increase would be required each year in direct foreign investment.²

A second heading of importance is the account corresponding to the process habitually known as transfer of technology. This is also systematically in deficit (United States Department of Commerce, 1980, table 5).

The third and most important heading is the trade balance, which finally determines whether the contribution of the transnational to the re-

¹The concept of Latin America which will be used here excludes the colonies and tax havens of the Caribbean.

²In fact, given a constant annual inflow of gross capital (C), a rate of profits for transfer abroad (p), and a rate of profits reinvested (q), the net inflow of capital will be nil after a certain number of years (n), which can be calculated from the following formula:

$$n = \frac{\log \frac{p+q}{p}}{\log (1+q)}$$

(See Kalecki 1984 and Lahera 1982).

gional balance of payments is positive or negative. If this too is negative, government policies should certainly take explicit account of this fact.

Paradoxically, there are no complete studies on the transnational corporations and Latin America's external trade, so that the question has frequently been left unanswered. This study is a first approximation to the subject, in the hope that others will follow. Owing to its preliminary character, it suffers from several limitations, which it will be well to specify before embarking on the main analysis. In the first place, it should be pointed out that the greater part of the work

refers to branches of transnationals of the United States of America, which control close on half the direct foreign investment in the region. This is because the main source of information published on the subject is the United States Department of Commerce. This leads to a second limitation: the last information published on these branches corresponds to the census of 1977, there being no other more up to date. Finally, it is necessary to stress the provisional character of various generalizations arrived at on the basis of the scant information published. It is to be hoped that later studies will confirm or refute them.³

I

The internationalization of production and external trade⁴

1. *Definition of concepts*

The internationalization of the productive process is the organization by an economic agent of production across national frontiers. Its main agents are the transnational corporations, especially those which have their strategic decision-making centres in the developed market-economy countries, but there are also others whose central management is located in developing countries or in countries with centrally planned economies and which operate internationally. A second type of impetus to this internationalization is found in the systems of complementation of production existing in the countries of Eastern Europe and other cases where the economic agent is public. The present study will not analyse the internationalization of production promoted by States, but only that promoted by private agents and, in particular, the transnational corporations of developed countries.

According to the definition of internationalization of the productive process used here, an inherent part of this concept is the concentration of the activities of strategic control—including the financial aspects, as well as the greater part of the research and development

activities—⁵ in the parent company. Transnational corporations are such because they operate across national frontiers, but in a centralized way. A firm which only transacts external trade with other countries is not a transnational corporation, but merely an enterprise with international connections. A transnational corporation will maintain the external trade determined by the type of productive internationalization it is developing.

The form taken by the centralized strategic management of the transnational corporations varies considerably. In the 1950s and 1960s it was usual for them to have an international division, specifically responsible for operations in the exterior. As these firms grew and diversified, however, a more pragmatic approach became widespread, in which management through an international division is combined with manage-

³More details and statistical data can be found in Lahera (1984 a and b) and in ECLAC 1984.

⁴The bibliography on this subject appears in Lahera, 1984 b.

⁵The branches of United States transnationals disburse scarcely 0.5% of their research and development expenditure in Latin America (United States Department of Commerce, 1981 a, table III-J-7).

ment by product at the world level, with the lines of production of specific goods integrated into divisions dealing with those particular products, with general responsibilities. This new method is also related to the greater importance of vertical international integration, to which we shall return in due course.

2. The conditions of internationalization of production

The starting point of the analysis is the recognition, as a main condition for this process, of the different resource endowment of each enterprise, which includes a better knowledge of production, capacity for product differentiation, underutilization of entrepreneurial and managerial capacity, and other assets—generally intangible—susceptible of generating profits.

This different endowment of some enterprises is associated with that of resources, with the economic cycles and with the features of the markets of the countries of origin. Frequently this is also associated with the size of the enterprise and its performance in oligopolistic markets.

These assets are the result of investments made in the past in research and development on products and processes and in publicity and other means of promotion which enable the product to be differentiated, as well as permitting the acquisition of experience in the organization of the production and marketing of a specific set of goods.

These resources do not become exhausted or reduced by use and can be disseminated among the different units of the enterprise without losing their capacity to create profits. On the other hand, they can become obsolete more or less rapidly and their yield can decline as other enterprises also obtain them: hence they require constant renewal. Their control by certain enterprises constitutes a barrier against the entry of others, which have to make investments or have to acquire them by means of special agreements.

The second condition for this type of internationalization relates to the advantages acquired by a firm thanks to production in another country, since if these advantages did not exist there would be a preference for straightforward foreign trade or the granting of a license, as other

ways of entry into foreign markets. The imperfections of the markets are of crucial importance, since they give a powerful impetus to the enterprises able to internationalize their output, thereby avoiding the disadvantages or making use of the advantages of the imperfections existing in the mechanisms of resource allocation.

These imperfections can be due to the type of market in question—barriers against entry, high cost of transactions, or difficulty in achieving economies of interdependent operation (all aspects which affect the resulting system of prices)—or to interventions by the public sector. In the latter case mention may be made of the differences between the economic policies of the different governments—as regards taxation or the exchange rate, for example—or the systems of protection of ownership of technological knowledge. On the other hand, as the markets become less imperfect, the net profits of the enterprises in process of internationalization consequently deteriorate.

A further consideration, of great importance in the case of direct investments made by developed countries in developed countries, is the competition between transnational corporations in the same sector. There seems to be a positive correlation between the sectors in which the transnationals of the United States operate in Europe and those corresponding to the European enterprises in the United States, and in explanation of this fact it has been postulated that the European investments are of a defensive type: an attitude which can arise in respect of any market and not only in the developed countries.

There are undoubtedly other factors which condition the internationalization of production, such as government policies as a whole, both in the countries of origin of the investment, and in the host countries; although these policies only exceptionally determine whether direct foreign investment is made or not, they are a factor of great importance in relation to the level and fluctuations of such investment.

3. The forms of internationalization

The internationalization of production can take place in two ways: a) through horizontal expansion of the enterprise to produce mainly the same

goods in the country receiving the investment; and b) through vertical integration—backwards or forwards—which incorporates the plant of the host country into the global process of production. The prototype of horizontal integration corresponds to total local production, with local inputs, of a final good. The opposite pole is internationally integrated production, with inputs which are generally imported, of a product that in its turn complements the production on the international plane of a final good marketed in different national markets (see figure).

There are various intermediate types, such as the internationally integrated production of final goods in various countries and the local production, with local inputs, of goods which in turn complement the international production of a final good. There are also combinations of both types of integration, both for the products of a single transnational corporation—some of which may correspond to horizontal integration and others to vertical integration—and by branches of a single transnational corporation, in the case of conglomerates which include various lines and types of products.

The modes of internationalization of production adopted by a transnational corporation will depend on various factors, such as: a) the

economic sector in which the enterprise operates; b) the type of resource which gives its superiority over local enterprises; c) the government policies in the economic area which affect the allocation of resources and the international trade carried out by the transnational corporation; d) the greater or lesser degree of specificity of its inputs; and e) the peculiarities of the different economies in which such corporations work, both as regards the resource endowment and the characteristics of their markets. There would seem to be a tendency to evolve from vertical integration to horizontal.

It has been argued, for example, that microelectronics will have a notable effect on comparative advantages, thanks to the growing use of capital in industries and processes which hitherto were highly labour-intensive, or to the fall in the share of wages in the cost of some capital goods. This might cause changes in some trends of the so-called industrial redeployment process (Lahera and Nochteff, 1983).

4. The consequences for the host economies

The growing internationalization of production has important effects, both on the structure and dynamism of various aspects of the international

Figure
POSSIBLE FORMS OF ORGANIZATION, PRODUCTION AND SALES
OF A TRANSNATIONAL CORPORATION

<u>Ownership</u>	<u>Direction</u>		<u>Inputs</u>	<u>Supplier</u>	<u>Productive process</u>
Total Majority Shared	Centralized Decentralized	} By products and/or regions	Local	The same affiliate Another affiliate Another trans- national enterprise National Combination	Local
			Imported		Integrated
<u>Degree of integration</u>	<u>Financing</u>		<u>Product</u>	<u>Market</u>	<u>Purchaser</u>
Complete	Local		Final good	Local	National
Partial	External		Input	External	Another affiliate
Joint	Within the			Combination	Another trans- national enterprise
With the parent	transnational				
With other affiliates	enterprise				
With other transnational enterprises	Outside the transnational enterprise				

economy, and on the countries—both the headquarters and the host countries—where the transnational corporations operate. Internationalization not only affects the directly productive processes at the national and international level—with all the imaginable consequences regarding resource allocation and international specialization—but also the financial and capital flows, as well as international trade.

The implications for the host economies will vary according to the type of internationalization practiced by the transnational corporations. The different forms and combinations of organization, production and sales they use will have special effects on the host economy and particularly on its foreign trade.

The fact that the imperfections of the market help to foster internationalization means that the transnationals do not automatically tend to eliminate them, since they are often a source of profit. These enterprises tend to provoke imperfections in the allocation of resources, since they frequently operate in oligopolistic markets, whose characteristics they reproduce, and they have the capacity to overcome the market mechanisms and the restrictions imposed by public regulations. Again, the exploitation of the imperfections of the market by the transnationals means that the ensuing benefits will not necessarily remain in the receiver countries unless the latter apply policies to achieve this end. In the regional or subregional integration initiatives taken by governments it can be seen that every process designed to homogenize the national economic spaces gives preferential treatment to those enterprises which can undertake international specialization, operating from several countries simultaneously. It is another matter, of course, if the firms installed to supply the local market are interested in internationalizing their production.

Certain types of specialization promoted by the transnationals tend to be detrimental to the host countries, along with various aspects of their production, external trade, marketing and technology transfer strategies. They have also been criticized in their countries of origin for their effects on the balance of payments, employment, levels of prices, productivity and income.

In a classical-type argument it might be pointed out that a contradiction arises between

the development of the productive forces induced by the internationalization of production and the mechanisms of decision-making, appropriation and assignment of the surplus by their agents. The mere geographical expansion of this internationalization increases and gives power to both local and international trade. The imbalances and transfers of resources which it produces are also of great importance.

The internationalization of production carried out by the transnational corporations can also produce a series of benefits for the host economies, such as the production of certain necessary goods and the contribution of technology, capital and management of plants and enterprises. A variable of crucial implications is the government policy followed in this respect: this should minimize the problems and maximize the advantages for the developing countries arising from the internationalization of production.

5. The internationalization of production and external trade

The various forms of internationalization of production will result in different types of specialization by the transnational affiliates, which will directly and indirectly affect the volume and type of the imports and exports of the host countries, as well as their stability. In the case of the more or less complete repetition of the productive cycle with a view to supplying the local market, the transnational corporation will not need to import or will do so at a relatively low level, through the provision of technology, for example. Instead, there is likely to be an import-substitution effect to a greater or lesser degree according to the product in question, which will largely depend on the tariff and exchange-rate policies. This does not mean that the affiliate cannot import diverse goods from the range of products of the parent enterprise in variable amounts. From another standpoint, this type of affiliate can export a variable part of its own production.

In the case of incomplete repetition, internationalization will have an immediate effect on the external trade of the host country. On the one hand, a variable proportion of inputs may be imported, including capital goods, technology, raw materials and components. On the other hand, the transnationals will engage in export

activities which will contribute to the internationalized output of their parent firms. In this case, the type of impact will be determined by the international specialization of the affiliate, which may undergo abrupt changes as a result of variations in its strategic orientation and management, technological changes, or modifications in the government policies of third countries.

The international trade taking place within a transnational corporation may differ considerably from that which occurs between parties not related by common ownership and control. The following, for instance, are typical features of this trade: a) decisions as to what the affiliates should import and export in each country form part of a

strategy and an assessment of costs and benefits relating to the transnational itself, which does not necessarily result in the best distribution of resources, or in an allocation of the surplus which will contribute to the development of the host country or fulfil its national aims; b) a large part of the direct foreign investment is in sectors with oligopolistic markets, in which market signals have little importance; c) the manipulation of transfer prices, even in the most competitive markets, is easier within an enterprise than between different enterprises, and this manipulation can affect the level of the taxes payable to the countries in which the transnationals are operating and the fulfilment of exchange and external trade regulations.

II

Internal and external markets

Before analysing the external trade of the transnational corporations it is worth emphasizing that their main interest in Latin America is the internal market and not exports, which have accounted for a small and diminishing share of their sales. The proportion of local sales in the total rose from 59% in 1957 to 71% in 1966 and to 84% in 1977, in the case of majority-owned affiliates of United States transnational corporations⁶ (see table 1).

The industrial sector has two peculiarities: first, the level of its exports as a percentage of total sales has always been lower than the average for all the sectors as a whole, and, second, the proportion of exports made by the affiliates in relation to their total sales rose from 4% in 1957 to 6% in 1966 and to almost 10% in 1977. With the exception of 1977, however, the exports of these enterprises fluctuated within a much narrower range—from 5.2% to 6.8%—between the last two years mentioned. It should be noted that information corresponding to the beginning of the 1960s indicates levels of exports as a per-

centage of total sales also close to 10% (United States Department of Commerce, 1965). The figure for 1977, therefore, would indicate no more than the recovery of levels already attained in the past.

In the case of petroleum, there is a similar tendency for local sales to rise; their share went

Table 1
SHARE OF EXPORTS IN THE TOTAL SALES
OF THE MAJORITY-OWNED AFFILIATES OF
UNITED STATES TRANSNATIONAL
CORPORATIONS IN LATIN AMERICA

(Porcentajes)

Sector	1957	1966	1967 ^a	1975	1976	1977
Manufacturing	4.0	6.2	..	...	6.4	9.7
Petroleum	...	45.7 ^b	42.1	54.8	43.7	11.9
Mining	87.1	84.4 ^b	86.2	45.3	21.0	...
Commerce	...	33.0	37.1	27.8	29.3	29.3
Total	41.0	29.2	...	...	19.1	15.6

Source: United States Department of Commerce, 1966; 1975; 1977; 1978; 1981 a. (The sources of the tables are given in the bibliography).

^aIncludes "Others, Western Hemisphere."

^bCorresponds to the classification of the exports made by the sector as a whole in which the transnational corporation operates.

⁶Affiliates where the parent companies own more than 50% of the local capital (United States Department of Commerce, 1981 b, p. 67).

up significantly in 1977, especially as a result of the changes that took place in the accumulated value of United States direct investment in Venezuela.

In mining and smelting, exports are low in relation to the total sales of the affiliates mentioned, since in 1976 they amounted to only 21% of the total and the remaining 79% represented local sales. The proportion exported diminished sharply compared with 1957—when it reached 87%—and with 1966, when it represented 84% of the total (United States Department of Commerce, 1966).

From another point of view, only a relatively small number of transnational corporations make sizeable exports. In 1979 only 15 in Chile, 73 in Mexico and 204 in Brazil achieved a total of over US\$ 3 million, which in each case represented a small proportion of the number of transnational enterprises of all nationalities in the respective country. National private enterprises in the same situation were more than double the number of transnationals in that year

(Lahera, 1980). In Chile only 86 enterprises exported in that year, i.e., around a fifth of the total of such enterprises and less than 4% of the total number of exporters. Moreover, more than half the transnational corporations in that country effected imports during that same year, over 90% of them registering a negative trade balance (Lahera, 1983).

The foregoing figures clearly show the priority of the domestic over the external markets for the transnational corporations. The aim of these firms in the region is mainly the penetration of the local markets, especially in the industrial sector. There is no doubt that these enterprises contribute to regional exports, in some cases quite appreciably. Particularly important are their exports in the sectors in which these enterprises are apparently difficult to replace as export agents and therefore represent a net contribution to the national exports. It is a different matter, however, in the case of the basic resources sectors, where nationalization has not changed the level of regional exports.

III

Transnational corporations as agents of regional external trade

1. *Participation*

The participation of transnational corporations in Latin America's external trade came to 25% of the total exports and imports of the region at the end of the 1970s, which means that most of the external trade is conducted by national agents, whether public or private. The share of the transnationals in regional imports came to 27% of the total and exceeded the 22% corresponding to exports (see table 2).

The share of the transnationals in international trade varies from country to country. In exports, their share in the national total is below 10% in Chile and fluctuates between a fifth and a quarter of the total in Colombia, Mexico, Peru, Brazil and Argentina. As regards imports, their share is generally higher than in the case of

exports, varying from 16% in Chile to 36% in Peru.

The share of the transnational corporations in the industrial exports of the region is greater than their share in exports as a whole, as it amounts to 41% of the total.⁷ The rest, i.e., practically 60% of industrial exports, is accounted for

⁷This percentage represents the average of two estimates calculated on different bases which, nevertheless, produce similar results. The first was based on the share of the industrial exports of majority-owned affiliates of United States transnational corporations in the total, weighted by the share of these affiliates in the total of the direct investment from this source and the share of this investment in total direct investment. The second was an extrapolation of the share of the industrial exports of the transnational enter-

Table 2
SHARE OF THE TRANSNATIONAL CORPORATIONS
IN REGIONAL TRADE

(Percentages)

Country	Year	(1) Share in the national total	(2) Share of the country in the regional total, 1978	(3) Share of the transnational corporations in the regional total (1/100 × 2)
Exports				
Argentina	1977	24.9	12.0	2.99
Brazil	1980	24.0	23.4	5.6
Colombia	1977	18.9	6.0	1.13
Chile	1979	7.6	4.6	0.35
Mexico	1977	21.9	12.1	2.65
Peru	1978	23.5	3.6	0.85
Total sample			61.7	13.57
Weighted total				21.99
Imports				
Brazil	1980	30.0	24.3	7.3
Chile	1978	15.8	5.2	0.82
Mexico	1977	25.5	13.9	3.54
Peru	1978	35.9	2.9	1.04
Colombia	1979	21.6	4.6	0.99
Total sample			50.9	13.69
Weighted total				26.89

Source: Argentina, 1976 and Peru, 1976 and 1977: Extrapolations based on the exports of the majority-owned (50%) affiliates of United States transnational corporations, weighted by the shares of these affiliates in the total of North American investment, and the share of this in the total investments of the OECD for each country and year; Brazil, 1980: ECLAC, 1983; Colombia, 1979: figures of INCOMEX in Misas (1981); Chile, 1979 and 1980: Lahera, 1983b and Ryd, 1982a; Mexico, 1976 and 1977: Department of Foreign Investment 1979; Peru, 1978: Lahera, 1980. For all the countries, column (2) comes from ECLAC, 1981 a. For the regional total, ECLAC, 1981 b, tables 26 and 29.

by national agents, public or private. The situation by countries likewise presents important differences. In Uruguay, the share of the transnationals amounts to 13% and in Colombia 17%, while in Chile it is over 20% and in Costa Rica 25% of the total. It is considerably higher in

prizes in several countries to cover the region as a whole, with a weighting of the respective national shares in the said total. The first gave an amount of 39.1% and the second one of 43.3%. The share of the majority-owned affiliates of United States transnational corporations in the total of the direct investment by the United States in the region was 85% in 1977 and the share of the investment from this source in the total was 65%, according to figures from the United States Department of Commerce (1977) and the OECD (1980), respectively.

Colombia, Mexico and above all in Brazil, where in 1979 it represented more than half of the national exports (see table 3).

The share of the transnational corporations in the regional exports of the various industrial branches differs considerably. In the majority-owned affiliates of United States transnational corporations it exceeds two-thirds in electrical machinery and electronic equipment and in paper and paper products, and amounts to half in transport equipment. On the other hand, it is less in chemical products, rubber, foodstuffs and non-electrical machinery, where it fluctuates between 18% and 24% of the total (Lahera, 1984 a).

Table 3
SHARE OF THE TRANSNATIONAL CORPORATIONS
IN INDUSTRIAL EXPORTS
(SELECTED COUNTRIES)

(Percentages)

Countries	1976	1977	1978	1979	1980
Brazil	...	...	49.8	52.4	...
Colombia	22.7	24.0	19.6	14.0	16.9
Costa Rica	...	...	...	...	26.0
Chile	...	...	...	21.7	...
Mexico	37.2	42.4	...	...	...
Uruguay	...	10.1	12.6	...	...

Source: Brazil: Ryd, 1982 b; Chile: Ryd, 1982 a; Colombia: Montoya, 1982, table 1; Costa Rica: Ulate, 1983, table 8; Mexico: Ramírez, 1977; for 1972, Department of Foreign Investment, 1979; Uruguay: Pascale, 1980.

2. Changes in participation in exports

The proportion of exports made by the Latin American affiliates of transnational corporations in the total of regional exports has suffered a marked decline: at the end of the 1960s it was approaching half the total, but 10 years later it barely came to 22%.⁸

The fall in the share of the exports of transnational corporations in regional exports was more pronounced in the case of those whose parent company is in the United States. The exports of the affiliates declined even in absolute terms, from US\$ 5.4 billion to US\$ 5.1 billion between 1969 and 1977 (table 6 and United States Department of Commerce, 1975), while their share in regional exports fell from 33% in

⁸The estimate for 1967 is based on the extrapolation of the share of the majority-owned affiliates of United States transnational corporations in the total of this country's investment and of the share thus obtained in the total investment of the transnational enterprises. The affiliates with majority ownership accounted for 93% of the direct investment of the United States in 1966 (United States Department of Commerce, 1975), and this in its turn equalled 66% of the total direct investment of the OECD countries in the 19 leading countries of Latin America (OECD, 1972). All these operations assume a relatively homogeneous propensity to export on the part of the transnational enterprises of various origins during the year 1967 and a similarly homogeneous sectoral distribution of investments. Since this latter assumption is not strictly realistic, the participation rate has suffered.

1966 to 10% in 1977 (see table 4). This difference in decline is explained by the greater impact on these enterprises of the nationalization of mining resources which took place in the region in the 1970s.

For the industrial sector there are no reliable estimates of the volume of exports of the transnational corporations towards the end of the 1960s, nor of their share in the regional total, except for the majority-owned affiliates of United States transnational corporations, which exported around US\$ 40 million in manufactures in 1966-1967, i.e., close on 40% of the regional total. For 1957, Raymond Vernon (1972) estimates the share of the affiliates of United States transnational corporations in Latin American industrial exports as 40%. By 1969-1970 this share had fallen to slightly more than half, remaining subsequently, with small variations, at around one-fifth of the industrial exports of Latin America. In 1977 it amounted to 22%.

3. Geographical distribution of exports

Brazil records the greatest volume of exports by United States majority-owned affiliates, with a share in the total of 23% in 1977. This is concentrated in the industrial sector, with this country contributing close on half of the regional total (Lahera, 1984 a).

The exports of these enterprises from Panama represented almost 15% of the total in 1977 and, as in Brazil, they were very concentrated, this time in the commercial sector, where during the previous year they had amounted to 40% of the regional total.

Mexico comes next in line, with 11% of its total exports made by these firms. Their share in regional exports is about the same in the industrial and in the commercial sectors, i.e., around 20% of the total in 1976. Argentina's proportion is similar to that of Mexico and it also shares with that country a relatively symmetrical percentage in the industrial and commercial sectors, although its share in the former is somewhat greater.

The presence of Venezuela, traditionally the main exporting country in respect of the aforesaid affiliates—54% of the total and 89% of the petroleum exports in 1976—has been very much diminished since 1977, since the regional

Table 4
SALES AND EXPORTS OF MAJORITY-OWNED
AFFILIATES OF UNITED STATES
TRANSNATIONAL CORPORATIONS
IN LATIN AMERICA

(Millions of dollars and percentages)

	1957	1966	1976	1977
Total sales	...	12 926	46 414	33 515
Exports to United States	...	1 421	3 169	1 916
Exports to other parts	...	2 352	5 707	3 296
Total exports	...	3 773	8 876	5 212
Total exports of Latin America	...	11 256	42 753	50 024
Exports/total sales	41.0	29.2	19.1	15.6
Exports to United States/ total exports	51.2	37.7	35.7	36.8
Exports/transnational corporations in Latin America	...	33.5	20.8	10.4

Source: United States Department of Commerce 1981 a; 1978; 1976; 1960.

exports of petroleum by these firms during the two years fell to only 17%.

4. Concentration of the transnational corporations' external trade

A few transnational corporations account for a high percentage of the total external trade of these firms and help to establish, or accentuate, the high degree of concentration of Latin American exports. In 1979 the ten leading enterprises represented 28% of the total exports of these firms in Brazil, 96% in Chile and 57% in Mexico. The ten largest also made 50% of the industrial exports of these firms in Colombia in 1980 (Montoya, 1982). The figures corresponding to the national private sector were lower in Brazil and Chile (24% and 44% respectively). In Mexico the

15 leading transnational corporations made 52% of the industrial exports, 88% of the commercial ones, and 97% of those relating to mining and services during the period 1971-1976 (Department of Foreign Investment, 1979).

As regards imports, in 1979 the ten leading firms made 27% of the imports of over a million dollars and 31 made half of the imports of over US\$ 10 million in Brazil. In Chile the ten largest made 46% of the total imports, while the same number of national private enterprises reached only 12% of the total (Lahera, 1983 a). In Mexico, during the period 1971-1976, the 15 leading importing transnationals made all the agricultural and livestock imports, 36% of the industrial ones, 68% of the commercial imports, 83% of those relating to services, and 97% of mining imports in the country.

IV

The trade balance of the transnational corporations

1. *Imports and exports*

The direct contribution⁹ of the transnational corporations to Latin America's trade balance at the end of the 1970s was negative, since their exports did not generate an inflow of foreign exchange sufficient to finance their own imports.

⁹The total contribution of the enterprises—both national and transnational—to the national trade balance should also include their indirect impact on the demand for imports and the total of exports. So far, this matter has not been tackled methodologically.

Thus, these enterprises helped to increase the regional trade deficit (see table 5). This does not mean that their contribution was negative in all countries. It was so in Chile in 1979 and 1980, in Mexico in 1977 and in Colombia in 1980. In the two first countries these companies' exports generated foreign exchange which financed a little more than half the imports they themselves made. In the last-named country, on the other hand, the proportion was only one-fifth. The balance was positive in Brazil in 1979 and in Peru in 1978. It would be very interesting to carry out a study on the trend of the trade balance of the

Table 5
TRADE BALANCE BY AGENTS (SELECTED COUNTRIES)

(Millions of dollars and percentages)

		(1)	(2)	(3)	(4)
		Exports	Imports	Balance	Col. 1 as a percentage of Col. 2
Public sector					
Brazil	1979 ^a	2 045	1 690	355	121.0
Chile	1979	2 234	1 253 ^b	981	178.3
Chile	1980	2 919	1 249 ^b	1 670	233.7
Mexico	1978	1 469	434	1 364	338.5
National private sector					
Brazil	1979 ^a	3 808	2 378	1 430	160.1
Chile	1979	1 245	2 447	-1 202	50.9
Chile	1980	1 457	3 880	-2 423	37.6
Peru	1978	243	291	47	83.5
Transnational corporations					
Brazil	1979 ^a	3 256	2 561	695	127.1
Colombia	1980	269	1 265	996	21.3
Chile	1979	284	518	-234	54.8
Chile	1980	443	692	-249	64.0
Mexico	1976	828	1 715	-887	48.3
Mexico	1977	939	1 581	-642	59.4
Mexico	1979	941	2 043	-1 102	46.1
Peru	1978	628	410	218	153.2

Source: Brazil, Chile and Peru: Lahera; Mexico: Department of Foreign Investment, 1977 and Secretaría de Patrimonio y Fomento Industrial de México, 1981; Colombia: INCOMEX, 1983.

^aCovers 60% of exports and imports.

^bExcludes petroleum.

transnational corporations. In the two cases in which it is possible to analyse it the situation is very different: in Brazil it went from negative in 1974-1975 to positive at the end of the decade; in Colombia it was negative in every year between 1975 and 1982.

The trade balance of these enterprises in the industrial sector was negative in three of the five countries for which there is information, namely, Colombia in 1971, Mexico in 1979 and Uruguay in 1978. In Brazil and Costa Rica, on the other hand, the trade balance was favourable in this sector in 1980.¹⁰ In Mexico and Uruguay the exports of these firms financed less than half of their imports, while in Colombia they covered only 14% of the total (see table 6).

2. External trade coefficients

The scant information published on the import coefficients of the affiliates of transnational corporations in the region indicates that in 1979 it reached 22.4% in Chile and 16.5% in Mexico. In the industrial sector it amounted to 14.6% in Brazil in 1980 and 17.1% in Mexico in 1979 (Lahera, 1984 a). In Brazil it fell to less than half between 1974 and 1980, as a result of the import policies applied by that country (ECLAC, 1983, table 10).

¹⁰Excluding petroleum in Brazil. On Costa Rica, see Ulate (1983).

The import coefficient of the affiliates in Mexico was over 40% for computing equipment and over 50% for agricultural machinery and implements, while it came to 33% in the motor-vehicle terminal branch and 25% in motor-vehicle components (Lahera, 1984 a). In Brazil the values exceeded the average in metallurgy, chemicals and pharmaceuticals.

The ratio of imports to sales (import coefficient) was more than double the ratio of exports to sales (export coefficient) in Mexico and more than three times greater than it in Chile. The linkage of the affiliates with the international economy was thus markedly asymmetrical. A similar difference is noticeable in the transnational corporations operating in the industrial sector of Brazil and Mexico.

The propensity of the transnational corporations to import has tended to be greater than that of national enterprises. Their ratio of imported inputs to national inputs was double that of the local firms in Peru (Vaitsos, 1976) in 1973 and the same happened in Mexico in 1974 with regard to the ratio of imports to production (Jenkins, 1979). In Colombia in 1970 the ratio of imported raw materials to total raw materials was 48% higher in the case of the affiliates of transnational corporations (Banco de la República, 1976).

This comparison, however, is open to criticism from the methodological standpoint, since it is not adjusted by size and thus includes a large

Table 6
TRADE BALANCE OF TRANSNATIONAL CORPORATIONS IN THE INDUSTRIAL SECTOR
(Millions of dollars)

		(1)	(2)	(3)	(4)
		Exports	Imports	Balance	Col. 1 as a percentage of Col. 2
Brazil	1980	4 295 ^a	3 429 ^b	866	125.3
Colombia	1971	33	229	-196	14.4
Mexico	1979 ^c	838	2 017	-1 179	41.5
Uruguay	1978	39	81	-42	48.1

Source: Brazil: ECLAC, 1983, table 4; Colombia: Banco de la República; Mexico: Secretaría de Patrimonio y Fomento Industrial, 1981; Uruguay: Pascale, 1980.

^aEffective values.

^bAuthorized values.

^cConversion effected according to the average rate for the dollar in 1979 = 22.805 Mexican pesos.

number of small and medium-sized national enterprises which make sales but not imports. This

is a very important topic on which more detailed studies should be made.

V

External trade markets of the transnational corporations

1. Destination of exports

The majority-owned affiliates of United States transnational corporations directed only 36.5% of their exports to that country in 1977 (see table 7). According to data of the United States Department of Commerce (1976), this proportion has not only not increased since the mid-1960s but has even fallen slightly, since in 1966 it was 37.7%. The situation is the same in the case of industrial exports: the share of the United States did not vary between 1966 and 1977, fluctuating around 35%. As the share of the United States in total regional exports was 35.6% in 1977 (IDB, 1983), it must be concluded that the market

penetration by the affiliates has been no greater than that by national firms.

The remaining developed countries receive 27% of the industrial exports and 44% of the non-industrial, including raw materials and exports made by marketing firms.

The developing countries receive 27% of the exports of the said affiliates from Latin America. The countries of the region are the main recipients, since a fifth of the total is directed to them. Latin America is particularly important as a market for industrial products, since its share in the exports of these goods exceeds even that of the United States.

The United States market continues to be

Table 7
DESTINATION OF THE EXPORTS OF MAJORITY-OWNED AFFILIATES OF
UNITED STATES TRANSNATIONAL CORPORATIONS IN LATIN AMERICA, 1977

(Millions of dollars and percentages)

	Industrial exports		Non-industrial exports		Total	
	Value	%	Value	%	Value	%
Developed countries						
United States	780	35.0	1 136	37.6	1 916	36.5
Europe	466 ^a	20.9	1 331	44.1	1 935 ^a	36.9
Others	138 ^a	6.2				
Total	1 384	62.1	2 467	81.8	3 851	73.4
Developing countries						
Latin America	787	35.3	294	9.7	1 081	20.6
Others	56	2.5	256	8.4	312	5.9
Total	843	37.9	550	18.2	1 393	26.6
Total exports	2 227	100.0	3 017	100.0	5 244	100.0

Source: United States Department of Commerce, 1981 a.

^aIncludes US\$ 32 million of exports to "Other Western Hemisphere".

very important for the reduced exports of mining origin made by the affiliates of transnational corporations of that country from Latin America, since its share amounted to 73% in 1976. On the other hand, it has a smaller share in petroleum exports (38%) and those of the marketing firms (22%). The industrial branches in which the United States market exceeded the average were electrical machinery and electronic equipment—with more than three-quarters of the total—and transport equipment and material, with 45%. In the other branches its share was lower than the average, to which it approximated only in food products and chemicals (Lahera, 1984 a).

From another standpoint, the importance of the United States market for exports of the majority-owned affiliates of United States transnational corporations in Latin America varies according to country, being lower than the average in Argentina and Chile and higher in Mexico (see table 8).

2. *Origin of imports*

Judging from the scant information available, the transnational corporations tend to prefer to import from the parent country; in this sense their operations contribute to a greater concentration of the external trade of the countries of the region. According to Fajnzylber (1979), imports from the United States, the Federal Republic of Germany and Japan by the Mexican subsidiaries of transnational enterprises of those countries represented 74%, 81% and 94% of their respective total imports in 1972. In Co-

Table 8
SHARE OF EXPORTS TO UNITED STATES IN
THE TOTAL EXPORTS OF MAJORITY-OWNED
AFFILIATES OF UNITED STATES
TRANSNATIONAL CORPORATIONS
IN LATIN AMERICA

(Percentages)

	1975	1976	1977
Argentina	14.9	14.9	4.3
Brazil	29.9	34.1	25.3
Colombia	10.8	14.9	37.5
Chile	19.0	22.6	—
Mexico	58.6	64.2	55.4
Peru	39.6	29.2	—
Panama	10.5	31.2	—
Venezuela	18.9	35.2	—

Source: United States Department of Commerce, 1981 a; 1977; 1978.

lombia, according to data from the Banco de la República (1974) the imports of transnational corporations from the home country of their parent firm fluctuated between 51% and 71% for the United States and between 33% and 45% for Europe during 1969-1971.

In Mexico in 1972 the imports of transnational affiliates from their parent firms equalled 16% to 19% of the total imports from France and Sweden; from 24% to 30% of the total imports from Italy, Japan, the United Kingdom and the United States; 36% from Switzerland and 43% from the Federal Republic of Germany (Fajnzylber, 1979).

VI

Products exported by the transnational corporations

The composition of the exports made from Latin America by the majority-owned affiliates of United States transnational corporations has varied considerably as a result of the dynamism registered by the different sectors and variations in the accumulated value of direct investment from that source in the region (Lahera, 1983 b).

The greatest changes have occurred in the extractive sectors. First—and most acutely—in mining, and then in petroleum, exports fell sharply, mainly because of the nationalization of basic resources by the countries receiving the foreign investment. Mining, which towards the middle of the 1970s accounted for a fifth of ex-

ports, had reduced its share to less than 2% a decade later. Petroleum, which came to represent 70% of the total in 1975, had dropped to 18% by 1977 (see table 9).

The sectors in which the proportion increased—manufactures and commerce—did so at very different rates. The industrial sector evolved much more dynamically, with a growth of 700% between 1966 and 1977, while the value of the exports of the commercial sector rose slightly more than 200%.

The share in exports of the different industrial branches has also undergone major variations. The share of food products dropped from over two-thirds of the total at the beginning of the 1960s to only a fifth in 1977. There was a rise, however, in the share of machinery and transport equipment.

Table 9
COMPOSITION OF EXPORTS FROM
LATIN AMERICA MADE BY MAJORITY-OWNED
AFFILIATES OF UNITED STATES
TRANSNATIONAL CORPORATIONS

(Millions of dollars)

	1957	1966	1967 ^a	1975	1976	1977
Mining and smelting	809	...	1 288	217	153	...
Petroleum	2 006	7 646	5 383	910
Manufactures	...	307	422	1 341	1 543	2 196
Commerce	...	530	685	1 135	1 309	1 211
Total	...	3 774	4 727	...	...	...

Source: United States Department of Commerce, 1960; 1973; 1977; 1978; 1981 a.

^aIncluding "Other Western Hemisphere".

VII

International trade within the enterprises

1. Dimensions

Exports within the enterprises represented 60% of the total exports of the majority-owned affiliates of United States transnational corporations in Latin America in 1977, and this proportion rose to 85% in the case of exports to the United States. In Brazil and Mexico the proportion was even higher: 67% and 72% on average respectively, which indicates a greater integration of the affiliates with the rest of the transnational enterprises of which they form part (Lahera, 1984 a).

Regarding the imports made by these affiliates, in 1972 some 57.6% of the total in Mexico and 50% in Brazil represented transactions within the firm, which suggests a regional average of around 45%. The percentage of imports made from the United States amounted to 81% in 1977. Hence it is calculated that around half of the international trade of the affiliates of United States transnational corporations in Latin America is carried on within the same firm.

The share of these transactions in total trade has evolved differently in the case of exports and imports. For exports it increased from 56% to

60% between 1966 and 1977. For imports, it declined from 53% to 45%. Taken as a whole, the importance of trade within the enterprise does not appear to have varied greatly during the period analysed.

2. Composition of imports from the parent firm

The composition of the imports made in 1977 from their parent firms by majority-owned affiliates of United States transnational corporations in Latin America was 56% capital goods and inputs and 44% goods for resale, for all the sectors as a whole (see table 10). This latter figure coincides with that of other studies (International Business Corporation, 1980) and shows that a notable part of the imports of the affiliates represents finished goods, respecting which these firms act merely as resale agents.

The situation varies according to the type of country. In Argentina, Brazil and Mexico the proportion of merchandise for resale fluctuates around a third of the total; in the other countries it tends to exceed the regional average. The regional average for the proportion of goods for

resale in the total imports of the aforesaid enterprises rose from 33% in 1966 to 44% in 1977. Imports of goods for resale grew more rapidly than those of goods for finishing or assembly in Argentina, whereas the opposite occurred in Brazil and Mexico, where imports of the second type grew twice as fast as those of the former type of goods.

As regards capital goods, between the two years mentioned their share declined from 12% to 7% for the region as a whole (more rapidly in Argentina and slower than the average in Brazil). In contrast, it rose slightly in Mexico.

3. *The trade in technology between different affiliates of the same transnational enterprise*

Payments for what is known as "transfer of technology" between different parts of the same transnational enterprise also represent a commercial transaction within the enterprise, since they relate to the acquisition of an intangible

input. In some cases they merely represent rights to use brand names.

The affiliates of United States transnational corporations in Latin America made net payments of close on US\$ 500 million to their parent firms in 1980 in respect of transmission of technology (United States Department of Commerce, 1981). These payments have no other counterpart than the local application of a technology controlled by the transnational corporation as a whole; in practice, they have been used as a channel for the remittance of profits. For this reason several Latin American countries have restricted or prohibited them, which explains their slow rate of growth. In Brazil, for example, the annual rate of growth did not reach 3% between 1966 and 1980, whereas the regional average was almost three times as high. In 1977 the affiliates had a deficit on their trade balance for technology since they received payments from other segments of the transnational enterprises for only US\$ 3 million (United States Department of Commerce, 1981 a, table I-7-2).

Table 10
IMPORTS FROM THE PARENT FIRM MADE BY MAJORITY-OWNED AFFILIATES OF
UNITED STATES TRANSNATIONAL CORPORATIONS IN LATIN AMERICA,
BY KIND OF USE

(Millions of dollars and percentages)

	For resale		Capital goods		To process or assemble		Others		Total	
	1966	1977	1966	1977	1966	1977	1966	1977	1966	1977
Argentina	13.0	58.0	11.0	10.0	41.0	96.0	1.0	...	67	164
	19.4	35.4	16.4	6.1	61.2	58.1	1.5			
Brazil	34.0	208.0	8.0	59.0	33.0	364.0	2.0	...	77	631
	44.2	33.0	10.4	9.4	42.9	57.7	2.6			
Mexico	104.0	266.0	9.0	32.0	98.0	435.0	2.0	...	213	734
	48.8	36.2	4.2	4.4	46.0	59.3	0.9			
Total for Latin America	288.0	1 229.0	105.0	189.0	388.0	1 354.0	82.0	...	863	2 772
	33.4	43.4	12.2	6.8	44.7	48.8	9.5			
Total for Latin America from United States	318.0	1 483.0	152.0	268.0	452.0	1 656.0	107.0	...	1 029	3 416
	30.9	43.4	14.8	7.8	43.9	48.5	10.4			

Source: United States Department of Commerce, 1976, table E-10; 1981 a, table III-1-12.

VIII

Regional and national external trade
promotion policies and the
transnational corporations

Every attempt to homogenize the different national economic spaces will favour those enterprises which can engage in international specialization by operating in several countries simultaneously, unless this tendency is checked by the application of explicit national or regional policies (Lahera, 1979, and 1984 c). The LAFTA complementation agreements confirm this fact, while the common policy of the Andean Pact on foreign investments is a recognition of the need to set up similar conditions for the transnational corporations in the various countries receiving direct foreign investment.

The LAFTA agreements on industrial complementation are bilateral or multilateral agreements relating to a specific industrial branch, in which the most-favoured-nation clause does not apply. Products with a specific percentage of regional integration receive preferential treatment in the signatory countries, above all in relation to tariff reductions. This is a very suitable instrument for intensifying intra-industry specialization, and the transnational corporations have been quick to exploit it, thus giving a regional dimension to the process of productive internationalization. The agreements have concentrated on branches which are highly dynamic for these enterprises. From the outset, the agreements have mainly benefited the transnational corporations, whose process of internationalization in the region has been facilitated by them. Thus, for example, the first agreement, in 1962, was an agreement between affiliates of the IBM in Argentina, Brazil, Chile and Uruguay to specialize in different lines of the production of data-processing equipment (Haas and Schmitter, 1965). The second, two years later, on radio tubes, was a joint programme of RCA and Philips (Bell, 1971).

In the cases of the agreements on office machines (10 and 11) and the electronic industry (2, 4, 12 and 19) Tomasini (1977, p. 138) indicates that "they were the written expression of

the policy of dividing up the market practiced by the transnational corporations which operate in the area, stimulated by the additional advantages represented by the incentives which each of the countries grants to exports and by the large margin of preference which these products enjoy *vis-à-vis* third markets. In all the cases studied the participation of national enterprises in the agreements has been marginal. The transactions are carried out preferentially between affiliates of the same firm: in the cases analysed this type represented over 80% of the trade carried out under each agreement, reaching close on 100% for some products". (See also Campos and Isla, 1974.)

In the Andean Pact, too, the transnational corporations play an active part, both in the programme of trade liberalization and in the sectoral industrial development programmes in the metal-working, petrochemical and motor-vehicle sectors. Their participation is not homogeneous and thus, for example, whereas in Bolivia the transnational corporations made the greater part of the non-traditional exports to the subregion, representing 71% of the total in 1982, their share in Colombian exports to the Andean Pact amounted to only 12% in 1980.¹¹ All in all, the transnational corporations are in an excellent position to accumulate fiscal benefits in the different countries, and to make simultaneous use of the mechanisms of "drawback" and of temporary admission, among others.

From another standpoint, in the national sphere, the transnationals have habitually made full use of the special benefits accorded to export activities in different countries of the region.

The share of the transnational corporations in the system of fiscal incentives for industrial

¹¹In this respect an analysis could usefully be made of the national appraisals of the application of Decision 24 prepared for the Andean Pact in 1983.

development in Costa Rica amounts to 60% of the aggregate value covered by this promotional system, which includes half the national industrial exports (Ulate, 1983).

In Colombia, whereas the average share of national firms in the export incentives provided under the Vallejo Plan¹² rose from 28% to 31% between 1974 and 1980, that corresponding to transnational enterprises rose from 35% to close on 60% (Montoya, 1982, table 4).

Again, in Brazil, the transnational motor-vehicle industry has been the main beneficiary of the BEFIEX programme for the promotion of exports. In 1980, for example, its share exceeded

80% of the total of export promotion programmes and in the programmes approved during that same year the share of these firms was close on 60% (see *La gaceta mercantil* and *Comercio y mercados*).

It is not at all obvious why transnationals should be allowed to share indiscriminately in all the export promotion mechanisms, owing to their natural insertion in the international economy, especially if they are not called upon, in exchange, to comply with specific performance requirements: in this case the subsidy granted to the transnational corporations seems totally unjustified.

IX Conclusions

The main interest of the transnational corporations in Latin America is in the domestic market and not in exports. In 1977 exports represented only 10% of the industrial sales and 31% of the non-industrial sales of the majority-owned affiliates of such United States enterprises, and their tendency is to diminish still further. The truth is that only a relatively small number of transnational corporations export to any appreciable degree and it cannot therefore be argued that their presence results in a greater volume of exports. From another standpoint, if what is required is a contribution to national exports, there should be a selective and active policy regarding the firms which are in a position to make this contribution.

At the end of the 1970s, the transnational corporations accounted for a quarter of Latin America's external trade: 22% of its exports and 27% of its imports. In the industrial sector their share in exports was greater (41%). These proportions, without being very large, are appreciable, especially if one considers some of the char-

acteristics of international trade such as the transactions within the enterprise and their negative trade balance. From another point of view, the share of the majority-owned affiliates of the United States transnational corporations in regional exports showed a marked decline in relation to the preceding decade, particularly in the non-industrial sectors, although it also went down in the manufacturing sector. Hence it can be affirmed that they have not been in the vanguard of the increase in regional exports, but on the contrary have lagged behind.

The exports of the transnational corporations are concentrated numerically and geographically, since a few enterprises are responsible for a high percentage of the total external trade, which facilitates the analysis, design and evaluation of national and regional policies concerning them. With the information available, policies could be designed which are at once selective and efficient. In contrast, the fixing of across-the-board regulations can provoke unnecessary distortions in other sectors of the national and regional economy.

The direct contribution of the transnational corporations to Latin America's trade balance at the end of the 1970s was negative, since it helped to generate or aggravate the regional trade deficit. This fact is of the greatest importance and

¹²The Vallejo Plan is an institutional mechanism which permits the importation, with total or partial exemption from taxes, of the means of production needed for the manufacture of merchandise destined for export (Montoya, 1982, p. 123).

should prompt a more general consideration of the external trade policies of the countries of the region. It is not enough to promote exports, frequently with subsidies which are very costly for the country: it is also necessary to consider the situation of imports. In the case of the transnationals it can be shown that they have a high import coefficient, which is not surprising since they are firms which operate across national economic frontiers. It is no accident that the evolution of the trade balance of these enterprises in Brazil, which passed from negative to positive, has been associated with a policy demanding efficiency in exports and restrictions on imports.

The proportion of exports made by majority-owned affiliates of United States transnational corporations to the United States does not materially differ from the regional average, both being somewhat above a third. It can be concluded, therefore, that the transnationals have not had—or have not tried to have—more success in penetrating the markets of their parent countries than the rest of the region's exporters. The main objective of their exports has been the Latin American region itself.

The composition of the exports from Latin America of these affiliates has varied considerably during recent years, as a result of two simultaneous processes: on the one hand, the increase in exports of industrial origin and, to a lesser degree, of commercial origin; and, on the other hand, the decline in absolute terms of their exports from the extractive sector. As a result, manufactures represented 42% of their total exports in 1977 as against 8% in 1966. Although, as already indicated, the expansion of their industrial exports has been lower than the regional average, they have undoubtedly risen steadily during the period.

Close on half the international trade of the affiliates takes place within the same enterprise. Some 60% of exports and 45% of imports are conducted with the parent company or with affiliates in third countries. These trade movements differ markedly from the usual trade transactions. Both their dynamism and the price policies adopted are fundamentally in line with the transnational logic of the international enterprises in question, with their international specialization and the simultaneous exploitation

of the possibilities both of trade and exchange rates offered by the various countries in which they operate. The fixing of prices which differ from those prevailing internationally can be utilized as a vehicle for the transfer of profits or to avoid various exchange restrictions that may arise in the host countries. Moreover, it is often difficult to define the proper market price, which hampers the control of these operations.

The amount of trade carried out within the same enterprises, as a proportion of their total trade transactions, has not greatly varied during the period analysed. Nonetheless, there is a noticeable difference in dynamics between exports and imports. In the former, intra-firm trade tends to predominate. In imports, on the other hand, a trend towards diversification is observable, although it is not reflected in the global amounts, since between 1966 and 1977 the proportion dropped from 53% to 45%.

A considerable part of the imports from their parent firms made by the affiliates—43%—represents finished goods, in which case they merely act as resale agents. This situation is tending to increase, since in 1966 the share of this type of goods in the total of imports was only one-third. Imports of capital goods, on the other hand, have fallen in proportion, showing little dynamism. Finally the share of goods for processing or assembling locally has increased slightly. The proportion of these goods in exports fell slightly between 1966 and 1977, which does not point to an intensification of the internationalization of production on the part of these enterprises.

Trade in technology within an enterprise involves the transfer of goods which the enterprise as a whole has now amortized and has at hand for disposal. Payments under this heading have been prohibited in some countries, but nevertheless the total volume of these transactions continues at a high and increasing level. It is a question, too, of unilateral transfers, since the affiliates practically never receive payments from the exterior for the same purpose. Unfortunately there are no data on the costs of the transfers of technology incorporated in capital goods.

The transnational corporations have shown more alacrity than national firms in making use of the special terms offered by regional and sub-

regional groups for promoting exports. This is not surprising in the case of supranational systems, since these are by definition in a better position—at least at first—to operate transnationally. A pertinent question is why they should receive subsidies, sometimes preferentially, when they are so familiar with the international scene and have much greater experience and resources.

The way in which the crisis will affect the external trade of the affiliates remains to be seen. What is evident is that, as in the past, a key variable in the development of this trade will be the government policies of the host countries, both on the national and the regional plane. The special characteristics of the transnational corporations make it impossible to have a general policy which will be neutral towards them.

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The subsidiary role of direct foreign investment in industrialization: the Colombian manufacturing sector

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In national industrialization processes, direct foreign investment, together with the incorporation of new technologies, enables the modernization of industry to go hand in hand with the promotion of its development. However, the goals of the transnational corporations that take part in national industrialization processes do not always coincide with the economic policy objectives of the host State. Hence, almost all the governments of the region have set up, in varying measure, administrative systems to assess, authorize, register and occasionally supervise foreign participation. There is always some tension between the aims of modernization, with its reduced control and restriction of the activities of the transnational corporations, and national participation, which implies more supervision. The importance of the Colombian case, which is examined in this article, lies in the way in which it resolved this tension by assigning a subsidiary role to foreign participation, particularly in the industrial field. To verify the impact of this policy, a survey was made of the 26 largest firms in the manufacturing sector in which foreign participation was involved. The results of this survey are summarized in the second part of this article.

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Introduction

Studies on Colombian development generally distinguish between two stages in the industrialization process and in the official policy relating to it: the easier stage of import substitution, and the more difficult stage, in which substitution is combined with the promotion of exports of manufactures. The two stages are separated by the balance-of-payments crisis of the 1960s and the turnaround in economic policy imposed by Decree-Law 444 of 1967.

The result was not so much a structural change in the process of development as a transition towards a more complex economic policy, which had diverse consequences for the agents of development, above all the foreign enterprises. In this connection Ranis (1976, p. 99), for example, indicates that "... during import substitution investment is channelled mainly into the industrial sector of the LDC, with the main contribution of the MNC one of adding to industrial savings, capital accumulation, and management capacity. At this point in time, when the market, the role of relative prices, efficiency, and so forth have been put aside, at least temporarily, in order to ensure as rapid a rate of industrial growth as possible, foreign capital and management can provide an important assist. This is usually a period when technology choice generally consists mainly in the act of turn-key borrowing from the "shelf" of advanced country technology... In this period, the watchword is getting the job done as quickly as possible, with relatively little concern for efficiency —certainly not at international prices".

As the industrial sector advances, according to Ranis (1976, p. 101), "... the role of appropriate technology and output mixes in penetrating international markets becomes much more important. One can now conceive of a benign and productive combination between the advantages of the MNC ... and the growing domestic expertise based on the specificity and peculiarities of the local resource endowment and institutional factors. ... Under generally more competitive conditions there is an increasing need for coming up with the right amalgam of imported and adaptive technologies and output mixes to ensure the continued outward-looking expansion of the industrial sector".

In the postwar period, the manufacturing sector gradually became the engine of the Co-

Colombian economy, raising its 13.5% share of the GDP in 1950 to 18.4% in 1975, aided by a clear policy of industrial import substitution (ECLAC, 1978). From that year, however, it began to lose dynamism and suffered a considerable fall in 1981-1983. At all events, the share of imports in the total supply of manufactures dropped from 20% in 1950-1952 to 15% in 1965-1967, while imports corresponding to intermediate industries fell from 39% to 18%. Between 1965-1967 and 1979, import substitution declined in the traditional industries (2.5% to 5.3% of the total supply) and in the intermediate industries (18.2% to 21.3%) on account of the notable increase in the capacity to import at the end of the 1970s. Nevertheless, this process continued in the more complex industries (metal products and machinery), so that the proportion of imports in the total supply of these manufactures fell from 58.4% to 43.3% (DANE, 1977, 1981 a and 1981 b). The share of exports in the total production of manufactures rose from 0.2% in 1950-1952 to 9.2% in 1975, although it suffered a notable fall in 1979 (to 6.8%) through the loss of impetus in traditional industry (foodstuffs and textiles) and intermediate industry (chemicals and petroleum products). In these cases there is a clear distinction between two phases in the policy of industrial import substitution, namely, those of 1950-1957 and 1967-1982.

Thus, in the period 1967-1982 Colombian industrial policy became more ambitious, simultaneously promoting import substitution in technically more complex industries (motor vehicles, petrochemicals, machinery) and the export of manufactures (above all those produced in the industries set up in the easy stage of import substitution), with the initial aim of alleviating the

scarcity of foreign exchange brought about by the balance-of-payments crises.

For the enterprises with foreign participation, the new orientation of economic policy had implications which went beyond import substitution in its second phase or the export of manufactures, since they had to adapt themselves to a new administrative system based on exchange control in order to assess, authorize, register and control numerous aspects of foreign participation, which made itself felt in controls over investment, remittances (of profits, royalties and interest) and foreign trade (imports and exports). To these measures were added, by virtue of Decision 24 of the Commission of the Cartagena Agreement, the obligation to convert themselves into mixed enterprises in order to enjoy the benefits of the Andean market, and other limitations (e.g., some sectors were reserved for national and mixed enterprises; access to domestic credit and conditions for external credits were defined; and a ceiling was fixed for reinvestment unless officially authorized). Obviously, Decree 444 of 1967 imposed limits on the activities of enterprises with foreign participation from the balance-of-payments angle, while the Common System (Decision 24) established broad objectives in order to favour national and mixed enterprises in the enlarged market which resulted from Andean integration and to strengthen the bargaining capacity of the member countries *vis-à-vis* foreign participation. In essence, the official policy designated enterprises with foreign participation as agents of development and tried to ensure through the new system that they achieved the goals of the economic policy in a much wider sense than that of the balance of payments.

I

Official policy: a subsidiary role for foreign participants in the Colombian industrialization process

The new policy *vis-à-vis* foreign participants in the industrialization process was based on the following aims: to channel direct foreign invest-

ment towards substitution in the technologically more complex industries; to promote the export of manufactures; to reduce the foreign exchange

cost of the participation of foreign enterprises; and to increase the share of local capital in the industries dominated by foreign enterprises.

In 1967 and 1983 the direct foreign investment registered in the manufacturing sector was progressively directed towards the metal-

Table I
COLOMBIA: DIRECT FOREIGN INVESTMENT REGISTERED IN
THE MANUFACTURING SECTOR, 1967-1983

(Millions of dollars)

ISIC Industrial Division	1967-1970	1975	1980	1983	Percentage breakdown	
					1967-1970	1983
A. Current values						
31. Manufacture of food, beverages and tobacco	27.4	39.0	77.8	119.0	8.6	12.0
32. Textile, wearing apparel and leather industries	18.3	27.3	39.7	47.0	5.8	4.8
33. Manufacture of wood and wood products, including furniture	4.3	5.6	8.4	12.0	1.4	1.2
34. Manufacture of paper and paper products; printing and publishing	38.5	45.2	83.0	109.0	12.1	11.0
35. Manufacture of chemicals and of chemical, petroleum, coal, rubber and plastic products	149.2	199.2	289.0	385.0	47.0	38.9
36. Manufacture of non-metallic mineral products, except products of petroleum and coal	23.2	29.3	40.7	56.0	7.3	5.6
37. Basic metal industries	6.3	10.0	13.5	15.0	2.0	1.5
38. Manufacture of fabricated metal products, machinery and equipment	47.6	68.5	190.5	241.0	15.0	24.3
39. Other manufacturing industries	2.3	3.3	7.1	8.0	0.7	0.8
Total	317.3	427.4	749.8	992.0	100.0	100.0
					Annual cumulative growth rate (1970-1983)	
B. Constant values (1980)^a						
31. Manufacture of food, beverages and tobacco	71.7	59.9	77.8	105.4	2.8	
32. Textile, wearing apparel and leather industries	47.9	41.9	39.7	41.6	-1.0	
33. Manufacture of wood and wood products, including furniture	11.3	8.6	8.4	10.6	-0.5	
34. Manufacture of paper and paper products; printing and publishing	100.8	69.4	83.0	96.5	-0.3	
35. Manufacture of chemicals and of chemical, petroleum, coal, rubber and plastic products	390.6	306.0	289.0	341.0	-1.0	
36. Manufacture of non-metallic mineral products, except products of petroleum and coal	60.7	45.0	40.7	49.6	-1.4	
37. Basic metal industries	16.5	15.4	13.5	13.3	-1.5	
38. Manufacture of fabricated metal products, machinery and equipment	124.6	105.2	190.5	213.5	3.9	
39. Other manufacturing industries	6.0	5.1	7.1	7.1	1.2	
Total	830.6	656.5	749.8	878.6	0.4	

Source: Calculated on the basis of information from the Oficina de Cambios, Banco de la República.

^aDeflated by the wholesale price index of the United States.

Table 2
 COLOMBIA: DIRECT FOREIGN INVESTMENT AUTHORIZED IN
 THE MANUFACTURING SECTOR, 1970-1976 AND 1977-1981
 (Millions of dollars)

Basic Industrial Division	1970-1976			1977-1981 ^a		
	Number of enterprises	Amount authorized	Percentage	Number of enterprises	Amount authorized	Percentage
31. Manufacture of food, beverages and tobacco	45	15.9	7.3	12	34.8	7.4
32. Textile, wearing apparel and leather industries	37	12.1	5.6	7	14.5	3.1
33. Manufacture of wood and wood products, including furniture	9	5.1	2.3	2	0.5	0.1
34. Manufacture of paper and paper products; printing and publishing	34	8.9	4.1	12	89.9	19.0
35. Manufacture of chemicals and of chemical, petroleum, coal, rubber and plastic products	168	106.7	49.1	63	148.9	31.4
36. Manufacture of non-metallic mineral products, except products of petroleum and coal	25	18.6	8.6	6	3.6	0.8
37. Basic metal industries	13	5.0	2.3	19	14.2	3.0
38. Manufacture of fabricated metal products, machinery and equipment	124	44.0	20.2	45	159.7	33.7
39. Other manufacturing industries	9	1.0	0.5	11	7.5	1.6
Total	464	217.4	100.0	177	473.4	100.0

Source: 1970-1976, calculated on the basis of Medina Torres 1978, p. 93. 1977-1981, calculated on the basis of foreign investment applications approved by the National Planning Department of Colombia.

^aWhereas the totals for 1970-1976 represent 100% of the authorizations for the said period, the totals for 1977-1981 represent the authorizations exceeding US\$ 100 000 (around 83% of the total amount authorized in the said period).

working industries which grew at a real annual cumulative rate of close on 4%, so that their share in the recorded total rose from 15% in 1967-1970 to over 24% in 1983 (table 1). This is confirmed by analysis of the investments authorized for the same period (table 2). Not only did the share of the metal-working industry in the total authorizations rise from 20% to 34%, but also the average of each investment authorized in that industry soared from US\$ 0.4 to US\$ 3.5 million, whereas the average for all industrial divisions rose only from US\$ 0.5 to US\$ 2.7 million. The change of direction in the authorizations clearly showed itself in the records of direct foreign investment in the manufacturing sector for 1981. The policy of directing this investment towards substitution in more complex industries such as the motor—vehicle and capital—goods industr-

ies was quite successful, judging by the figures on economic activities (tables 1 and 2). In the promotion of exports of manufactures, however, the enterprises with direct foreign investment have not displayed such positive results. For various reasons—mainly a competitive exchange rate and a broad programme of incentives—the manufacturing sector achieved a notable increase in its exports in 1967-1974 (Echavarría and Perry, 1983). After that period it lost impetus. The tax credit certificate benefits were reduced and the exchange rate for exports deteriorated (comparing 1975-1982 with 1967-1974). To stimulate the activity of foreign enterprises, a policy was applied making new direct foreign investment conditional on an increase in the values of manufactured exports. The government authorities must have believed that the

Table 3
COLOMBIA: DIRECT FOREIGN INVESTMENT AUTHORIZED SUBJECT TO
EXPORT COMMITMENTS, MANUFACTURING SECTOR, 1977-1981

ISIC Industrial Division	With export contract		Without export contract		Total	
	Millions of dollars ^a	%	Millions of dollars ^a	%	Both types (Millions of dollars)	With contract (Percentages)
31. Manufacture of food, beverages and tobacco	16.9	3.6	17.9	3.8	34.8	45
32. Textile, wearing apparel and leather industries	3.2	0.7	11.3	2.4	14.5	22
33. Manufacture of wood and wood products, including furniture	0.5	0.1	—	—	0.5	100
34. Manufacture of paper and paper products; printing and publishing	36.0	7.6	53.8	11.4	89.9	40
35. Manufacture of chemicals and of chemical, petroleum, coal, rubber and plastic products	118.0	24.9	30.9	6.5	148.9	79
36. Manufacture of non-metallic mineral products, except products of petroleum and coal	3.4	0.7	0.2	—	3.6	94
37. Basic metal industries	12.8	2.7	1.4	0.3	14.2	90
38. Manufacture of fabricated metal products, machinery and equipment	43.0	9.1	116.7	24.7	159.7	26
39. Other manufacturing industries	7.3	1.5	0.2	—	7.5	97
Total	240.9	50.9	232.5	49.1	473.4	

Source: Calculated on the basis of foreign investment applications approved by the National Planning Department of Colombia.

^aIncludes only investments exceeding US\$ 100 000 (equivalent to 83% of the total value of the authorizations for the manufacturing sector).

high concentration of exports produced with direct foreign investment in a limited number of enterprises¹ would contribute to the success of the policy, since with a few export contracts there would be a notable change in the export performance of the enterprises, especially of those associated with the old substitution policy. Despite the fact that 51% of the authorizations for new direct foreign investment during 1977-1981 (table 3) involved contractual commitments with regard to exports of manufactures (above all in the chemical industry), however, the exports of the enterprises with this investment deteriorated *vis-à-vis* those of national enterprises (table 4).

¹Montoya (1982) found that more than two-thirds of the manufactures exported by the transnational corporations from Colombia in 1978 came from industrial groups (ISIC) where three corporations generated 75% of the total value of those exports.

With the exception of Cartón Colombia and, to a lesser degree, Cristalería Peldar, it is clear that the exports of manufactures did not come mainly from the dominant foreign enterprises associated with the phase of easier substitution, but from others. Thus, although it is obvious that the results of the policy of tying new investment to export contracts did not respond to the official intentions, it is no less certain that the specific policy applied on the subject has motivated many new foreign participants to export manufactures (tables 3 and 4).

With regard to the aim of reducing the foreign exchange cost of foreign participation in the manufacturing sector², quite good results were obtained even during the foreign exchange

²Several official studies have substantiated the high cost of direct foreign investment (Banco de la República, 1974, 1973 a and 1973 b).

Table 4
COLOMBIA: CUMULATIVE GROWTH RATES OF THE MANUFACTURES
EXPORTED, BY TYPE OF ENTERPRISE (SELECTED PERIODS, 1969-1980)

ISIC Industrial Division	1969-1971/1974-1976			1974-1976/1978-1980		
	All enterprises	Enterprises with direct foreign investment ^a	National enterprises	All enterprises	Enterprises with direct foreign investment ^b	National enterprises
31. Manufacture of food, beverages and tobacco	37.1	49.3	36.8	7.1	10.0	7.0
32. Textile, wearing apparel and leather industries	42.0	87.3	40.0	13.7	-14.4	15.5
33. Manufacture of wood and wood products, including furniture	35.3	34.0	35.3	-7.6	-1.2	-70.9
34. Manufacture of paper and paper products; printing and publishing	27.7	26.0	30.8	21.8	12.4	34.3
35. Manufacture of chemicals and of chemical, petroleum, coal, rubber and plastic products	39.0	29.5	78.5	6.4	8.1	3.3
36. Manufacture of non-metallic mineral products, except products of petroleum and coal	36.8	25.6	44.6	20.3	4.2	25.8
37. Basic metal industries	48.2	11.0	55.7	-13.4	2.5	-14.8
38. Manufacture of fabricated metal products, machinery and equipment	40.6	49.6	36.5	25.9	11.8	32.4
39. Other manufacturing industries	30.9	79.9	29.9	35.5	19.7	36.2
Total	37.9	34.6	38.8	13.4	7.5	14.5

Source: Calculated on the basis of Montoya (1982), tables 7, 8 and 27.

^aFor 1969-1971, the coverage amounted to 67% of the enterprises with direct foreign investment.

^bAll the enterprises with direct foreign investment equivalent to 30% or more of their registered capital.

boom period generated by the record coffee exports of 1976-1980, which might well have caused a relaxation in the policy adopted. The greatest outflow of foreign currency was associated with the so-called importing vocation of the foreign enterprises. According to the calculations of Misas (1983), between 1975-1979, i.e., at the height of the foreign exchange boom, the imports of these enterprises fell from 33% to 22% of the total value and inter-enterprise trade in total private imports fell from 29% to 21%. External payments (profits, dividends, royalties for technical services) also declined during the 1970s as a proportion of the direct foreign investment recorded in the sector (table 5). By component, and as a percentage of the direct foreign investment recorded, royalties fell appreciably,

payments for technical services remained constant and profits and dividends rose slightly. The modest size of the increase in payments of profits and dividends measured in proportion to the direct foreign investment is surprising for two reasons. In the first place, from 1977 onwards a higher limit was applied to the remittances of profits (20% instead of 14% of the investment registered). Then towards the end of the 1970s there arose a problem of "capital in limbo", that is, non-remittable profits which exceeded the new limit. The problem was solved in 1978 by means of Resolution 29 of the Economic and Social Policy Council, which permitted the remittance of 50% of the capital in limbo, provided that the foreign investor used the other half to purchase special bonds of the Industrial De-

Table 5
COLOMBIA: MAIN EXTERNAL PAYMENTS LINKED WITH FOREIGN
PARTICIPATION IN THE MANUFACTURING SECTOR, 1970-1982

(Millions of dollars)

Year	(1) Registered direct foreign investment	(2) Profits and dividends ^a	(3) $\frac{2}{1} \times 100$	(4) Royalties ^b	(5) $\frac{4}{1} \times 100$	(6) Technical services	(7) $\frac{6}{1} \times 100$	(8) $\frac{2 + 4 + 6}{1}$
1970	317.3	24.3	7.7	10.4	3.3	9.2	2.9	13.8
1971	346.0	26.9	7.8	7.8	2.3	7.9	2.3	12.3
1972	373.3	29.5	7.9	6.8	1.8	9.0	2.4	12.1
1973	383.4	29.2	7.6	5.9	1.5	12.7	3.3	12.5
1974	395.5	28.5	7.2	6.7	1.7	11.6	2.9	11.8
1975	427.4	36.7	8.6	5.7	1.3	11.3	2.6	12.6
1976	453.9	43.5	9.6	5.0	1.1	11.3	2.5	13.2
1977	541.0	47.7	8.8	6.1	1.1	10.3	1.9	11.8
1978	572.6	54.0	9.4	4.9	0.9	6.5	1.1	11.4
1979	648.8	51.9	8.0	6.3	1.0	10.2	1.6	10.5
1980	749.8	53.0	7.1	6.0	0.8	...	...	...
1981	868.0	72.0	8.3	9.0	1.0	...	...	...
1982	922.0	76.0	8.2	10.0	1.1	...	...	...

Source: Banco de la República, Oficina de Cambios and data from INCOMEX.

^aAll sectors except petroleum.

^bExcluding royalties on cinematographic material.

velopment Institute. The sum invested in these bonds in 1978-1981 amounted to almost two million Colombian pesos (half of it associated with only three foreign enterprises: Colgate Palmolive & Cía., Propal S.A. and Fábrica Colombiana de Automotores S.A.). This scant growth implies that even in the exceptional conditions of a foreign currency boom a reduction was achieved in the relative burden represented by foreign participation in industrialization with regard to its foreign exchange cost (table 5).

In raising the share of local capital in industries dominated by foreign enterprises, it is clear that the policy of promoting mixed enterprises was successful. The new companies favoured by the policy of substitution in technologically more complex industries were made highly conditional on greater national (State) participation, as in the cases of Cía. Colombiana de Automotores S.A., Monómeros Colombo-Venezolanos S.A. and the Sociedad de Fabricación de Automotores S.A., which were the main mixed enterprises operating in Colombia up to 1982 (table 6). In 1980 the direct foreign investment

registered in mixed enterprises came to 17% of the total of such investment in the manufacturing sector, and if Celanese Colombiana S.A. and Enka de Colombia S.A., which were converted into mixed enterprises two years later are included, the figure rises to 22%. Resolution 11 of the Monetary Board adopted in 1976 had a slight influence on the conversion of the foreign enterprises, as in the case of ALCAN de Colombia S.A. when it established a fund of US\$ 50 million for the purchase of shares in foreign enterprises. Through disagreements among local groups, however, only 25% of the resources were allocated to the purpose indicated (*Latin American Review*, 1977 a, p. 3, and 1977 b, p. 203). Another impact was made by the requirement of Decision 24 which compelled the foreign enterprises operating in Colombia and wishing to export to the Andean market to sign transformation agreements with the National Planning Department (table 7). The enterprises which had signed such agreements up to the end of 1982 represented, according to data for the year 1980, another 3% of the total of direct foreign investment reg-

Table 6
COLOMBIA: NAMES OF THE MOST IMPORTANT MIXED ENTERPRISES, 1982

Mixed enterprises	Registered direct foreign investment in 1980 (Millions of dollars)	ISIC group	Sales in 1982 (Millions of pesos)
Cía. Colombiana de Automotores S.A.	38.6	3843	3 749
Monómeros Colombo-Venezolanos S.A.	21.4	3513	8 255
Eternit Colombiana S.A.	14.8	3699	2 268
Soc. de Fabricación de Automotores S.A.	6.2	3843	9 306
Aluminio Alcan de Colombia S.A.	3.4	3720	...
Productora Nac. de Llantas S.A.	3.3	3551	2 604
Hilandería Medellín S.A.	3.0	3211	...
Papeles Scott de Colombia S.A.	2.7	3419	2 200
Laboratorios Pharmatique S.A.	2.5	3522	...
Derivados de Mafz S.A.	2.4	3116	...
Subtotal 10 largest	98.3		
Celanese Colombiana S.A. ^a	19.1	3513	3 191
Enka de Colombia S.A. ^a	14.9	3513	5 258
Subtotal	132.3		
All the mixed enterprises	163.8		

Source: Information from the register for 1980 and interviews.

^aForeign enterprises before 1982.

Table 7
COLOMBIA: MANUFACTURING ENTERPRISES WHICH HAD SIGNED
AGREEMENTS WITH THE NATIONAL PLANNING DEPARTMENT TO
BECOME MIXED COMPANIES UP TO 1982

Enterprise	Foreign capital (according to the 1980 register)	National share in the registered capital
	In millions of dollars	(%)
Pizano S.A.	5.4	37.0
Carboquímica S.A.	4.0	15.0
Productos Avon S.A.	1.9	18.0
Abitbol & Bigio Vanytex S.A.	1.5	3.6
Sandoz Colombiana S.A.	1.5	21.8
Colombia Kimberley S.A.	1.4	50.4
Química Antex Ltda.	1.3	15.6
Braun de Colombia S.A.	0.8	0.1
Lácteos Colombianos Lacol S.A.	0.7	15.7
Siemens S.A.	0.6	1.0
Aga-Fano S.A.	0.6	15.1
Carlo Erba de Colombia S.A.	0.6	15.0
Monarch Colombiana S.A.	0.6	22.2
Subtotal	20.6	
Other enterprises ^a	2.8	
Total 35 enterprises	234.0	

Source: Information supplied by the National Planning Department and enterprises surveyed.

^aEach with less than US\$ 500 000 of foreign capital registered for the year 1980.

istered in the sector.³ Thus the mixed enterprises and those in process of transformation represented 25% of the direct foreign investment registered in the manufacturing sector at the beginning of the 1980s. These changes accord with the expressed intentions of the authorities, since between 1970-1976 and 1977-1981 they raised the authorizations for direct foreign investment in mixed enterprises (as against foreign and national enterprises) from 20.5 to 37.4% of the total value of the authorizations for these periods. In other words, the share of national enterprises in the capital of the companies accounting for foreign participation in the manufacturing sector increased considerably (tables 6 and 7).

It should be noted that these achievements of the policy as regards foreign participation in the industrialization process were not due to the efficient functioning of the Andean integration process, particularly in the case of the sectoral programmes of industrial development, and even of certain aspects of Decision 24. ECLAC studies show clearly that towards the end of the 1970s, at least, the sectoral programmes had not worked well, having failed to promote the new investment needed or to motivate the foreign enterprises to change into mixed companies in order to participate in the programmes (Gana, 1977; Garay, 1977 and Mortimore, 1978). Enterprises such as CCA, SOFASA and Monómeros were mixed before the application of sectoral programmes in the motor-vehicle and petrochemical branches, and the subsequent transformation of companies such as Celanese and Enka was not particularly related to the petrochemical programme. Perhaps the only important case of transformation into a mixed enterprise directly linked with the programming is that of Carboquímica S.A., which produced only one product falling within the allocations of the petrochemical programme. Nor did the Andean market play a very important role in the expansion of foreign enterprises in Colombia, since they generally took the view that the domestic market was more attrac-

tive or that other variables (such as the level of protection offered by the common external tariff) could be more important for enterprises with direct foreign investment than access to the rest of the Andean Group (Pérez Salazar, 1980, p. 72). It is clear, therefore, that the incentives provided by these instruments had no great influence on the decisions of the enterprises, since the negative aspect of the instruments (exclusion of the foreign enterprises) was more obvious than the positive (possibility of accelerated growth in a large market). In other words, the degree of success that the policy of promoting mixed enterprises has achieved is not basically due to the incentives offered by the Andean instruments, but rather to Colombian internal factors. Now, all the official indicators and data, and even the unofficial ones too, agree that (with the exception of the aim of increasing exports of manufactures) the official policy largely achieved the goals it set itself. If this is so, it would mean that the official policy of assigning to foreign participation a subsidiary role in Colombian industrialization gave quite good results. To verify this hypothesis the author directly approached the main industrial firms with a foreign element for their views on the economic policy and its effects on foreign participation in the industrial sector during the period 1967-1982. A survey was made of the 30 largest firms (on the basis of their sales in 1982) with foreign participation in the manufacturing sector, representing 58.4% of the foreign investment registered in the manufacturing sector at the end of 1980. Of this sample, the questionnaire was answered by 24 firms which represent 50.7% of the foreign investment registered in the manufacturing sector at the end of 1980 and 35.9% of the total foreign investment (excluding petroleum) recorded in the same year. To reach a total of at least 25 enterprises two interesting cases were added: Exportadora Dupont, one of the foreign firms which exports most manufactures in Colombia; and Carboquímica, a foreign company in process of transformation which competed directly with a national company, both producing one of the items of the Andean Group petrochemical programme. Thus the enterprises surveyed reached 26 (table 8).

The survey consisted of a qualitative part, with opinions on the industrial and export-

³Two firms which changed into mixed enterprises (Celanese Colombiana S.A. and Enka de Colombia S.A.) and one enterprise which signed a transformation agreement (Carboquímica S.A.) in 1982 are included in the data for the year 1980. The list for the year 1982 was not available.

promotion policies, on the administrative system for assessing, authorizing, registering and controlling foreign investment and technology, and on the role of Colombia as a recipient of foreign investment. The quantitative part was devoted to

an inquiry on various aspects of the performance of the enterprises.

The interviews which accompanied the survey were held in May and June of 1983 in the cities of Bogotá, Medellín and Cali.

Table 8
COLOMBIA: THE LARGEST ENTERPRISES WITH FOREIGN PARTICIPATION SURVEYED,
IN ORDER OF NET SALES IN 1982

Colombian enterprise	Main activity (ISIC group)	Main foreign participant	Foreign capital (%)	Net sales ^a		Registered foreign investment	
				1982	1981	Amount ^b	Updated
Fábrica Colombiana de Automotores S.A.	3843	General Motors Corp.	77	11 931	10 932	20.8	1979
Cartón de Colombia S.A.	3411	Container Corp. (Mobil Oil Corp.)	66	10 678	8 621	30.8	1980
Monómeros Colombo-Venezolanos S.A.	3513	IVP (Venezuela) DSM (Netherlands)	53 ^c	8 255	9 072	21.4	1980
Colgate Palmolive y Cía.	3523	Colgate Palmolive Inc.	100	7 022	6 013	31.6	1980
Productora de Papeles S.A.-Propal	3411	International Paper Co.	100	6 348	5 300	45.3	1980
Ind. Nestlé de Productos Alimenticios S.A.	3121	Nestlé S.A.	100	5 601	3 286	13.5	1980
Goodyear de Colombia S.A.	3551	Goodyear Tire and Rubber Co.	100	5 388	...	23.9	1980
ENKA de Colombia S.A.	3513	N.V. Industriel Bezit	49 ^c	5 256	4 408	14.9	1979
Cristalerías Peldar S.A.	3620	Ovens Illinois Inc.	58	5 089	3 156	15.7	1979
Ind. Colombiana de Llantas S.A.	3551	B.F. Goodrich Co.	71	4 940	...	17.8	1980
Compañía Colombiana Automotriz S.A.	3843	Fiat S.p.A. (up to 1982)	49 ^c	3 830	3 548	38.6	1975
Dow Química Colombiana S.A.	3512	Dow Chemical Co.	100	3 160	2 870	2.5	1979
Ind. Philips de Colombia S.A.	3832	N.V. Philips	100	2 967	2 732	8.1	1979
Unión Carbide de Colombia S.A.	3839	Union Carbide Corp.	100	2 771	...	8.7	1980
Siemens S.A.	3831	Siemens A.G.	71 ^c	2 665	2 455	4.2	1979
Productora Nacional de Llantas S.A. ^d	3551	Uniroyal Inc.	49 ^c	2 604	2 508	3.3	1983
Pizano S.A.	3311	Boise Cascade Inc.	73 ^c	2 594	2 110	5.4	1980
CEAT General de Colombia S.A.	3839	Ceat International, General Cable Corp.	100	...	1 978	5.6	1979
Croydon S.A.	3559	Uniroyal Inc.	99	2 576	2 191	14.1	1980
Celanese Colombiana S.A.	3513	Celanese Corp. (up to 1982)	49 ^c	2 489	2 669	19.1	1978
Eternit Colombiana S.A.	3699	Eternit Co.	49 ^c	2 268	1 200	10.2	1980
Gillette de Colombia S.A.	3819	Gillette Co.	100	2 000	1 481	3.3	1979
Hilos Cadena S.A.	3211	J. and P. Coats Ltd.	100	1 940	1 911	16.5	1980
Cementos Boyacá	3692	Holderbank Financiere Glaris	50	1 479	1 277	4.8	1979
Dupont Exportadora S.A. ^e Carboquímica	3511	E.I. Dupont de Nemours & Co. Millmaster Onix Co. (Gulf Oil Corp.)	100	...	...	0.5	1979
S.A. ^e	3511		85 ^c	931	...	4.0	1979

Source: ECLAC, on the basis of official data and interviews with the enterprises.

^aMillions of pesos.

^bMillions of dollars.

^cMixed enterprises or in process of transformation.

^dFormed in 1980 on the basis of the tire branch of the ex-Uniroyal Croydon S.A.

^eEnterprises added for special reasons.

II

The opinion of the entrepreneurs

1. *The industrial policy of 1967-1982*

The inquiry began with two general questions. If a distinction is made between the goal of substitution of imports in the industries with more complex technology (su complex) and the promotion of exports of manufactures (x manuf.) and the period 1967-1982 is divided into two subperiods (1967-1974 and 1975-1982).

Question: Which has been more successful?

	1967- 1974	1975- 1982	1967- 1982
su complex	9	10	11
x manuf.	16	11	14
Other items or both the above	1	5	1
Total	26	26	26

Question: In your opinion, what result has been achieved by the policy of promoting the transition from the easy substitution of industrial imports to more difficult substitution or the export of manufactures in the period 1967-1982?

0	11	12	3	0
None	Slight	Moderate	Successful	Very successful

As may be seen from the results, the entrepreneurs found that the Colombian industrial policy during the period 1967-1982 had had a marked emphasis. Opinions were very divided as to which objective (substitution of imports of the complex industries or exports of manufactured products) was more successful during the period 1967-1982 (after Decree 444 of 1967).

On dividing the period 1967-1982 into two subperiods, it became clear that the goal for 1967-1974 was mainly to promote industrial exports and in a lesser degree to substitute imports in complex industries. The subperiod 1975-1982 was ambiguous for these important entrepreneurs, however, since 11 voted for the promotion of the export of manufactures as the more successful goal, 10 opted for the substitu-

tion of imports in complex industries and 5 could not decide.

The entrepreneurs considered that the overall results during 1967-1982 were only moderate (12 enterprises) or slight (11 enterprises); only 3 considered that the results had been good. It is probable that these rather negative opinions on the industrial policy reflect in particular their experience during the period after 1975, when the industrial impetus declined, first as a result of the foreign exchange boom and then because of the difficulties experienced by entire sectors, such as the motor-vehicle industry, in which the leading enterprises have suffered losses for two to four years running.

*Question: How would you describe Colombian industrial policy during the period 1967-1982 and the subperiods 1967-1974 and 1975-1982? Choose and place in order of importance three adjectives appropriate to each period.*⁴

	1967- 1974	1975- 1982	1967- 1982
Nationalist	23	6	13
Open-market oriented	7	44	24
Protectionist	32	5	14
Monetarist	15	47	26
Technicalist	16	1	4
Political	9	31	24
Integrationist	33	12	21
Subtotal: the three highest votes	90	122	74
Total: all votes	156	156	156

The entrepreneurs showed a critical attitude in the adjectives chosen to characterize the in-

⁴In the survey the entrepreneurs were asked to select 3 adjectives for each period. In tabulating these results the first choice was weighted by 3, the second by 2 and the third by 1. The adjectives with the highest marks mentioned for each period represented 56, 78 and 47% of the total number of options for the periods 1967-1974, 1975-1982 and 1967-1982, respectively. The values represent "votes" from a total of 156 (i.e., 26 x 6). In addition, in order to collect the total number of possible replies to this question three options were left blank so that the entrepreneur could choose adjectives not included in the survey.

dustrial policy in 1967-1974, 1975-1982 and the total period 1967-1982. The first subperiod was described as integrationist, protectionist and nationalist and, to a lesser degree, technicalist and monetarist. This assessment seems to accord well with the Colombian experience of serious balance-of-payments problems in the mid-1960s and the intention of the new industrial policy announced in Decree-Law 444 and the Cartagena Agreement. The second subperiod was described as monetarist, open-market oriented and political and, to a lesser degree, integrationist; these adjectives admirably represent the essence of the new neo-liberal trend that was introduced into Colombia in 1975-1982. The industrial policy in the overall period 1967-1982 was described as monetarist, political, open-market oriented and, to a lesser degree, integrationist, protectionist and nationalist. The industrial policy of the subperiod 1975-1982 was disliked by the entrepreneurs, who expressed their disagreement with monetarism and the open-market orientation. There was a pronounced consensus on the adjectives applied to the subperiod 1975-1982, which shows not only the influence of the most recent period but also a very consistent interpretation of its importance for the industrialization process.

Question: Which sectors have benefited the most from the industrial policy? Choose three and arrange them in order of importance.

	1967- 1974	1975- 1982	1967- 1982
Foreign enterprises	19	16	14
The State	51	56	60
Popular sectors	14	5	8
National private enterprises	59	61	65
Others (specify): ———			
(Financial groups) ⁵		(22)	(15)
(Foreign trade enterprises) ⁵			(6)
Subtotal: the three highest votes	129	133	139
Total: all the votes	156	156	156

The greatest degree of consistency is seen

⁵Included in national private enterprises.

in respect of the question as to which sectors benefited most from the industrial policy. During the subperiod 1967-1974, according to the entrepreneurs, the beneficiaries were national private enterprises, the State, and to a lesser degree foreign enterprises. Those who benefited most from the industrial policy in 1975-1982 were national private enterprises (including financial groups), the State, and foreign enterprises. In the period 1967-1982, the entrepreneurs considered that the beneficiaries of the industrial policy were national private enterprises (including financial groups and foreign-trade enterprises) and the State. Foreign enterprises figure to a much lesser extent.

There appear to be two criteria involved here. On the one hand, the entrepreneurs of these large firms with foreign participation felt that there was discrimination in favour of national enterprises. This view was undoubtedly the result of the application of one of the stated aims of Decision 24, namely, that it was necessary to establish common rules for foreign investment in consonance with the new conditions created by the Cartagena Agreement, so that the advantages deriving from it would favour the national or mixed enterprises as defined in the statute. On the other hand, in 1975-1982 the mention of financial groups as beneficiaries of the industrial policy might mean that, according to this view, even national private-sector industrialists were prejudiced by the lack of a clear industrial policy.

In sum, the opinions of the entrepreneurs of the largest firms with foreign participation in the manufacturing sector indicate that for them the industrial policy during the period 1967-1982 became increasingly more confused as regards the main goal (substitution of industrial imports in the industries with more complex technology or the promotion of exports of manufactures) the results of this policy were only moderate, if not downright meagre; and although the integrationist and protectionist policy in 1967-1974 benefited mainly national private enterprises and the State rather than foreign enterprises, the monetarism and open-market orientation of the following period channelled the benefits towards non-industrial national private enterprises and the State.

Hence, they complain that an initial prejudice of the industrial policy against foreign en-

terprises was aggravated by another bias against industry during 1975-1982, so that they were doubly injured by the industrial policy.

2. Promotion of industrial exports

Question: In general, which have been the most important instruments employed in Colombia's policy for promotion of exports of manufactures? Choose three of these and place them in order of importance.

	1967- 1974	1975- 1982	1967- 1982
Exchange rate	14	12	13
Tax Credit Certificates (CAT)	53	41	49
PROEXPO credits	41	55	52
The Vallejo Plan	39	34	33
Subtotal: the three largest votes	133	130	134
Total: all the votes	156	156	156

The opinions of these entrepreneurs on the policy for the promotion of industrial exports during 1967-1982 are very clear. The most important instruments, in their view, are almost exclusively the incentives. Thus, in general they thought that the financing by PROEXPO, the Tax Credit Certificates (CAT) and the Vallejo Plan were the most important instruments during 1967-1982. To quote a report of the Banco de la República, "PROEXPO's action can be described as integral and covers the basic cycle of external marketing, from market research, supply of information, direct promotion abroad, technical assistance and handling of insurance, up to the flexible, timely and generous granting of credit to the exporter on very favourable terms. Recently, in view of the need to intensify still further the efforts to develop external sales, new instruments have been brought into use, likewise in close collaboration with PROEXPO. These relate to the creation in 1979 of international marketing companies and the development of forms of international subcontracting. The basic aim of the former is to technify the work of external marketing, especially in support of small and medium-sized firms which individually do not possess the technical and financial capacity to develop an efficient external sales strategy. Moreover, these societies, given their knowledge of the external market and of domestic possibili-

ties, will be able to invest in the sectors which offer the best prospects, or act as intermediaries of foreign investment. At the same time, they engage in the importation of inputs to supply domestic needs, particularly those required by national producers who export through them. International subcontracting, for its part, constitutes an agreement whereby a national manufacturer supplies partially or fully assembled articles to a foreign industry, which undertakes to market the resulting product.

"In the fiscal field" (continues the report), "Tax Credit Certificates (CAT) were created for the benefit of exporters of non-traditional products. These certificates, which are freely negotiable and can be used when they mature for the payment of any type of tax, have been subjected to various reforms designed to give them a selective character in order to adapt them to the external competitiveness requirements of national production.

"Similarly, it should be noted that the exchange rate statute maintains a special import and export system, in force since the beginning of the 1960s and known as the Vallejo Plan. Through this system, national producers can bring into the country, free of all tariff charges, prior permits, deposits and other requirements, raw materials, intermediate products and goods destined for export" (Banco de la República, 1982, pp. 76 and 77).

During the subperiods 1967-1974 and 1975-1982 the factors voted for were the same, with a relative change of emphasis in the sense that in 1967-1974 CAT came first, followed by PROEXPO and the Vallejo Plan, whereas in 1975-1982 PROEXPO was first followed by CAT and the Vallejo Plan. For both the subperiods and the whole period 1967-1982 the incentives mentioned represented between 83% and 86% of the replies given by these entrepreneurs.

The marked tendency to give special emphasis to the incentives among the various instruments and factors was also manifest in the enterprises which managed to increase the share of exports in their total sales in 1967-1974 and 1975-1982. For the 13 firms⁶ which increased

⁶ One enterprise did not give sufficient information, so the number was reduced to 12.

the share of exports in their total sales during 1967-1974 the incentives —CAT (15), Vallejo Plan (13) and PROEXPO (9)— represented 76% of their replies. For the 7 enterprises that increased the share of exports in their total sales in 1975-1982 the incentives —PROEXPO (15), CAT (11) and Vallejo Plan (9)— represented 83% of their replies. It should be noted, however, that for the 12 firms of the subperiod 1967-1974 the exchange rate (9) and the increase of external demand (9) were considered as important as the support of PROEXPO. The exchange rate and increases in external demand were not important for the 7 enterprises which raised their proportion of exports in total sales in 1975-1982. It would seem that the deterioration in the real exchange rate, comparing 1967-1974 with 1975-1982, was not sufficiently offset by the increase in credit available through PROEXPO in this latter period. Despite the problem of the fall in the real exchange rate for exporters between 1967-1974 and 1975-1982, these complained more of the policy of tying new foreign investments to increases obtained in export contracts signed with the Institute of Foreign Trade (INCOMEX). Half the new investments authorized in 1977-1981 were subject to this condition, and although only 13 of the 26 enterprises signed export contracts with INCOMEX in 1975-1982, 17 of the 26 considered that the policy was negative and 13 out of 18 suggested that it had not been successful.

Question: In general, what is your opinion of the policy of tying new foreign investments to increases in exports through export contracts signed with INCOMEX?

	9	17
	positive	negative

Question: Has the tying policy been successful?

0	5	13	8
Yes	Fairly	No	Did not answer

Considering that only 2 of the 13 enterprises which had export contracts with INCOMEX did not achieve the goal agreed up to the end of 1982 and that the tying policy is in a legally weak position for applying fines, it is surprising that the opinions of these entrepreneurs are so unfavourable. Perhaps the explanation lies in their repeated comment that failure to fulfil the contract brought with it practical consequences as regards

the official authorizations required in other aspects of their operations (new investment, imports, technology contracts, price increases).

Many complained that "one cannot export by decree" and that there was a gap between the policy of export promotion and the economic policy in 1975-1982. It seems, however, that they were more concerned about a new increase in the power of the administrative system to assess, authorize, register and control foreign investment and technology in Colombia, as expressed in the tying policy with regard to exports.

3. The new administrative system for assessing, authorizing, registering and controlling foreign investment

Question: In your opinion, what have been the main objectives generally pursued by the administrative system in redefining foreign investment? Choose three and place them in order of importance.

- | | |
|-----|--|
| 45 | To regulate remittances abroad of profits, royalties, interest, etc. |
| 31 | To direct foreign investment to specific sectors or activities |
| 22 | To promote mixed enterprises |
| 21 | To co-ordinate foreign participation with the goals of economic policy |
| 98 | Subtotal of the three largest votes |
| 156 | Total of all the votes |

In the view of the entrepreneurs, the general objectives of the administrative system were to regulate remittances abroad, direct foreign investment to specific sectors or activities, promote mixed enterprises and co-ordinate foreign participation with the goals of the economic policy. For the enterprises, the factors with the greatest influence in 1967-1982 were the regulation of remittances abroad, the incentivization of industrial exports, the promotion of mixed enterprises, the improvement of the transfer of foreign technology, and the reservation of local credit for national enterprises. The most influential factors were practically the same in the two subperiods: in 1967-1974 the most noted factors were the regulation of remittances abroad, the incentivization of industrial exports, the promotion of mixed enterprises, the improvement of the transfer of foreign technology and the reservation of local credit for national enterprises; in 1975-1982 the order of the factors

changed very slightly, with the reservation of local credit for national enterprises preceding the improvement of the transfer of foreign technology, the order of the other factors remaining unchanged. Apart from the aspects mentioned, among the general goals of the administrative system the entrepreneurs found that the incentivization of industrial exports, the improvement in the transfer of foreign technology and the reservation of local credit for national enterprises were the aspects of the administrative system which had the greatest effect on the development of the larger enterprises with foreign participation in the manufacturing sector. In other words, the entrepreneurs had a very good grasp of the general message of the administrative system and were able to distinguish other factors which had had a more powerful influence on the development of their own enterprises.

Question: Which aspects of the official policy influenced the development of your enterprise during 1967-1982 and in the two subperiods mentioned? Select three and place them in order of importance.

1967-1982	1967-1974	1975-1982	
41	42	37	Regulation of remittances abroad of profits, royalties, interest
18	18	16	Promotion of mixed enterprises
18	15	12	Improvement in transfer of foreign technology
23	27	27	Incentivation of industrial exports
18	14	15	Reservation of local credit for national enterprises
82	87	80	Subtotal of the three largest votes
156	156	156	Total of all the votes

Regarding the institutions of the administrative system which had the greatest influence on the development of these enterprises,⁷ the following were mentioned: National Planning Department (DNP), PROEXPO and the INCOMEX Import Board and, to a lesser degree, the Royalties Committee (CR) and the export contracts of INCOMEX.

The relative importance of these institutions, according to the persons interviewed, changed

⁷Not only the administrative institution but also the corresponding function is indicated, since some institutions, such as INCOMEX, perform more than one function in relation to the operations of enterprises with foreign participation.

somewhat during the two subperiods. In 1967-1974 the most influential institutions were the DNP, the INCOMEX Import Board, PROEXPO, the CR and the export contracts of INCOMEX.

In the second subperiod, PROEXPO, DNP, the INCOMEX Import Board, the export contracts of INCOMEX and the CR were the most influential institutions for the development of these important firms. These changes are consistent with the features of each subperiod from the balance-of-payments viewpoint, since 1967-1974 was characterized by a difficult balance-of-payments situation, while 1975-1982 was a boom period as regards foreign exchange.

Question: Which institutions or public enterprises have had the greatest influence on the development of your enterprise? Indicate the three most influential in order of importance.

1967-1982	1967-1974	1975-1982	
32	31	23	DNP: authorization of investment
28	24	30	PROEXPO: financial assistance
24	30	21	INCOMEX: Import Board
12	13	16	INCOMEX: export contracts
15	22	12	Royalties Committee: technology contracts
84	85	74	Subtotal of the three largest votes
156	156	156	Total of all the votes

The entrepreneurs were asked to grade the impact of the functions of the institutions and public enterprises on the operations of their companies. Disregarding the replies indicating that the impact had not been significant, the institutions with the most positive assessments (total of positives less negatives) were PROEXPO (19), Banco de la República (18), the Import Board of INCOMEX (15), the DNP (authorization of investment) (12) and the DNP (authorization of reinvestment) (8). The functions and institutions with negative assessments were the Royalties Committee (-2), INCOMEX (-1) (access to the Andean market), DNP (norms on local content) (-1), the industrial promotion of the Institute of Industrial Development (0), the petrochemical promotion of ECOPEPETROL (0), and the price and production controls of the Ministry of Economic Development (0). Three functions and institutions (the INCOMEX export contracts, the capital in limbo of the Institute of Industrial Development and the certificates of the Superin-

tendency of Joint Stock Companies) received +5. In other words, the institutions which in the opinion of the entrepreneurs had the most negative impact on the functioning of these large enterprises were the Royalties Committee (transfer of foreign technology), INCOMEX (access to the Andean market), the DNP (fulfilment of goals on local content), the sectoral promotion of public enterprises such as IFI and ECOPEL, and the price and production controls administered by the Ministry of Economic Development.

Although it did not figure as an explicit aspect of the impact of the institutions of the administrative system on the functioning of enterprises, one of the general aims of the administrative system—to promote mixed enterprises—has had a notable influence if 1970-1976 is compared with 1977-1981. Overall, the proportion of new investments authorized in relation to mixed enterprises (i.e., not foreign or national enterprises) rose from 21% to 37% of the total. Of the 26 companies interviewed, nine are now mixed or national (as of 1982) or have signed an agreement to become mixed, and four are thinking of doing so. The entrepreneurs declared, without exception, that there is no official pressure in this sense, but it was manifest that the additional advantages for mixed enterprises carry increasing weight in the decisions taken by the directors of the foreign enterprises. In other words, in contrast to what happened in the petroleum sector (contracts of association) and the financial sector (shrinking of the banking system), the policy of redefining foreign participation in the manufacturing sector has not been characterized either by direct State action or by strong official pressure.

Question: Do you believe that the administrative system for assessing, authorizing, registering and controlling foreign investment achieved its goals in the period 1967-1982?

0	12	5	9	0
Completely	Largely	Moderately	Partially	Not at all

Considering all the initiatives designed to redefine foreign participation in the manufacturing sector, it is noteworthy that, according to the entrepreneurs themselves, the policy has been quite successful. Thus, twelve of those in-

terviewed considered that the policy had been largely successful, five thought that it had been moderately successful and nine that it had been partially successful. None of them voted for total success or total failure. In other words, the entrepreneurs confirmed beyond doubt that the situation of the dominant foreign participants in the Colombian industrialization process had been substantially redefined in 1967-1982.

The opinions of the directors interviewed regarding the changes in the power of negotiation with the official sector and with the national private sector confirmed the impact of the policy for redefining foreign participation in the industrial sector. Applying a scale from 1 to 10, in which 1 signifies very strong bargaining power for the national participants, the entrepreneurs considered on average that there had been a sharp change in bargaining power in favour of the official sector. According to them, it rose from 4.8 in 1967 to 6.7 in 1974 and 6.8 in 1982. This may signify that the presence of the State is becoming increasingly important and its control over the behaviour of the enterprises with a foreign element is increasingly strict. With regard to the negotiations of foreign enterprises with the national private sector in the latter's role of share-holders, suppliers, and customers the bargaining power has also changed, with that of the national private sector increasing from an average of 5.5 in 1967 to 7.1 in 1982. In other words, in contrast to their practice prior to Decree-Law 444, the main foreign participants have changed their attitude and have begun to negotiate with the local participants as a result of the impact of the new administrative system.

In sum, during the period 1967-1982 the administrative system for assessing, authorizing, registering and controlling foreign investment and technology has had a noteworthy impact on foreign participation in the manufacturing sector. It seems reasonable to conclude that the policy for redefining foreign participation in Colombian industrialization has created a new situation for the leading foreign investors.

4. Colombia as a recipient of foreign investment, 1967-1982

As a result of the changes in the nature of foreign participation in the Colombian industrialization

process, the entrepreneurs of these large firms, with the exception of one enterprise which did not answer this question, declared that Colombia had been "moderately satisfactory" as a recipient of foreign investment during 1967-1982. Nineteen of them were of this opinion, while five considered Colombia "bad" as a recipient and one opted for "good". Considering the two subperiods separately, however, it is evident that according to them Colombia was a much better recipient of foreign investment in 1967-1974 than in 1975-1982. For the first subperiod the predominant adjectives were "good" and "moderately satisfactory", whereas for the subperiod 1975-1982 they were "moderately satisfactory" and "bad". It is obvious, therefore, that the persons interviewed considered that Colombia's situation as a recipient of foreign investment worsened in 1975-1982 as compared with 1967-1974, although this subperiod witnessed the initiation of the new administrative system for assessing, authorizing, registering and controlling foreign investment and technology, based on foreign exchange control and greater negotiating power on the part of the official sector. Their opinions are reflected in table 2, which shows that the real value of direct foreign investment in the manufacturing sector was barely maintained between 1977 and 1981.

Question: How would you characterize Colombia

as a recipient of foreign investment during the period 1967-1982?

0	1	19	5	0
Excellent	Good	Moderately satisfactory	Bad	Very bad

a) *In the subperiod 1967-1974:*

0	8	10	6	1
Excellent	Good	Moderately satisfactory	Bad	Very bad

b) *In the subperiod 1975-1982:*

0	1	14	10	0
Excellent	Good	Moderately satisfactory	Bad	Very bad

Finally, when asked whether they thought official policies of other Latin American countries were more favourable to foreign investment than that of Colombia, 16 answered yes, quoting mainly the cases of Brazil and Chile and holding that their policies offered greater incentives and less rigorous conditions than that of Colombia. Nevertheless, very few of the entrepreneurs were able to make a formal distinction between the basic features of the Brazilian model and the Chilean one, so that their preferences seemed to lack a solid foundation.

III

Conclusions

To sum up, with the exception of the promotion of exports of manufactures, the Colombian policy designed to bring foreign participation in line with the official goals (i.e., to direct investment towards substitution in technologically more complex industries, to reduce the foreign exchange cost of foreign participation and to improve national participation) has been a success, in the opinion of the entrepreneurs affected. On the basis of these assessments it may readily be concluded that the official policy has had a marked effect in reorienting foreign participation in Colombian industrialization towards a

subsidiary role. The technical influence of the administrative system for assessing, authorizing, registering and controlling participation in a continuous and progressive manner gave rise to the following comment by the Board of the Cartagena Agreement (1979, p. 53): "An analysis of the functioning of the institutional structure responsible for the authorization, registration and control of foreign investment in Colombia leads to the general conclusion that it has had satisfactory results and that Colombia now has a wide experience at its command which can be profitably used by some of the other countries".

Nonetheless, there are still certain doubts (which go beyond the scope of this article) as to its capacity to impose a subsidiary role on the foreign participants. For instance, although it is quite true that progress has been made in "Colombianization", it is not known whether this process was independent of or detrimental to "modernization". The new direct foreign investment has been channelled towards the metal manufactures and machinery industry, but, judging by the precarious state of several of the largest enterprises in this sector (especially the motor-vehicle industries) during the present crisis, it is not at all clear that the new investment is going to speed up the growth of the sector as a whole. Moreover, the mediocre results in exports of

manufactures obtained by the enterprises with a foreign element might indicate the obsolescence of the technologies employed. It is possible that some foreign firms have transformed themselves into mixed or national companies to evade the obligation to export, while continuing to take advantage of the domestic market. Additionally, although the reason is not very obvious, it is noticeable that the introduction of a subsidiary role for foreign participants coincided with the loss of dynamism in the Colombian industrialization process. Finally, from a comparative angle, it is not quite clear to what extent the relatively meagre participation of foreign investment in Colombian industry has played a part in the success obtained in redefining such participation.⁸

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⁸As a matter of fact, in April 1983 some changes were announced in the official policy with a view to promoting an increase in foreign participation. Although several of the

former requisites were relaxed, however, the policy continues to insist on tying foreign participation to the aims of the official policy (*Revista de planeación y desarrollo*, 1983).

Stabilization and adjustment policies in the Southern Cone, 1974-1983

Joseph Ramos*

Two economic problems contributed to the political upheavals which gave rise to the neo-conservative experiences in Argentina, Chile and Uruguay: galloping inflation and disequilibria in their external accounts. To be sure, these three countries had long tolerated, if not learned to live with inflation. Indexing was widespread, and most economic agents had long come to think in real, and not nominal terms. Yet the efficacy of such instruments was seriously eroded when triple digit inflation beset them. The costs of 600% inflation in Chile (1973), 300% in Argentina (1975), and close to 100% in Uruguay (1973) and the fear of hyperinflation made each of them, especially the first two, assign top priority from the very beginning to stabilization policies.

Not only were these countries beset with unprecedented rates of inflation, but with serious disequilibria in external accounts as well: the deficit on current account at the onset of the new regimes ranged from 20% of the value of exports of goods and services (Chile) and 27% (Uruguay) to 37% (Argentina); and their debt-to-export ratios were among the highest of Latin America at the time: 1.7 (Uruguay), 1.9 (Argentina), and 2.5 (Chile).

The purpose of this paper is to analyse the stabilization and adjustment policies pursued by each country; to establish at what cost, in terms of output and income distribution, these disequilibria were corrected; and to determine to what extent these costs were avoidable or not, and if so, what specific policies were responsible for these failures.

It goes without saying that no policy is ever purely a stabilization or purely an adjustment policy, for the problems of internal and external disequilibrium often come together, as they did at the onset of these neo-conservative experiences. Nevertheless, it is probably fair to say that in the first years, and specially in Argentina and Chile, the aim was stabilization, subject to a balance-of-payments constraint; whereas in the last years (1981 on) the aim was adjustment subject to an anti-inflationary constraint. Hence the analysis will stress the stabilization features of the first years and the adjustment process of recent years.

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I

The monetarist approach to stabilization: Inflation as a monetary phenomenon

The debate concerning the causes of inflation in the Southern Cone traditionally centered about two schools of thought: the monetarist and the structuralist.¹ Monetarists attributed inflation to an overexpansion of the money supply, normally the result of fiscal deficits. The solution was to correct such maladjustments and slow down the expansion of credit. Structuralists, on the other hand, while not challenging the general relationship between fiscal deficits, monetary expansion and inflation, affirmed that such an expansion was endogenous. That is to say, the monetary authorities often found themselves *forced* to increase the money supply in order to avoid falls in the product due to more deep-seated (structural) shortfalls: for example, the (allegedly) low price elasticity of exports and of agricultural output made these economies extremely vulnerable to disequilibria originating in these sectors. Hence, the attempt to overcome the negative consequences of such bottlenecks on the rest of the economy generated pressure to expand credit. Thus, any attempt to eliminate inflation without overcoming these structural bottlenecks would have either only passing success or would lead to recession.

While it is true, as monetarists argued, that in the Southern Cone there has been a very close relation *in the long run* between the rate of inflation and the growth of the money supply, in the short run this has not always been the case (see table 1).

This is the basis for the structuralists' arguments that in order to stop inflation it would not be enough to reduce fiscal deficits and slow down the growth of money supply, since the velocity of money could fluctuate in a compensatory fashion and, given the existing rigidities and bottlenecks in the economy, the deceleration in the rate of growth of aggregate demand (Mv) could slow

¹This controversy occupied a good part of the debate concerning inflation right through the end of the 1960s. The literature is extensive. See, for example, the articles by Oliveira Campos (1961), Felix (1961), Grünwald (1961), Baer and Kertenetzky (editors) (1964) and ECLAC (1962).

Table I
SOUTHERN CONE: GROWTH OF MONEY, PRICES, AND GROSS DOMESTIC PRODUCT, 1950-1970
(Annual rates of growth)

	Argentina			Chile			Uruguay		
	Money	Con- sumer prices	GDP	Money	Con- sumer prices	GDP	Money	Con- sumer prices	GDP
1950	23.2	26.0	1.6	16.4	15.1	4.8	22.0	-7.1	3.1
1951	22.7	30.8	3.9	32.1	22.6	5.3	-1.3	15.4	8.2
1952	13.2	41.2	-5.1	37.0	23.1	3.4	9.0	15.6	-0.4
1953	25.7	5.0	5.4	53.0	25.0	7.1	12.9	5.8	6.5
1954	19.7	16.0	4.1	47.0	71.0	0.7	7.3	14.5	5.7
1955	18.0	14.3	7.1	63.0	84.2	2.7	5.8	7.9	1.6
1956	16.6	12.5	2.8	38.0	37.5	0.7	11.9	7.4	1.7
1957	13.0	25.9	5.1	25.0	25.0	2.6	8.4	13.7	1.0
1958	22.8	32.4	6.1	33.3	30.8	4.8	20.4	18.1	-3.6
1959	50.7	100.0	-6.4	37.5	37.4	6.9	35.0	39.8	-2.8
1960	34.9	20.0	7.8	18.1	13.6	5.1	40.8	37.2	3.5
1961	17.9	16.7	7.1	27.8	9.0	6.1	25.3	23.4	2.9
1962	7.1	28.6	-1.6	25.0	12.9	4.6	7.2	10.8	-2.2
1963	20.0	22.2	-2.4	33.9	44.6	5.1	16.0	21.0	0.5
1964	38.9	22.7	10.3	41.1	50.0	4.2	70.7	42.4	2.0
1965	32.0	25.9	9.1	55.2	22.2	5.0	56.0	56.7	1.1
1966	30.3	35.3	0.6	51.4	27.3	7.0	70.1	73.3	3.4
1967	34.9	28.3	2.7	28.4	21.4	2.4	51.1	89.3	-4.1
1968	32.8	15.3	4.3	30.1	23.5	3.0	86.5	125.4	1.6
1969	16.9	8.8	8.6	24.0	28.6	3.5	69.2	21.0	6.1
1970	12.2	12.2	5.4	58.1	33.3	3.6	31.3	16.3	4.7
1950-1970	24.3	23.8	3.7	37.7	30.3	4.2	29.5	29.4	1.8

Source: International Monetary Fund (1976 and 1980); ECLAC (1983).

either the rate of inflation (P) (the desired objective) and/or production (Q) (not desired).²

Possibly because of the greater simplicity of the monetarist model, or possibly because of the insufficient operationality of the structuralist approach, the fact remains that the stabilization policies followed during the 1950s and early 1960s tended to be monetarist in orientation. On

²The quantity *identity* states that money (M) multiplied by velocity (v) is equal to the level of prices (P) multiplied by the volume of output (Q). Consequently it is true by definition and by differentiation that $M/M + v/v = P/P + Q/Q$. The quantity theory in its traditional and simple form states that v is relatively constant. Consequently, $M/M = P/P + Q/Q$. If we suppose, at least for the short run, that the product remains constant, $M/M = P/P$ (the best known expression of the quantity theory). As shown in figure 1, the quantity theory showed excellent explicative power in the period 1950 through 1970 for the three countries. Given the growth in money and product, the theory would have predicted a rate of inflation for the period of 20% in Argentina (as opposed to 24%); 33% in Chile (as opposed to 30%), and 20% (as opposed to 29%) in Uruguay.

the other hand, because such stabilization programmes almost invariably resulted in recession, such an approach slowly fell into disgrace.

Nevertheless, the monetary approach reappeared in the 1970s. For one thing the approach had been enriched theoretically. It was now recognized that velocity (that is to say, the reciprocal of the demand for money) varied; however, it was argued that it varied not in an unpredictable fashion, or in a fashion which automatically compensated monetary growth, but rather that such a variation in velocity was stable or at least predictable. On the other hand, while it was recognized that it was not at all clear in what way a deceleration in nominal aggregate demand would divide itself in the short run between a slower rate of inflation and/or a recession,³ it was argued that a recession could be avoided to the

³Friedman (1970) himself states that this is the single most important problem to be resolved in modern macroeconomics.

extent that inflation was correctly anticipated. Secondly, and possibly more decisively in practice, given the urgent need to combat triple-digit inflation, it seemed quite unconvincing to attribute significant causality for such high inflation to structural factors, or to insist that it was indispensable to eliminate them in order to avoid still higher inflation.

Given the neo-conservatives' preference for the market and aversion to administrative con-

trols, it is not at all surprising that these countries initially have adopted a monetarist approach, and more specifically the monetarist approach for a closed economy. With the passing of time, and with the increased opening of the economy, the approach was slowly modified and the key instrument came to be exchange policy. In any case, throughout the entire experience, the prevailing spirit was that of minimizing administrative intervention in the market.

II

Phase I - Monetarism for a closed economy

1. *The logic of the approach*

Quantity identity, in its dynamic form, offers a good starting point to explain the stabilization policy of phase I in the three neo-conservative experiences of the Southern Cone: $\dot{M}/M + \dot{v}/v = \dot{P}/P + \dot{Q}/Q$. If one wants to slow inflation, one needs to slow down the growth in nominal aggregate demand (Mv). Nevertheless, the relative impact which such a deceleration in nominal aggregate demand will have, be it on prices or on production, will very much depend on inflationary expectations.⁴ If such expectations are fairly uniform among the different economic agents and these coincide with the inflationary goal implicit in monetary policy, the deceleration in nominal aggregate demand will fall exclusively on prices (precisely what is desired). On the other hand, if there is a significant difference between the inflation expected and that consistent with monetary and fiscal policy, the deceleration in nominal aggregate demand will also fall on production (precisely what we desire to avoid). In short, however high inflation might be, it is

⁴To be sure, the demand for money does not depend solely on inflationary expectations, but rather, among other things, on its alternative uses. More specifically, the creation of an internal capital market was to create financial instruments of a highly liquid nature, paying good interest rates, and this was to affect the demand for money. At the same time, the supply of money was not easy to control either.

theoretically possible to bring it down without a fall in output.⁵ Problems emerge if in fact there are rigidities, especially as regards expectations, for these will slow timely adjustments to the new conditions which economic policy is trying to establish.

In other words, if inflation is really nothing else than "too much money chasing too few goods", it is not at all clear why in order to bring down inflation it should be necessary to produce even fewer goods. To be sure, stabilization policies often end in recession, but this is not because it is inevitable; rather, it is a sign of failure, a failure to harmonize the expectations of economic agents with the inflationary goal implicit in the fiscal and monetary policies which the government is carrying out.

In the three experiences, serious efforts were made to avoid the formation of 'erroneous' inflationary expectations. During the first phase efforts centered in the labour market, for if in-

⁵Thomas Sargent (1981) makes this point quite explicitly in arguing that the costs of checking inflation are proportional not to the rate of past inflation (the theory of inflationary "momentum") but to expected inflation (rational expectations). Thus, should the public believe that there has been a (permanent) change in the rules governing fiscal and monetary policy, and not just a transitory change, the cost of reducing inflation can be quite low. He cites as specific examples the cases of hyperinflation which were abruptly stopped after the First World War in Germany, Austria, Hungary and Poland, where the cost in terms of recession was either slight or non-existent.

flationary expectations became incorporated into labour contracts, especially if they were based on past inflation, wage movements would become terribly rigid. Thus, for example, if both entrepreneurs and workers expected inflation to be higher than the rate aimed at by the Government, labour costs would rise in line with them. If the Government persisted with its anti-inflation goals and followed the corresponding monetary and fiscal policy, real wages would rise more than expected, with negative consequences for employment and output. Thus, if the Government failed to harmonize the inflation expected in wage contracts with that implicit in economic policy, it would inevitably be confronted with the following dilemma: either to ratify such erroneous expectations, easing up its monetary and fiscal policy at the cost of sacrificing its stabilization programme, or else persist in its stabilization goals, with a consonant restrictive economic policy, but at the expense of recession.

We may call this the neo-classical variant of recession (as opposed to the neo-Keynesian one), inasmuch as unemployment and recession would be due to a rise in real labour costs. In other words, unemployment would be a reflection of a disequilibrium in the labour market and not, as in neo-Keynesian models, of a disequilibrium in the goods market. Thus for neo-conservatives any stabilization programme which seeks to avoid recession and unemployment must necessarily include wage controls in order to harmonize wage readjustments with the inflationary goal set by the Government, for the market left to itself cannot adjust wages to coming inflation, inasmuch as it cannot know in advance the seriousness with which the Government intends to apply its stabilization programme. Any doubt as to this would inevitably create rigidities in expectations and consequently lead to recession.

For reasons of this sort, neo-conservatism in the Southern Cone justified the use of administrative controls on wages to adjust expectations.⁶

⁶This is not to suggest that there were not other motives behind wage controls. For example, in Uruguay many argued explicitly that wages ought to fall in the short run in order to increase profit margins and thus raise the heretofore low levels of savings and investment. It is also possible that some believed that real wages had exceeded equilibrium levels

However, doubts as to the ability of the market to adjust rapidly in transition situations did not lead to the adoption of similar interventionist measures in other markets (for example, the goods or financial markets).⁷ There was apparently confidence that competition would assure rapid and converging adjustments in goods prices and interest rates, so that all possible disequilibria in such markets would be quite transitory.

2. The policies

Inasmuch as inflation was considered to be fundamentally a monetary phenomenon, the key instrument in reducing it was the control of the monetary supply. However, in order to avoid or minimize recessive costs, control of the money supply had to be accompanied by wage controls. Moreover, a deceleration in the growth of monetary variables required a reduction in the fiscal deficit, all the more so given the magnitudes involved at the beginning of the neo-conservative experiences (fiscal deficits ranged between 4% and 10% of GDP). This implied an increase in the prices of public services, increased taxes and reductions in current expenditures (principally wages) in all three countries and, moreover, in Chile, a decline in public investment.

According to the monetary framework such measures were the *sine qua non* for reducing infla-

during the periods of Perón in Argentina and Allende in Chile (the periods immediately preceding the onset of neo-conservatism). In point of fact, however, this was not the case in Chile, since real wages had already fallen by over 15% with respect to 1970 levels in the last year of Allende's administration. This argument is possibly somewhat more plausible in Argentina, since real wages grew 11% between 1970 and 1975, whereas per capita output grew only 8%. Nevertheless, even if it were true, given the rather small magnitudes involved the need of adjustment would have been minimal. Finally, there is no doubt that trade union power was looked upon with great suspicion, both for political as well as ideological reasons, for unions had been an important base of support of the preceding governments in Argentina and Chile. Moreover, the neo-conservatives tended to look upon labour unions as no more than instruments of incipient monopolistic control. Therefore, they tended to believe that wages had been artificially raised for a long period of time.

⁷Exchange-rate control was justified for other reasons: the need to have some reference price in the economy, with respect to which all other prices could freely adjust.

tion. They were also accompanied by two other measures which would prove to be of paramount importance in the future evolution of these economies. First of all, from the very beginning the three countries faced serious external disequilibria which required real devaluations (Chile and Uruguay) or the maintenance of a high real exchange rate (Argentina had recently devalued). It is important to note, however, that in order to improve the trade balance it is not necessary to depress domestic production in order to lower imports. What is required is to reduce domestic spending and switch output towards tradeables (by means of devaluation and/or an appropriate trade policy), substituting (not simply reducing) imports and promoting exports.

To the extent to which domestic spending (and income) has to be compressed, generally speaking one would expect a corresponding decline in real wages. The worsening in the terms of trade which Argentina and Uruguay experienced from the very beginning, and Chile as of the end of 1974, would thus necessarily involve some decline, though modest, in real wages.⁸

Secondly, there existed a widespread system of price controls in the three countries. As a result relative prices were severely distorted (creating downward pressure on food prices relative to industrial goods) and inflation was repressed.⁹ For these reasons price controls were eliminated in all three countries, so that prices would be more realistic. This policy was radical and abrupt in Chile, gradual in Uruguay, and erratic in Argentina.

Thus, the policy pursued in these three countries from the very beginning did not limit

itself solely to the fight against inflation or to tackling short-term problems; rather, in differing degrees, each country made serious attempts to restore equilibria in the external sector and correct the distorted system of relative prices.

3. *The results*

External disequilibria significantly improved during the first phase and inflation was reduced, although at a much slower pace than anticipated and at the cost of a sharp fall in real wages (of the order of 25% to 30% with respect to the normal or historical levels) and of a severe recession (Chile) or stagnation (Argentina). Only Uruguay avoided a deterioration in its level of activity, thanks to the strong increase in public investment and in exports, which more than compensated for the decline in domestic consumption.

As far as inflation is concerned, the policies pursued resulted in important reductions in the fiscal deficit and the rate of expansion of the money supply (see table 2). The fiscal deficit fell from 9% to 3% of GDP in Argentina (between 1975-1976 and 1978); from 25% to 2% in Chile (between 1973 and 1976), and from 4% to 1% in Uruguay (between 1973-1974 and 1978). The annual growth of M_1 in the same period decelerated from 250% to 140% in Argentina, from 260% to 220% in Chile, and from 70% to 55% in Uruguay. As a result of restrictive monetary, fiscal and wage policies, inflation fell sharply: from rates of the order of 300% during the last pre-neo-conservative year in Argentina to 175% at the end of phase I, 1978; in Chile from 440% to 230% between 1973 and 1976, and in Uruguay from close to 90% in 1973-1974 to 45% in 1978.

As might have been expected, there was a significant correlation between the fiscal deficit, monetary expansion and the rate of inflation (see figure I); high rates of inflation were accompanied by large fiscal deficits and very strong monetary growth, whereas low rates of inflation coincided with lower deficits and rather modest monetary expansion. Nonetheless, these relationships were fairly loose in the short run.

It is reasonable to suppose that in periods of accelerating inflation the velocity of circulation of money will rise because of inflationary expectations, so that the rate of growth of prices will

⁸It is important to note that in none of the cases analysed did the deterioration in the terms of trade exceed the equivalent of 6% of GDP. Therefore, a similar decline in real wages should have maintained a neutral income distribution. However, inasmuch as the wage decline was far in excess of this, there must be other factors which explain the bulk of the fall in real wages, not just the adjustment to the external shock.

⁹Especially in Chile at the end of 1973, the repressed inflation was so severe that a generalized shortage of products emerged, not so much because output had declined but because there was an excess of money, capable of buying far more than the economy was able to produce at the then prevailing controlled prices.

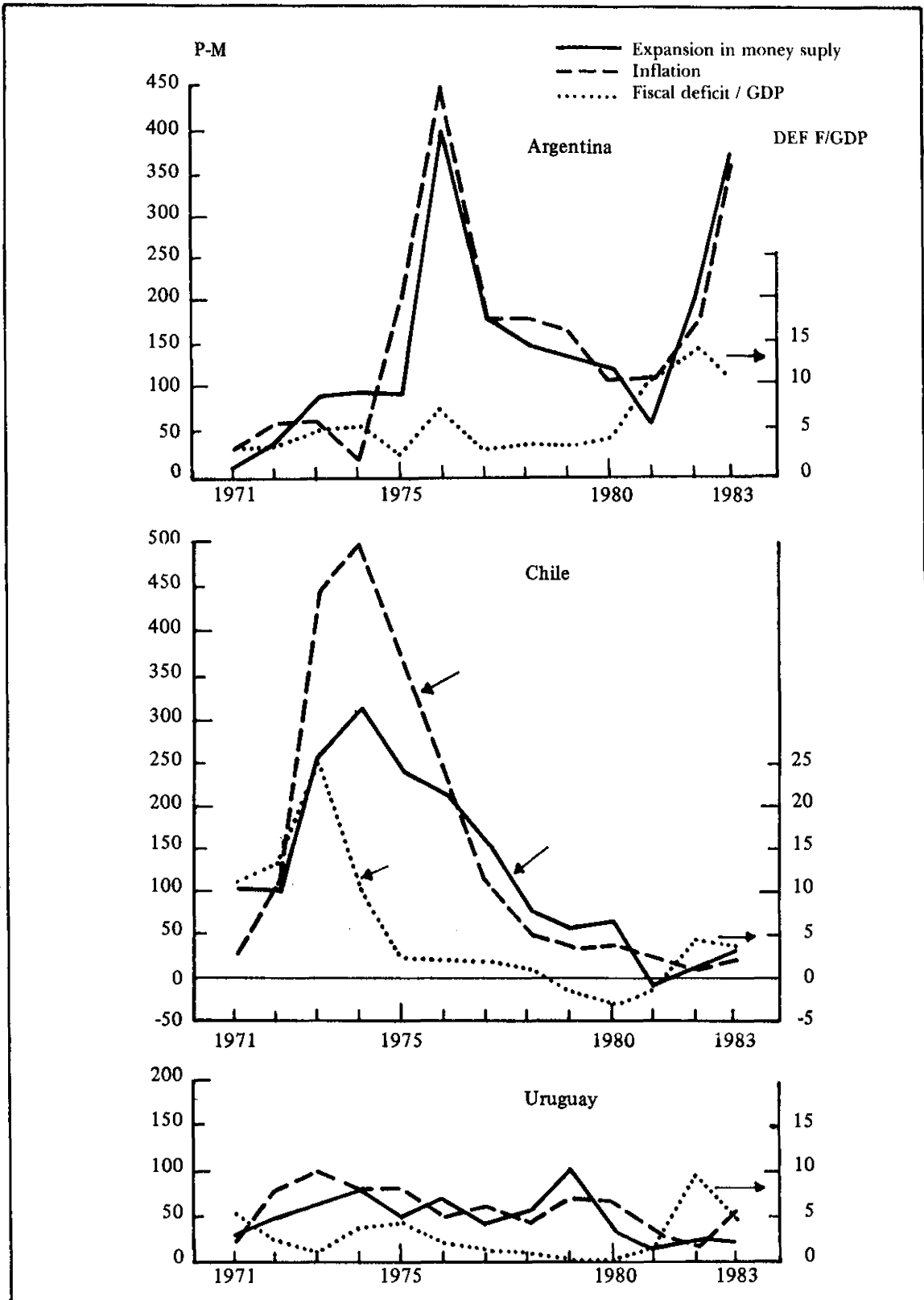
Table 2
SOUTHERN CONE: BASIC MONETARY AND MACROECONOMIC INDICATORS, 1973-1983

	Argentina					Chile					Uruguay				
	Rates of growth				Public deficit GDP	Rates of growth				Public deficit GDP	Rates of growth				Public deficit GDP
	Nominal annual devalu- ation	Con- sumer prices	Money supply	GDP		Nominal annual devalu- ation	Con- sumer prices	Money supply	GDP		Nominal annual devalu- ation	Con- sumer prices	Money supply	GDP	
1973	14.6	61.2	86.3	3.6	-4.4	455.0	441.0	259.1	-5.6	-24.7	54.5	97.0	63.5	0.4	-1.2
1974	-5.3	23.3	93.0	6.2	-5.4	649.5	497.8	314.6	1.0	-10.5	39.0	77.2	80.0	3.1	-3.8
1975	311.2	182.5	90.5	-0.8	-10.3	490.3	379.2	239.2	-12.9	-2.6	89.1	81.4	50.1	5.9	-4.3
1976	282.5	443.2	399.4	-0.5	-7.2	165.8	232.8	216.0	3.5	-2.3	47.7	50.6	67.9	4.0	-2.0
1977	191.1	176.1	176.2	6.4	-2.8	64.9	113.8	156.7	9.9	-1.8	39.9	58.2	45.3	1.2	-1.3
1978	95.2	175.5	142.8	-3.0	-3.2	47.0	50.0	81.2	8.2	-0.8	28.9	44.5	53.0	5.3	-0.9
1979	65.5	159.5	131.4	7.1	-2.7	17.7	33.4	60.0	8.3	1.7	29.3	66.8	99.5	6.2	—
1980	39.5	100.8	115.8	1.1	-3.6	4.7	35.1	62.6	7.8	3.1	15.7	63.5	34.9	5.8	-0.3
1981	139.6	104.5	53.9	-5.9	-11.3	—	19.7	23.4	5.7	1.6	18.7	34.0	33.9	-0.8	-1.5
1982	488.8	164.8	195.7	-5.7	-7.5	30.5	9.9	-5.5	-14.1	-2.4	36.2	19.0	-0.8	-8.7	-14.0
1983p	440	320	325	2.0	—	58	30	—	-0.5	—	130	45	—	-5.5	—

Source: ECLAC, on the basis of official data and International Monetary Fund.

Note: p = preliminary.

Figure I
INFLATION (P), MONETARY EXPANSION (M)
AND FISCAL DEFICIT (DEF F/GDP)



be greater than that of monetary variables. Nevertheless, during this period (above all in Chile) prices appear to have risen not so much because of demand pressures as because of price decisions taken by the producers themselves in anticipation of a demand for goods which never materialized. For that reason, for example, the increase in prices in the first year (1974) of Chile's neo-conservative experiment exceeded the increase in money supply by almost 50%.

Once the inflationary process reversed itself, the contrary should have taken place, that is to say, expectations of decelerating inflation should have increased the demand for money, so that prices would rise less rapidly than the growth of money supply. This did not take place, however, in Argentina or in Chile. On the contrary, in the following years of phase I, though inflation slowed, it continued to advance at a rate well in excess of the growth of the money supply (see figure I). Consequently, during the three years of phase I, stabilization, the increase in prices exceeded the expansion of the money supply by 114% in Chile and by 25% in Argentina.

This resistance to a downward trend in the rate of price rises is attributable to the fact that the entrepreneurial sector harboured inflationary expectations which were higher than those foreseen by the Government in its monetary, fiscal and wage policies. The sharp devaluations, the sudden freeing of prices, the unexpectedly high domestic interest rates and the general uncertainty aroused by so many imbalances and policy changes upset the inflationary expectations of the entrepreneurs, who, because of the scant competition they faced, had previously had ample liberty to impose their expectations on prices.

In other words, the mixing of the objectives of balancing the external accounts and correcting the distortions in the system of relative prices, on the one hand, and achieving stabilization, on the other, thwarted the attempt to check inflation without causing a recession. It is not that a recession was inherent in the pursuit of these objectives, but rather that the combination of these with the use of instruments for their attainment which took no account of their repercussions on the other goals involved the risk that the slowing-down of demand would affect not only inflation but also the level of activity.

Moreover, the assumption that inflationary expectations express themselves solely or principally in the labour market through pressures for wage increases is rather doubtful, at least from a theoretical point of view. The validity of this assumption is brought further into question if one takes into account the fact that the policy was intended simultaneously to achieve the following: i) bring about a real devaluation, which implied raising the relative price of tradeables, and ii) raise, by way of price liberalization, the relative prices of goods previously controlled (generally speaking, foodstuffs). Moreover, inasmuch as the public could not know how much of the nominal devaluation was intended to be real (that is to say, how much would correspond to a relative improvement) and how much would be nominal (a purely inflationary increase), and nor could it know how long the policy of price liberalization would last (indeed, Argentina restored price controls within the year), it is easy to understand why producers set their prices, not in accordance with current demand or prevailing wage costs, but in accordance with what they expected these to be in the future. These variables are of course influenced not only by the cost of labour,¹⁰ but also the expected cost of importing, the rate of devaluation, the level of real interest rates, the evolution of public service prices, the evolution of prices heretofore controlled, and expectations regarding the behaviour of other prices, etc.¹¹

¹⁰High interest rates affected not only inflationary expectations but also production costs, thus pressuring prices upwards, at least in the first instance. In the short run, rather than inducing the sale of inventories, high interest rates and consequently increased financial costs tended to be passed on to prices (see Cavallo (1977)).

¹¹Referring to Frenkel (1979) and Ramos (1977), Foxley (1982) pointed out: "In Argentina, Chile and Uruguay double and triple-digit inflation was experienced before and during the first years of the stabilization programme. It is precisely this type of context which is characterized by imperfect information, by uncertainty with respect to the future evolution of prices, and by huge risk, and in which the above factors become determining elements of the price decisions adopted by firms. Profit margins then become a function of expected inflation, and of the uncertainty and risk involved. During the phase of very high inflation, of maximum uncertainty and disequilibrium in the economy, prices become relatively autonomous, not only with respect to demand but also with respect to cost pressures".

To the extent to which the inflationary expectations of producers significantly exceeded the rate of inflation implicit in monetary and fiscal policy, the deceleration in nominal aggregate demand would fall on output (something undesirable) and not only on prices. If this were the case, then monetary and fiscal stabilization policy would prove to be too tight, and this was exactly what occurred. As a result there was a tendency towards the following: i) too little money for the level of prices which in fact prevailed (that is to say, real interest rates were too high); ii) real wages were too low, and iii) the level of output and employment was below the productive capacity of the country (that is to say, there was a recession).¹²

Had the divergence between the inflationary expectations of the public and the rate of inflation implicit in economic policy been quickly corrected, the contraction in internal demand would have been harmless. Unfortunately, inflationary expectations adjusted quite slowly, thereby prolonging and worsening the recession. Inflationary expectations adjusted slowly, since national income was redistributed towards producers: a fact which served to cushion, if not fully compensate, the costs of their erroneous price-setting policy.¹³ In short, what producers lost by virtue of lower sales they made up via prices and margins higher than the equilibrium levels. This explains why the disadjustment between inflationary expectations and the inflation implicit in the economic policy lasted so long (see table 3).

As a result of this 'rigidity' in inflationary expectations, prices remained well above equilibria, so that internal demand was insufficient to absorb all of the installed production capacity. The economies thus tended to fall into

¹²Farmers had fewer possibilities of setting their prices in accordance with inflationary expectations, either because farm goods are perishables subject to high storage and conservation costs or because this is a more competitive sector. The fact remains that the relative improvement in agricultural prices did not take place to the extent expected.

¹³To be sure, this is not a situation which can be maintained in the long run, at least in competitive markets, for each firm can improve its profits by lowering its prices and thus increasing its sales. Nevertheless, in periods of recession as in this case, with prices in disequilibrium, this effect operated slowly, for firms tended to see the demand for their products as much less elastic to price than it really was (Ramos, 1980).

Table 3
SOUTHERN CONE:
INDICES OF INCOME DISTRIBUTION
(Indices: 1970 = 100)

	Argentina		Chile		Uruguay	
	A	B	A	B	A	B
1970	100.0	100.0	100.0	100.0	100.0	100.0
1971	98.3	98.8	116.3	113.0	106.3	106.5
1972	81.1	81.9	108.9	105.7	88.3	89.1
1973	84.1	86.4	84.1 ^a	82.2 ^a	84.2	87.0
1974	97.9	94.5	64.9	63.6	86.4	86.9
1975	95.9	95.8	71.8	65.0	—	—
1976	64.4	64.3	71.1	64.2	75.2	73.1
1977	61.4	60.8	73.7	65.7	70.4	69.0
1978	64.2	63.5	77.5	68.7	62.3	61.5
1979	69.2	69.1	81.8	71.6	57.4	57.2
1980	76.9	77.5	86.1	74.1	58.1	57.7
1981	73.2	73.2	92.6	78.5	65.7	64.7
1982	70.4	69.8	99.1	78.5	70.3	69.2

Source: ECLAC, on the basis of official data.

Note: The variations in the index indicate whether the share of labour in gross domestic income has improved (above 100) or worsened (below 100) with respect to the base year.

A = The index is defined as $\frac{(SR)(O)}{Y}$, where SR = real wage; O = index of the number of employed; Y = gross domestic income (gross domestic product adjusted by the terms-of-trade effect).

B = An index defined as above (A), but which deflates by gross domestic product instead of gross domestic income.

^aFirst 8 months of 1983.

recession. This phenomenon was further aggravated in Chile by the sharp fall in public sector investment and external demand (inasmuch as the quantum of exports did not grow enough to compensate the very severe decline in the terms of trade). The cumulative effects of reduced consumption (due to wage reductions) and investment (cutbacks in public investment and a decline in private investment) and the fall in external demand resulted in a very sharp economic contraction. Thus, per capita GDP in Chile fell 13% between 1973 and 1976. In contrast, the restrictive effects of the stabilization policy were compensated in Argentina or even more than compensated in Uruguay by very sharp increases in public investment and in the volume of exports. Thus, in these two countries overall de-

mand was reoriented from domestic consumption to investment and exports, but it did not go down.

The differences in the behaviour of employment during the first phase in each of these three countries is largely explained by the very different evolution of their respective output and not by the trajectory of real wages, which was quite similar in the three (that is to say, a sharp fall). This is because in situations of product market disequilibria, where at the prevailing but inflated level of prices one cannot sell all one wishes, the demand for labour is no longer a function of wage costs so much as of the level of sales. Insofar as sales declined (Chile) or did not grow (Argentina), the demand for labour also fell or failed to grow, for however much real wages had fallen, the opportunity cost of unused machines in factories had fallen even more (it was virtually zero). As a result, the prime effect of the fall in wages was to reduce domestic demand for goods, rather than to induce the increased hiring of labour because of its lower cost. This would

explain why in subsequent years the growth of employment in Chile coincided with increases and not declines in real wages. In Uruguay, in contrast, where the product grew despite the fall in domestic consumption, employment also expanded. That is to say, the unemployment which was generated in this phase was not so much a symptom of a disequilibrium in the labour market—whose resolution would have required a further lowering of real wages—but rather was a result of a disequilibrium in the goods market (inflated prices with depressed sales). Consequently, the employment problem could not be resolved until the basic disequilibrium affecting the goods market was corrected.¹⁴ Notwithstanding the high rate of inflation, unemployment was due to a lack of aggregate demand, and the problem thus was not so much price rigidity as the rigidity in inflationary expectations, which meant that inflation went down much more slowly than the rate implicit in the monetary, fiscal and wage policies being pursued by the Government.

III

Phase II - The monetary approach to the balance of payments

1. *The logic of this approach*

The approach to stabilization was modified as a result of the failure of inflationary expectations to adjust rapidly enough, which limited the degree to which money supply could be decelerated without incurring excessively severe costs in terms of recession. Efforts began to focus on active exchange policy; monetary policy then became passive, being determined by the evolution of the balance-of-payments surplus. The exchange rate would thenceforth be devalued according to a pre-established programme rather than passively in accordance with past inflation. It was thought that in this way expectations could be brought into line with or at least rapidly adjusted to the inflationary goal implicit in government policy. Thus the immediate objective of exchange policy became the control

of inflation and no longer the maintenance of the exchange rate in real terms.

To be sure, it was not considered necessary to lower the real rate of exchange in order to slow inflation. Rather, it was hoped and believed that the announcement and application of this policy change would demonstrate clearly to economic agents the seriousness with which the government intended to pursue its anti-inflationary goal, and so bring inflationary expectations rapidly down to the rate of devaluation. Since the latter was programmed to decelerate, the rate of inflation

¹⁴The employment problem was less severe in Argentina, since output there did not fall but simply stagnated. Moreover, in Argentina other more specific factors came into play to reduce the employment problem; namely, the displacement of foreign labour and the big increase in self-employment.

could be expected quickly to equalize the rate of devaluation (or the target inflation).¹⁵ If this was achieved, the price disequilibria could be corrected without setting off a recession, while maintaining the real rate of exchange.

Exchange policy was expected to influence the behaviour of prices not only by moderating expectations, but also more directly: at least insofar as tradeables were concerned, it would tend to limit the price of domestic products to that of the imports competing with them. For, at this stage, the three economies had substantially opened up imports, so that domestic prices had a ceiling given by the international price of the imported goods plus transport, tariffs and retailing costs. This ceiling was the so-called "law of one price". Regardless of what the inflationary expectations of producers were, the price of domestic goods would necessarily have to converge towards this single price in the long run. The liberalization of the domestic capital market, however, had created substitutes for money which made it increasingly difficult to control the money supply. These difficulties were further complicated by the progressive liberalization of the inflow of capital, with greater financial opening up to the outside world. Money growth began to be explained largely by exchange operations, and not, as in the past, principally by the expansion of internal credit or treasury financing. Thus, the fact that control of the money supply became increasingly difficult with financial liberalization was a further argument on behalf of this new exchange policy.

The monetary approach to the balance of payments provided the underlying theoretical basis for this policy change. According to this view, differences in the amount of money demanded and supplied are resolved through the balance of payments (and not by changes in production). For example, given a certain demand for monetary balances, if the supply of internal credit were to contract, the domestic interest rate would rise. Two adjustment mechanisms would then automatically come into play to resolve this

difference. If the capital account were open, capital would come in, increasing the international reserves, till the supply of money came to equal the amount of money demanded and the initial monetary restriction ended up determining not the amount of money in hand but only its composition (between internal and external credit). On the other hand, were the capital account to be closed, the increase in domestic interest rates would lower the demand for goods, reducing imports, producing a surplus on the trade balance, and thus augmenting reserves and the money supply. If that did not take place, the price of domestic goods would fall, generating a trade surplus, increasing reserves, and thus expanding the supply of money to the level demanded. Implicit in this approach, be it with open or closed capital accounts, is that disequilibria between the supply and demand for money are resolved quickly and directly via prices and/or movements in the balance of payments. To ignore or minimize the possibility that the adjustment will take place to some extent at the cost of production is a central assumption which this approach has in common with the quantity theory of money, both in its earlier and in its more modern version, and it is this assumption which distinguishes this approach from most others. To be sure, the speed with which the so-called "law of one price" operates in order to equalize¹⁶ internal and external rates of interest and the prices of domestic and imported goods is critical in determining the validity of the implicit assumption that variations in the product are a second-order mechanism for adjusting monetary imbalances. The high degree of international liquidity available between 1975 and 1979 made possible the fulfilment of the first condition; the increased trade openness which the three countries of the Southern Cone underwent (at least insofar as eliminating non-tariff barriers is concerned) also made plausible that the second condition be satisfied.

¹⁵Strictly speaking, the rate of inflation would fall to that equal to the algebraic sum of the devaluation and the rate of international inflation. This sum would be the equivalent of the inflationary goal.

¹⁶Rather than equalizing, these should approximate each other, for in the case of interest rates a surcharge would have to be added to cover country risk and the higher cost which domestic financial intermediation might entail. In the case of goods, one would have to add the cost of shipping, tariffs, and additional domestic retailing costs.

2. *The measures applied*

In this theoretical approach, the crucial instrument for stabilization was exchange rate policy. Domestic inflation was expected to converge to international inflation plus the rate of devaluation. Moreover, domestic prices were expected to approach the level of international prices. At the end of phase I, however, the gap between domestic and international prices continued to be very large, even after taking into account differences in prices arising from transport, tariffs and marketing costs. In the new phase, domestic inflation would have to be *less* than international inflation plus devaluation, at least until internal prices equalled external prices. This assumption, critical though it was, tended to be overlooked by policy-makers.

At all events, it was expected that inflation would decline rapidly to the lower and declining rate of the devaluations. To be sure no one thought that exchange rates could be fixed immediately, for so long as inflation continued to be high and the internal factors contributing to monetary expansion continued to persist, the economic agents would see such a fixing of the exchange rate as an unsustainable policy. For example, if M_1 were of the order of 10% of GDP and if a public deficit of the order of 5% of GDP were expected, money growth would necessarily have to be of the order of 50%, with a comparable rate of domestic inflation; consequently, a devaluation rate of much less than 40% a year (assuming external inflation of 10%) would be considered unbelievable. On the other hand, once the public sector deficit had been eliminated, there would be no reason (according to this approach) why the exchange rate could not be fixed so that the rate of domestic inflation very rapidly came to equal the international rate. Indeed, if this approach were adopted, it would be necessary to fix the exchange rate to bring down inflation to the international rate. The key policy, then, was to devalue at diminishing rates (in order to affect expectations), according to a pre-announced calendar (generally for 6 months). This policy was begun, at least partially, in Chile as of mid-1976, and in Argentina and Uruguay towards the end of 1978. The fiscal deficit was eliminated in Chile in 1979, whereupon, in accordance with the approach adopted, the ex-

change rate was fixed. Notwithstanding the fact that the fiscal deficit was also eliminated in Uruguay (in 1979), the authorities there preferred not to fix the exchange rate, for domestic inflation was still of the order of 60% (compared with Chile's 33% and the international level of 10%).

At the same time, given the situation of growing international liquidity prevailing in this second phase, the three Southern Cone countries increased their financial openness to the outside world in the hopes of achieving an even more rapid convergence of internal and external rates of interest. Simultaneously, although to a lesser extent, trade was further opened up (a good deal in Chile, moderately in Argentina, and hardly at all in Uruguay), as a means of stimulating competition and thus further inducing prices to converge rapidly to external ones.

3. *The results*

While the stabilization programme was in effect, both Chile (in 1981) and Uruguay (in 1982) managed to lower inflation to international rates. This reduction was especially spectacular in the case of Chile, where six years before inflation had exceeded 200%. Inflation was almost halved in Argentina as compared with the first years of the conservative period, but nevertheless it never fell below 100% per year (see table 2).

Argentina's inability to control its public deficit explains why it was unable to make further progress in this plane. Its deficit was never less than 3% of GDP (in 1981, the year of lowest inflation (100%)), and it thereafter grew again to almost 4% of GDP¹⁷. This fact could not fail to have a negative influence on the credibility of its exchange policy. For as Rodríguez (1983) has argued, it was very hard to believe that the announced policy of devaluing at a rate of 1% per month between July 1980 and May 1981 could be long sustained when at the same time the rate of inflation was five times that and the expected public deficit was of the order of 6% or 7% of GDP (implying an annual rate of inflation of the order of 80%).

¹⁷The data in table 2 referred to in the text correspond to the central government deficit. Were provincial governments' deficits to be included—and these are important in Argentina—the deficit would increase by over 50%.

While an important component of the growth was merely recovery, nonetheless the growth in output in this period in all three countries was well above that experienced during phase I. Output per capita grew at a rate above 2% per year in 1979 and 1980 in Argentina, as opposed to -0.9% per year in 1976-1978; in Chile it grew at a rate of 6% per year in 1977-1981 as opposed to a fall of over 4% per year between 1974 and 1976; and in Uruguay it grew at over 5% per year in 1979 and 1980 versus a 3.6% annual growth in 1975-1978. In other words, the phase II stabilization policy did not

bring on any recession, at least in its first years.

Inflation, however, fell much slower than the rate of devaluation, creating a problem which would become increasingly serious in the course of time. Because of this 'exchange lag', at the end of phase II—just before the non-scheduled maxi-devaluations—the prices of domestic products had risen well above those of their international counterparts, exceeding them by 50% in Argentina (between 1978 and 1980) and almost 30% both in Chile (between 1976 and 1981) and Uruguay (between 1978 and 1981) (see table 4).

Table 4
SOUTHERN CONE: INDICES OF EFFECTIVE REAL EXCHANGE RATE^a
(1980=100)

	Deflated by the wholesale price index			Deflated by the index of wages and salaries		
	Argentina	Chile	Uruguay	Argentina	Chile	Uruguay
1970	144.6	133.2	110.5	166.6	80.5	62.9
1971	137.2	122.4	101.7	157.6	54.9	53.4
1972	155.2	128.4	125.7	210.8	54.0	117.1
1973	148.5	142.8	107.5	177.4	99.5	81.5
1974	126.9	124.5	103.6	130.0	164.0	80.4
1975	194.1	133.4	119.3	217.6	224.6	95.9
1976	127.9	116.0	127.1	234.6	181.0	108.4
1977	164.9	112.4	126.1	277.6	166.3	116.2
1978	148.8	130.2	122.9	227.7	129.7	120.5
1979	111.7	116.4	103.9	143.0	124.1	120.5
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	125.8	89.8	95.8	144.3	76.1	82.4
1982	163.2	105.1	110.8	281.7	85.5	90.8

Source: ECLAC (1982).

^a The lower the index, the cheaper are imports in domestic currency, and the more expensive are exports.

Indeed, the loss of competitiveness by domestic products that could be replaced by imports was even greater than the above would suggest, for during this period tariffs were lowered, especially in Chile, and this meant that foreign goods became even cheaper than before in terms of local currency. Moreover, real wages—perhaps an even better indicator of the evolution of domestic costs—tended to recover during phase II. Once one adjusts for both of these phenomena the increased relative cost of domestic goods with respect to international goods dur-

ing phase II exceeded 50% in Uruguay and 100% in Argentina and Chile (see table 4).¹⁸

¹⁸If the lag in the exchange rate had been compensated by an equivalent improvement in the terms of trade, no problem would have emerged, for the higher cost of domestic production would have been compensated by the increase in the international price of exports, thus maintaining their competitiveness. While there was a certain improvement in the terms of trade of Argentina in this period, it was not sufficient to compensate the strong increase in costs. In Chile for its part, the terms of trade worsened, so that the problem was accentuated rather than relieved. Finally, in Uruguay the terms of trade remained virtually constant.

That the exchange rate lagged is a fact. Let us look at some hypotheses as to why this happened and why the rate of domestic inflation did not fall rapidly to the rate at which the exchange rate was being devalued, plus international inflation, but instead exceeded it by a considerable margin.

i) The law of one price pertains directly and exclusively to tradeables, and these make up only half of the GDP. It is quite likely that many activities related to commerce, to the distribution of imports, to the financial system or to construction experienced excessive demand during this period, thus raising the prices of certain non-tradeables. To the extent to which the producers of tradeables tried to maintain their historical relation to non-tradeables, this fact might have generated upward pressures on the prices of some tradeables.

ii) Insofar as tradeables are concerned, there seems to have existed an excessive margin of tariff protection, so that reductions in tariffs did not, of themselves, bring about a proportional direct downward pressure on domestic prices.

iii) Similarly, high transport costs (especially for products of little value and high volume) and/or high financial costs (especially for imports with low turnover) meant that domestic prices need not converge directly to international prices but rather equalled international prices plus the cost of transport, financial costs and tariffs. The price of the domestic good could, therefore, vary widely within a band or range of prices, the lower limit of which was given by the price at which the good would be imported from abroad, the upper by the price at which it would be exported.¹⁹

iv) It was reasonable to expect, at the initial

stages of trade liberalization, that small-scale importers would set their price not at that equal to international prices plus tariffs, but rather at the level of domestic prices, or a bit less. In this way, price convergence took place, but *upwards* to domestic prices rather than downwards to international prices.

v) In a later stage, it seems reasonable to assume that many importers introduced differentiated products which heretofore had not existed in the domestic market (for example, whisky) and which, although they took away part of the domestic market from local products (for example, the local alcoholic beverage), did not affect the latter's price in any significant fashion. In short, inasmuch as the domestic product was only an imperfect substitute of the imported good, it would be very difficult to avoid the loss of part of its market simply by lowering price, for the imported good attracted consumers because of its quality, variety or indeed its novelty, but not solely because of its price.²⁰

vi) At the same time, many goods were imported by the very producers of the domestic goods with which they competed. To the extent to which these producers controlled the domestic market, they controlled the price both of the domestic and of the imported product, so that domestic prices would continue to remain above international prices, plus transport costs, plus tariffs, so long as there was insufficient competition in importing and distribution. Such competition was fully achieved solely in relatively standardized products with high turnover, such as television sets, radios and cassette players.

It must be acknowledged that all these reasons explain why domestic prices can remain above international prices plus tariffs and transport costs for some time, although none of these arguments denies the fact that, given enough time, the convergence of domestic prices with international prices would eventually have to take place. The point is that such an adjustment could be quite slow and costly.

In the Southern Cone countries, this delay made it increasingly likely that the government

¹⁹For example, and simply referring to transport costs and tariffs, a product which sold for US\$ 100 in New York would cost US\$ 110 in the Southern Cone, once transport costs were added. After adding the tariff, say 18%, its domestic price could not be less than the equivalent of US\$ 130. On the other hand, if it were desired to export the comparable domestic good, its selling price in New York would have to be no more than US\$ 100, which would mean that its price in the Southern Cone, before transport would have to be no more than US\$ 90. Indeed, it would have to cost even less were the US to place a tariff on the good. Hence, there would exist a wide band of prices between US\$ 90 and US\$ 130 within which the domestic good could fluctuate, without its being exported nor facing the competition of comparable imported goods.

²⁰Moreover, it is important to note that, thanks to the strong inflow of capital and the consequently high level of aggregate demand, domestic output tended to rise notwithstanding its loss of market share.

would find itself forced to abandon its exchange policy. The pressure became irresistible when it was seen that the Government could only continue with its exchange policy if it were able to keep up without interruption a massive inflow of foreign capital, which was doubtful. Thus, the economic agents sought rapid gains (through

high prices) rather than slower profits and bigger investments (bigger sales at lower prices), hence making the anti-inflationary success of the exchange policy very short-lived.

Obviously, the loss of competitiveness resulting from the exchange rate lag had negative consequences for the balance of payments, inasmuch

Table 5
SOUTHERN CONE: INDICATORS OF EXTERNAL ACCOUNTS

	1950-70		ARGENTINA								
	1971-75		1976	1977	1978	1979	1980	1981	1982	1983	
1. Current account deficit/exports of goods and services		-9	-14	-17	-25	6	48	43	28	21	
2. Terms of trade	109	119	93	89	90	98	110	100	89	86	
3. Foreign debt/exports of goods and services		1.9	1.8	1.5	1.7	2.1	2.8	3.3	4.3	4.5	
4. Tradeables/GDP		44	43	43	42	42	40	38	40		
5. Annual growth of exports											
a) value	2.1	10.7	32	43	14	23	8	10	-17	3	
b) volume	2.6	-3.2	32	41	6	-3	-10	15	-6	11	

	1950-70		CHILE									
	1971-73	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	
1. Current account deficit/exports of goods and services	29	13	27	-5	22	38	26	34	88	49	23	
2. Terms of trade	67	81	88	55	59	54	49	55	52	45	41	
3. Foreign debt/exports of goods and services	2.7	1.9	2.6	1.9	2.0	2.3	1.8	1.9	2.8	3.4	3.8	
4. Tradeables/GDP	45	47	45	46	45	43	43	42	41	40		
5. Annual growth of exports												
a) value	7.7	5.4	59	-21	31	8	13	58	29	-8	-9	4
b) volume	3.0	1.8	18	9	19	7	8	24	15	1	9	—

	1950-70		URUGUAY								
	1971-74		1975	1976	1977	1978	1979	1980	1981	1982	1983
1. Current account deficit/exports of goods and services	10		36	12	21	15	30	47	28	15	7
2. Terms of trade	104	115	80	79	85	89	97	95	89	88	88
3. Foreign debt/exports of goods and services	2.1		1.9	1.6	1.6	1.4	1.4	1.4	1.8	2.8	3.3
4. Tradeables/GDP	44		43	43	43	42	42	40	39	32	...
5. Annual growth of exports											
a) value	-0.4	15	-23	32	43	14	23	8	10	-17	3
b) volume	0	-0.3	-11	32	41	6	-3	-10	15	-6	11

Source: ECLAC, on the basis of official sources.

as exports were discouraged and imports encouraged. Nevertheless, its pernicious effects were not noted immediately (table 5). For some time, the deficit on current account due to the exchange lag could be financed through the heavy affluence of external credit. However, capital inflows of the order of 5% and 10% of

GDP per year were clearly not sustainable in the long run. As confidence in the maintenance of the exchange policy weakened, it was necessary to offer extraordinarily high domestic interest rates (of the order of 3% to 4% real per month) in order to attract foreign capital or to impede capital flight.

IV

Phase III - Adjustment (forced) to the external disequilibrium

1. *Its "logic"*

A price stabilization policy is never absolutely necessary, for inflation can be lived with if one so chooses. In the case of external disequilibria, however, adjustments need be made whether a country wants to or not. In the particular instance of the Southern Cone countries, it would be fair to say that there was no deliberately chosen policy to adjust to external disequilibrium (except for the first few months of this phase), but rather adjustment was forced on them by events.

The lag in the exchange rate, which increasingly left domestic prices above international ones, plus the extraordinarily high domestic interest rates, were steadily sapping domestic demand. To this was added an imminent large-scale domestic financial crisis. It was not possible for firms to keep on indefinitely paying real interest rates of the order of 20% per year, as they had been doing in preceding years while the economy grew at only modest rates, without risking insolvency and jeopardizing the financial system in its entirety. Because of firms' natural desire to postpone such a crisis, the demand for credit became increasingly inelastic, and this, together with the waning of confidence in the exchange rate policy, raised real annual interest rates to 26% in Argentina, 40% in Uruguay, and 58% in Chile the year before the maxi-devaluations were effected.

Thus it was finally recognized that a real depreciation was indispensable to correct the external disequilibrium. Discussion centered on the most suitable means: either raise the price of

imported goods (expressed in domestic currency) to that of domestic goods via a devaluation, or lower the price of domestic goods to that of international ones via deflation, with the exchange policy remaining unchanged.

These two ways of achieving a real devaluation are perfectly equivalent in theory, yet in practice they entail different risks. A devaluation, even though intended simply to correct a distortion in relative prices, could set off inflationary expectations, resulting in an upward spiral in inflation rather than a once-and-for-all shift in prices. Deflation, on the other hand, entails a very high risk of bringing about a severe recession and not just simply lowering prices and/or inflation, all the more so when the exchange lag to be corrected is, as it was then, of the order of 30% to 50%. Given the size of this disequilibrium it was difficult to imagine that the entire fall in nominal aggregate demand could be absorbed immediately and completely by a sharp deceleration in domestic prices (which was required and desired). Rather it was to be expected that there would be at least some fall in the level of activity (which was of course not desired).

2. *The measures applied*

Nevertheless, policy makers in all three countries preferred to maintain their exchange policy rather than devalue, for they feared an explosive resurgence of inflation. And, after all, lower inflation was one of their principal achievements. Hence, they placed their hopes on what was called "automatic adjustment": that is to say, that the deceleration in monetary growth would

rapidly lower inflation to a rate less than that of devaluation plus international inflation.²¹ It should be noted that this option entailed no action: all they needed to do was to maintain the exchange policy. If the balance of payments went into deficit, monetary growth would automatically slow. The impact of these measures was another matter: it was not certain whether they would affect only prices or have repercussions on the level of activity also.

There was confidence, however, that the bulk, if not all, of the impact of a slowing-down in nominal aggregate demand would affect inflation rather than production, thus bringing about a depreciation in real terms.

3. *The results*

The deceleration in nominal aggregate demand indeed lowered the rate of inflation in all three countries, but the real devaluation achieved by this means was not substantial (a few percentage points per semester): much too slow to correct significantly the large exchange lag accumulated in the past. In short, the bulk of the contraction in nominal aggregate demand fell not on prices, as desired, but on output. To be sure, imports were thus "automatically" curtailed, but at the cost of a severe recession in all three countries.

The severity of the recession increased the pressures of domestic producers on governments to abandon their exchange policy and replace it with a massive devaluation to correct relative prices quickly. This pressure became irresistible once it became clear that the only way the government could maintain its exchange

policy without an even more severe recession was to ensure that foreign capital continued to flow in massive proportions. Instead, however, the inflow began to go down. The decline in internal output, the deceleration in exports and the increasing signs of a domestic financial crisis eroded what confidence there was left amongst foreign creditors as to the capacity of these countries to service their foreign debt, and the inflow of capital was sharply curtailed: it fell 60% in Argentina in 1981, 75% in Chile in 1982, and over 100% in Uruguay in 1982 (see table 6, line 1).

It is difficult to exaggerate the adverse impact which this contraction in capital flows implied. Once interest and other factor payments were deducted, instead of being net importers of resources, the three Southern Cone countries became net *exporters*, in the year when they were finally forced to make maxi-devaluations (see table 6, line 3). The net transfer of resources was *negative* and of the order of 20% of exports in all three countries (see table 6, line 4), after having been strongly positive in previous years.

Put differently, the change of sign of the net resource transfer in the year of the maxi-devaluations was equivalent to a deterioration in the terms of trade of 25% in Argentina, 50% in Uruguay, and 80% in Chile. In the case of Chile, for example, this meant that instead of being able to import 80% *more* than the amount of its export earnings, as had happened in 1981 because of the positive effect of the net transfer of resources, the *negative* net transfer of resources in 1982 allowed Chile to import only 75% of the value of its export earnings (see figure II).

Given the lag in the exchange rate, the unprecedented reduction in capital inflows, and the severe internal recession and accompanying domestic financial crisis, there was no alternative but to proceed to a massive devaluation. Not only was there no longer any confidence in the sustainability of the exchange policy, but once capital flows were curtailed, the domestic resources (foreign exchange reserves) which had made it possible to sustain the policy of deflation and automatic adjustment were rapidly run down.

The maxi-devaluations were followed by sharp increases in the rate of inflation in all three countries. As the intensify of such inflation was considerably less than the devaluation, however,

²¹There was also asymmetry, both in theory as well as in practice, between these two options during the transition. The option of automatic adjustment or deflation, was limited by the fact that nominal interest rates cannot be negative, inasmuch as the mere holding of money pays a zero nominal rate of interest. This built-in inflexibility in the nominal rate of interest implies that deflation will automatically increase real rates of interest, for nominal rates of interest will necessarily be positive. So if domestic prices actually *fall*, because of deflation, the higher real interest rates and financial costs will be. Hence, deflation creates its own brake in the form of real interest rates, which will tend to force the bulk of the monetary contraction on output rather than on prices. Moreover, this problem would be all the more serious, the greater was the lag in the exchange rate that needed correction, and consequently the greater the absolute fall in prices required.

Table 6
SOUTHERN CONE: EVOLUTION OF NET AVAILABLE FINANCIAL RESOURCES AND THEIR RELATIVE
IMPACT ON THE ECONOMY, 1980-1983
(Millions of dollars and percentages)

	Argentina				Chile				Uruguay			
	1980	1981	1982	1983	1980	1981	1982	1983	1980	1981	1982	1983
1. Net capital flows	2 176	1 519	1 807	1 900	3 345	5 008	1 096	440	811	494	-182	40
2. Interest and other factor payments	1 607	3 701	4 755	4 800	1 028	1 464	1 921	1 620	100	74	197	320
3. Net transfers of financial resources (1)-(2)	569	-2 182	-2 948	-2 900	2 317	3 544	-825	-1 110	711	420	-379	-280
4. Net transfers of financial resources as a percentage of the value of exports of goods and services	6%	-20%	-33%	-31%	39%	64%	-16%	-25%	47%	25%	-25%	-22%
5. Variation in the terms of trade as a percentage of the value of exports of goods and services	12%	-9%	-11%	-3%	-5%	-14%	-11%	9%	-2%	-6%	-1%	0%
6. Additional capacity to import because of improvement in items (4) and (5)	18%	-29%	-44%	-34%	34%	50%	-27%	-16%	45%	19%	-26%	-22%
7. Rate of growth of quantum of imports	40%	-12%	-44%	-17%	13%	20	-36%	-18%	16%	-11%	-19%	-39%
8. Rate of growth of GDP	1.1%	-5.9%	-5.7%	2.0%	7.8%	5.7%	-14.1%	-0.5%	5.8%	-0.1%	-8.7%	-5.5%

Source: ECLAC, on the basis of official sources.

the real exchange rate experienced a sharp improvement and much of the competitiveness lost during phase II was recovered (see table 4).²²

Thanks above all to the recession, the quantum of imports fell so sharply that by 1983 the current account deficit in all three countries had

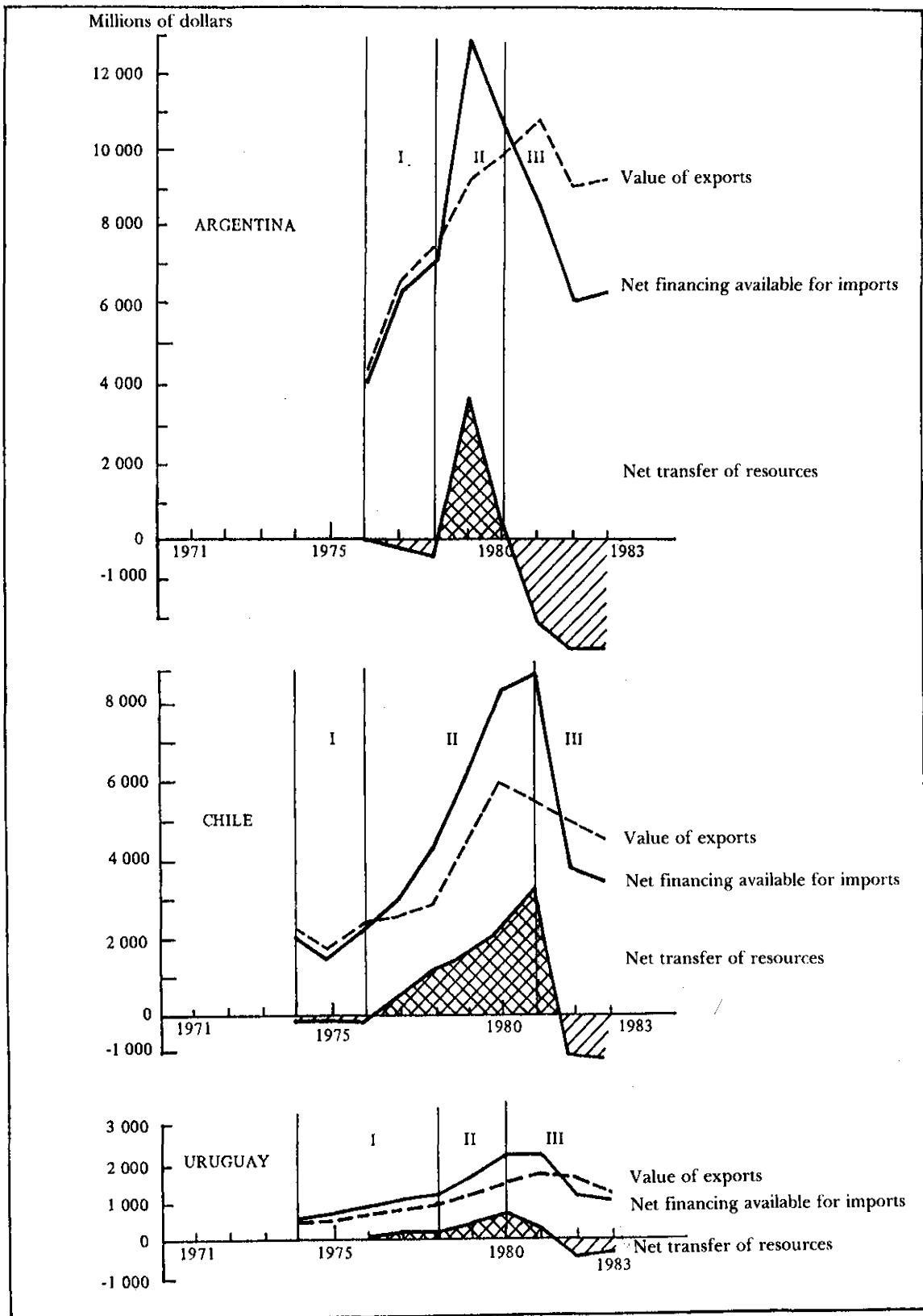
been sharply reduced (from almost 90% of the value of exports in Chile in 1981 to less than 25% in 1983; from almost 50% in 1980 in Uruguay to 7% in 1983; and in Argentina from over 40% in 1980 and 1981 to just over 20% in 1983). Moreover, all three countries moved from severe

²²If we insist on this point it is simply because many, while recognizing that there was an important lag in the exchange rate which needed correction, argued that a devaluation would be ineffective, since it would rapidly be wiped out by a similar rise in the rate of inflation. This need only be so, however, if the starting point were an equilibrium situation, for then any attempt to improve the trade balance via a devaluation would soon be limited by a fully utilized productive capacity, thus leading to a price rise which would rapidly eliminate whatever transitory balance of trade improvement had taken place. Nor would deflation improve the trade balance, for lower prices would raise demand; since an equilibrium starting point and full employment is posited, prices would begin to rise, wiping out the deflation and the

transitory gains in international competitiveness and in the balance of trade.

A devaluation of the exchange rate or relative deflation can, however, be effective if the starting point is one of *disequilibrium*, in which domestic prices are above international ones, for the resolution of this disequilibrium requires a real depreciation, either by raising the prices of international goods to those of comparable national ones (devaluation) or lowering the prices of domestic goods to international levels (deflation). The whole debate was really rather byzantine, however, for it was premised on a continuing equilibrium, whereas a lag in the exchange rate implied precisely the contrary.

Figure II
EXPORTS, NET TRANSFERS OF RESOURCES AND CAPACITY TO IMPORT



deficits in their balance of trade in 1980 and in 1981 to trade surpluses in 1982. Once again, most of these improvements were due to the extraordinarily sharp reduction in the quantum of imports which the recession entailed. In the two years 1982 and 1983, this reduction was 45% in Chile, 55% in Argentina and 63% in Uruguay. A recession is of course an extraordinarily rapid method of lowering imports but it does so at the cost of a severe contraction in output. Consequently, in the two or three years which this third phase of the adjustment lasted in the Southern Cone countries, output fell some 10% in each of the three countries (as opposed to 4% in the rest of the region) and unemployment sharply increased.

Finally, notwithstanding the fact that the inflow of foreign capital was sharply curtailed in these years, the level of foreign debt was extraordinarily high at the end of 1983. The ratio of such debt to the value of exports of goods and services varied from a low of 3.3 in Uruguay to a high of 4.5 in Argentina, compared with an average of 2.7 for the rest of the region. To be sure, the Southern Cone countries had already been among the most highly indebted countries of Latin America when the neo-conservative experiment began. What is truly remarkable is that they should not have slowed down their rate of indebtedness in the subsequent eight to ten years of strong export growth and firm allegiance to

the principle of strict financial discipline. That they should still stand out amongst the most indebted countries of the region in 1983 certainly does not speak well of the economic liberalization policies which they pursued, and, in particular, their policy of financial liberalization.

This latter seems to have heightened rather than reduced their dependence on foreign savings and consequently made them all the more vulnerable to swings in the international economy, for now they had to be prepared to offset unexpected movements in capital accounts as well as in their terms of trade. If their financial liberalization had only been furthered as the level of relative indebtedness approached more modest proportions this might have given them a greater degree of freedom with which to cope with the external disequilibria they faced in later years. Instead, rapid financial liberalization, in the face of an already very high level of debt added a further critical element serving to accentuate rather than attenuate unexpected movements in their external accounts. Consequently, rather than giving them more freedom, financial liberalization gave them even less. The adjustment (maxi-devaluation plus severe recession) was thus largely forced upon them rather than being a policy which they deliberately chose. Hence, the overindebtedness of phase II eventually led to the reversals in capital flows and the overadjustment of phase III.

V

Conclusions

A clear distinction must be drawn between two types of stabilization policies: those which are intended principally to overcome internal disequilibria (inflation and/or recession), and those designed to overcome external disequilibria (associated with deficits in the balance of payments). The most important distinction between the two is that the former need not be faced immediately (inflation can be lived with indefinitely), whereas measures to deal with external disequilibria cannot be put off. The ba-

lance of payments is a binding restriction, similar to a budget restraint.

Moreover, precisely because inflation can be lived with, depending on the country's tolerance, there is no reason (at least in theory) why an anti-inflationary stabilization policy need reduce output. To be sure, recession is all too often the (unwanted) result of a price stabilization policy, but this is not inevitable. In contrast, adjustment policies to deal with an external disequilibrium have an unavoidable cost for the country, since

they require that the quantum of goods and services available to the country for its domestic use decline in order to permit it to meet its foreign commitments. What is avoidable, however (though unfortunately it often accompanies adjustment processes), is that output should also decline, since a drop in output is by no means a necessary nor desirable condition for reducing the goods available to the economy. On the contrary, the optimum adjustment policy would maintain or increase output but would reorient it from domestic to foreign use: exports would increase and imports would decline, the latter being substituted, as needed, by domestic production. Furthermore, the output of tradeables would go down as that of non-tradeables rose. Thus, while adjustment inevitably implies a worsening, or at least a slowing down in the rate of growth, of the standard of living, it does not require a decline in the rate of growth of output. Hence, the challenge which faced the Southern Cone countries in the neo-conservative period was to avoid the unnecessary recession which often accompanies anti-inflationary programmes or balance-of-payments adjustment processes.

It is both theoretically and empirically beyond question that a decline in the rate of inflation should be accompanied by a deceleration in monetary growth and a reduction in the fiscal deficit. But a stabilization policy will be successful only to the extent to which the remaining principal variables —prices, wages, exchange rates, interest rates— decelerate at the same pace. Theoretically, the mere announcement of the deceleration in the inflation rate should be enough to ensure that the remaining variables adjust immediately and become compatible with each other and with the programmed monetary and fiscal policy. In practice, however, inflationary expectations do not adjust instantaneously. For one thing, the public normally is rather skeptical. It wants to see results first before believing that inflation is going to fall as fast as the government projects. Because of this inertia in the adjustment of expectations, however, the level of prices normally remains above that implicit in the economic policy, thus leading to recession. Moreover, it is often necessary not only to lower inflation but also to correct some relative prices, as was the case, in the three

experiences we have examined, of the exchange rate, the prices of some public services, and/or the prices of agricultural products in relation to industrial goods. Unfortunately, the increase in these heretofore repressed prices is often (wrongly) considered by many private agents to be an indicator of probable inflation, and not simply the expression of a needed corrective adjustment in relative prices. This being so, inflationary expectations exceed the inflationary goal implicit in monetary and fiscal policy, thereby forcing that policy to be eventually too restrictive and generating a recession.

Hence, while it is certainly true that in order to bring down inflation it is imperative to control monetary expansion and reduce the fiscal deficit, no stabilization policy worth the name can be based on these instruments alone if it wishes to avoid the costs of recession. Such a policy must necessarily also try to harmonize, or guide, or control, but certainly not repress, the movement of the other principal economic variables (prices, wages, exchange rate, interest rate, etc.), in such a way that it is compatible with the rate of inflation implicit in the monetary and fiscal policy programmed, for if some variables adjust more rapidly than others, a recession with regressive distributive consequences (at the expense of those variables which adjusted their prices downwards more rapidly) will ensue.

The neo-conservative stabilization efforts in the Southern Cone successively followed two criteria, each of which focused on and controlled some of the principal economic variables, but not all. During the first phase, efforts were centered on direct control of the money supply and wages: these measures, together with natural market forces, were expected rapidly to bring internal prices (including interest rates) into line with the programmed inflationary goal. During the second phase, efforts were centered on controlling the movements of the exchange rate and thereby slowing the growth of prices to a similar rate. In both cases there was some success in reducing inflation, but the cost was very high, inasmuch as the free variable, prices, adjusted far more slowly than the controlled variables, thus generating important disequilibria.

In the first phase, the principal disequilibrium emerged in the goods market. Prices shot up far more than wages, giving rise to a

severe Keynesian-type recession in Chile and stagnation in Argentina. Only Uruguay was spared, thanks to its very high level of public investment and to the positive evolution of the external demand for its products.

Although there is no reason why the cost—whatever its form—should be distributed unequally, the fact of the matter is that the “belt tightening” during phase I proved to be very uneven in all three countries. Income was sharply redistributed against wage earners, as can be seen by the very sharp fall in real wages (much sharper than the decline in the growth of national income) and, in the case of Chile, the cost was further accentuated by an unprecedented increase in the unemployment rate to levels two to three times above historic rates. This uneven cost was the result of the policy instruments applied during phase I: that is to say, controlling wages and pursuing a tight monetary policy while allowing the inflationary expectations of producers to adjust much more slowly in the goods market. Consequently, prices rose to inflated levels compared with wages.

In the second phase, the principal disequilibrium emerged in the market for foreign exchange, because domestic inflation declined much more slowly than the rate of devaluation. This lag in the exchange rate was due to the fact that the “law of one price” whereby domestic prices and interest rates should converge with international ones, acted extremely slowly. Contrary to what had been expected, the initial tendency was for international goods and loans to be priced at levels closer to their domestic counterparts, and not at their long-run values (their international prices, plus tariffs). In short, initial convergence was not downwards towards international prices and costs but upwards towards domestic ones.

Consequently, in phase II the lag in the exchange rate finally led to a serious disequilibrium in the balance of payments with recessive effects which were initially concealed by an unusually strong inflow of foreign capital but became obvious once such flows slowed at the end of phase II. The slowness of domestic prices to decelerate and the aggravation of the exchange rate lag thereby rendered ever less believable the continuation of the exchange and stabilization policy, and this contributed to the eventual slowdown

in the inflow of foreign capital and the consequent abandonment of the exchange policy. Massive devaluations were thus made necessary in order to close the huge gap which existed between domestic and foreign prices.

While this second phase lasted, that is to say, up until the maxi-devaluations, the distribution of income did tend to recover (partially), or at least come closer to the original distribution existing at the time these neo-conservative experiences were initiated. Such an improvement took place because employment (Chile and Uruguay) and/or real wages (Argentina and Chile) tended to rise. The recovery in wages was particularly marked in Chile, inasmuch as wages were readjusted in accordance with past, not current, inflation, and this latter was rapidly decelerating.

While it is undoubtedly true that capital inflows can mitigate balance of payments difficulties and thus reduce unexpected exchange rate variations, it is likewise true that the sudden reduction in such inflows can itself create or accentuate an external disequilibrium, forcing even more sizeable adjustments in the balance of trade. This is so because capital movements are sensitive not only to interest rate differentials and exchange lags but also, and more importantly, they are sensitive to uncertainty concerning the country's capacity to service its foreign debt. When such uncertainty arises, the magnitude of the adjustment that must take place is all the greater, and the time it must be completed in is all the shorter. These dangers manifested themselves clearly in the three Southern Cone countries, since capital inflows proved to be highly procyclical. During most of the period of programmed and pre-announced devaluations, capital inflows were sufficiently strong to minimize or compensate the negative effects on output of a lag in the exchange rate, and so maintain strong aggregate demand. Inversely, however, once doubts were created as to a country's capacity to service its debt, capital inflows diminished sharply, thus forcing exceptionally rapid and strong (over) adjustment to the external disequilibrium. Consequently, not only was there over-indebtedness (excessive capital inflows) in phase II, as can be seen from the extraordinarily high level which the ratio of debt to exports reached in all three countries, but there was overadjustment in phase III, for in this last

phase, all three countries were forced to adjust their economies not only to an external disequilibrium on their trade balance, due to the lag in the exchange rate, but had also to adjust to the procyclical reduction in capital inflows, which both increased the magnitude of the needed adjustment and shortened the time frame in which it had to be effected.

Hence, whereas in the last year of phase II the big capital inflows more than offset the movements in the terms of trade and increased these countries' capacity to import by some 20% to 40% of the value of their exports, once capital inflows receded and adjustment was forced upon them they were forced to make a net transfer of resources equivalent to 25% of the value of their exports. As a result, over a twelve-month period each of them was forced to reduce imports or increase exports by the equivalent of some 50% of the value of their exports. Moreover, since this had to be done in the course of a major international recession, the brunt of the adjustment had to be borne through a reduction in imports and not an expansion of exports. Consequently, given such a sharp reversal in their capacity to import, it is not surprising that in the two years following their maxi-devaluations (1981/1982-1983) these economies' output fell by the order of 15%.

Obviously it would be desirable, in the face of external disequilibria, to have permanent access to the external capital market to soften and prolong the adjustment process and enable it to be based on expansion of the production of tradeables rather than on a reduction of output. In the case of the three Southern Cone countries, however, they were so heavily in debt when the final crisis broke out that capital flows dried up precisely when they needed them most: on the contrary, they became yet another variable to which they were forced to adjust. A devaluation taken earlier or possibly of even greater magnitude than that finally made might have succeeded in reducing imports at a lower cost in output. In view of the magnitude of the external imbalance and the short time available for correcting it, however, the devaluation was in any case less effective than it would have been if more time had been available.

Thus, unlike a price stabilization programme where a "shock" policy may be effective,

especially for dealing with hyperinflation, there can generally be no efficient "shock" adjustment to external disequilibrium, since efficient adjustment implies changes in *real*, not simply in monetary, variables. Thus gradual measures are vital. Efficient adjustment implies not just reducing the output of non-tradeables, which can be achieved quite quickly, but also increasing the output of tradeables, which is slower; it is not just a question of reducing the volume of imports, which is usually fast, but increasing exports and the output of import substitutes, and this is necessarily slower.

Given the magnitude of the external disequilibrium the Southern Cone countries faced and the brief time frame in which they had to close it, their adjustment was inevitably not efficient. Its results were based almost exclusively on expenditure reduction (controlling demand, which can be effected with the requisite speed) rather than on expenditure switching (which involves supply and production shifts, which are necessarily much slower), and this, of course, is the worst of all possible adjustments. In fact, the cost to the three countries of improving their trade balance by a total of US\$ 16 billion in the first two years of application of their adjustment policies²³ was the sacrifice of nearly US\$ 37 billion in lost production.²⁴ In other words, the adjustment which took place was based much more on the reduction of expenditure than on its reallocation ("switching" policies), and it meant paying US\$ 2.30 in lost production for every dollar of foreign exchange saved.

Therefore, the basic principle of an efficient policy for achieving adjustment to external disequilibria with little or no decline in production is to weigh the cost of saving or generating foreign

²³ Argentina 1980-1982; Chile and Uruguay 1981-1983.

²⁴ The improvement in the trade balance is measured for each of the two years of the adjustment process, as compared with the base year (i.e., US\$ 5 700 million for the three countries in the first year of adjustment and US\$ 9 900 million in the second, giving a total of almost US\$ 16 billion in the two years). For its part, the cost consists of the growth of the product which did not take place (of the order of 3 1/2% per year), plus the fall registered (US\$ 14 billion less product in the first year and another US\$ 23 billion less in the second, giving a total sacrifice of the product of US\$ 37 billion for the two years).

exchange through expenditure "switching" policies with that of securing the same effect through the reduction of expenditure. This basic principle gives rise to at least three economic policy guidelines:

1. Precisely because policies of restricting demand can be expected to take effect more rapidly than those which reallocate expenditure, there is every justification for temporarily employing policies of marked "over-reallocation", both in order to discourage non-essential or replaceable imports and to promote exports. For the case of these three countries, this would mean that any combination of tariff surcharges or special export subsidies which saved or generated one dollar of foreign exchange at a cost of less than US\$ 2.30 of lost production (at the prevailing exchange rate) would have been preferable to the policy of over-reduction of expenditure actually followed. The incentives for "over-reallocation" would only be transitory, for although the reallocation of production operates but slowly, it does take place in the end: once its effects begin to be felt with all their force, further special incentives would be unnecessary and their maintenance for an indefinite period would be inefficient. Furthermore, since these incentives are transitory they should not be generalized (that is to say, a still greater exchange rate devaluation would not be advisable); instead, the special export incentives and tariff surcharges should be selective, as a direct function of the short-term price elasticity of the exported or imported product.

2. A more efficient adjustment policy would call for the equalling of the incentives (or costs) for saving foreign exchange through import substitution and for generating it through export

promotion. In view of the prevailing structure of incentives, especially in Argentina and Uruguay—high tariffs, plus few special export incentives—it would presumably be easier to earn additional foreign exchange by promoting exports than by increasing import substitution.

3. The last element in this sketch of an expansive and not recessive adjustment policy would be the inadvisability of reducing the production of non-tradeable goods until the output of tradeables has expanded to a similar degree. The traditional (recessive adjustment) policy, in contrast, generally assumes that the reduction of the former practically ensures the expansion of the latter (i.e., it assumes full use of installed capacity). The fact is that production of non-tradeables usually falls all too easily and rapidly, whereas the expansion of tradeables production is neither quick nor certain. In the first two years of the adjustment process in the three countries, for example, production of non-tradeables plummeted—construction activity fell by 30%—without the resources thus freed being used to increase the output of tradeable goods. Indeed, the production of tradeables also fell (by over 10%). Hence, in contrast with traditional programmes, it does not seem advisable to restrict construction or the production of other non-tradeable goods until these resources are actually required for the output of tradeables. To do it earlier would be to save foreign exchange at an unjustifiably exaggerated cost (of the order of the reciprocal of the marginal propensity to import, or, roughly speaking, at a cost which is approximately four times greater, in terms of lost production and at the prevailing exchange rate, than the total amount of foreign exchanged saved).

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Rural Development and Urban Food Programming

*Manuel Figueroa L.**

Rapid urban growth, the persistence of the agrarian question, the obstinacy of marketing problems and the relative lack of State intervention in the market are some of the causes of the present complex situation of the urban food supply, which the author outlines in the initial pages of this article.

In the second part, which is the core of the article, he presents those factors that should be considered in designing an urban food supply strategy, which include marketing, the placement of human settlements, energy, collective consumption patterns, food education, hygiene, soil use, nutrition, and economic policy measures, for times of crisis and for the medium and long term.

In the third part the author discusses the problems of the articulation of the institutional and administrative apparatus associated with such a strategy. He has designed two models for this purpose. One is based on the strengthening of intersectoral planning mechanisms, while the other, towards which the author inclines, relies on co-operatives or State enterprises as the foundation for the integrated management of the basic components of the strategy.

In his final considerations the author restates his conviction that the urban food supply can only be effectively organized if the producers and consumers affected by its shortcomings band together and pressure for far-reaching changes in these structures.

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I

Introduction

1. *The growth of the cities*

In 1975, 85% of the world's rural population lived in the underdeveloped countries; by the year 2000, 90% of the world's rural population will be concentrated in the underdeveloped countries. In that year, there will be 25 cities with over 10 million inhabitants, seven (28%) of which will be in Latin America. The largest city in the world will be Mexico City, with 31 million inhabitants, followed by São Paulo with 26 million.

Whereas in 1975 eight of the 15 largest cities in the world were in developed countries, by the year 2000 there will be only three (Tokyo, New York and Los Angeles).

In 1975 the urban population of Latin America represented 61.2% of the total; in the year 2000, it will amount to 75%, with 466 million inhabitants. A total of 165 million inhabitants (i.e., 35% of the entire urban population of the region) will be concentrated in only 17 cities with over four million inhabitants each.

2. *The agrarian issue and supply*

Against this background, certain basic characteristics of the predominant agricultural policy of Latin America during this century account for the present problems relating to urban food supply. During this period, various historical circumstances substantiated the conviction that the introduction of major changes in the land tenure system was a basic requisite for its integral development.¹

Owing to institutional and political circumstances, however, little progress could be made. Agrarian reforms were not put into practice, but this did not stop agriculture from operating; without any restructuring of the farming system, it was nonetheless able to meet the demand of the international market and to supply the urban domestic markets.

¹Since the time of the conquest, Latin American culture has been marked by a struggle for land, which in more recent times has been manifested in the agrarian reform movements of Mexico, Bolivia, Cuba, Peru and Chile, the activities of international enterprises in Central America, and the agrarian issue in Colombia.

Thus, for example, between 1961-1965 and 1980 grain production rose from 55.3 million tons to 87.4 million. Within this total, wheat output increased from 11.8 million tons to 14.6 million; the output of unmilled rice climbed from 9 million tons to 16.5 million, while that of secondary grains rose from 32.3 million tons to 56.3 million.

Sugar cane production increased from 205 to 362.2 million tons; banana output expanded from 14.7 to 19 million tons; and the soya harvest rose from 1.5 million hectares and 2.0 million tons in 1969-1971 to 11.4 million hectares and 20 million tons in 1980. The production of beef and mutton, pork and poultry increased from 8 million tons in 1961-1965 to 11.3 million in 1979; egg production went up from 0.9 to 2.0 million tons and that of milk from 20 to 32.7 million tons.

Nonetheless, the worldwide picture with respect to food production in recent years is not very bright. Information issued by FAO (1981) indicates that the index of variation was 2.5% annually for the world as a whole in the period 1971-1980, and Latin America had the highest growth rate of the various world regions (3.9%), followed by the Asian countries with centrally planned economies (3.4%), the Near East (3.3%), the Far East (3.2%) and Oceania (2.8%). With respect to per capita food production, Latin America came second among developing countries and first among developing regions having market economies, with 1.2% annually, followed by the Far East with 0.7%. The annual growth rate for developed countries was 1.9%, inasmuch as their population increased by only 0.8%.

In Latin America, the bulk of production came basically from the entrepreneurial sector, although peasant agriculture also provided a substantial part of the domestic food supply. Nevertheless, the social crisis in the agricultural sector (which was the primary target of the farm-restructuring policies) could not be resolved within a rural setting. Instead, the nature of the problem changed and shifted to the marginal zones of large urban centres; with very few exceptions, this has been the modern manifestation, thus far in this century, of the long-standing and unresolved rural social problem.

In the early decades of this century, migration was the variable of adjustment; the equation formed by the ecological base, the land tenure

systems and employment could be solved through rural exodus. When this means of adjustment became impossible, the recourse to violence between landowners and peasants through the seizure of land gave rise to social conflicts which are prevalent even today in several countries of the region. In vast areas of Central America, Colombia and Brazil there are still severe social tensions over the question of land ownership.

As time went on, the rural social crisis subsided to some extent, not through the application of agrarian reform programmes, but rather through exodus and rural-urban migration. These variables of adjustment, however, can no longer function in the urban environment. The only means of social adjustment to which the surplus population and manpower in urban areas can resort are various processes of income expropriation whereby the surpluses of the middle and upper classes are taken by force and the governments are obliged to adopt emergency solutions which mitigate, but do not solve, the social problems. The various forms which repressive processes assume in the region within this context of social causality constitute endogenous variables in the present forms of societal organization.

This is the social setting for the problems of the urban food supply. In the cities of Latin America, the adjustment process is increasingly taking place in terms of forced expropriation and income redistribution in order to allow the basic levels of consumption to be maintained.

3. Marketing and supply

The studies which have been conducted on food marketing and supply in a number of countries of Latin America point up a large number of problems which affect both consumers and producers. On the basis of studies carried out in Mexico, the Dominican Republic and Ecuador—whose situations are similar to those of other countries of the region—the following problems, among others, can be identified:

a) Under various marketing systems for agricultural products, intermediaries operate with a large profit margin owing to the inefficiency of the marketing process through the long chain linking producers with consumers.

b) The prices of goods allow scant profit for small-scale agricultural producers who lack bargaining power. Consumers also suffer, since the agricultural products which reach them are high-priced and not always of good quality.

c) In the long process of marketing there is a high percentage of loss during the post-harvest stage owing to the use of inadequate producers in the handling, sorting, processing and packaging of products and by-products, as well as makeshift and unsatisfactory conditions of storage and transport for most of the crop-farming and stock-raising products. Increasing food production is futile if it is not coupled with the improved utilization of such products and a reduction of the present heavy losses in foodstuffs when produced. Conservative estimates indicate that in Latin America the average losses of grains and legumes exceed 20% of the harvest, while the figure is over 30% for fruits and vegetables.

d) The lack of accurate and timely information and the great uncertainty as to how much income will be earned at the end of the harvest make decision-taking on production a difficult and hazardous task.

Data concerning the difference between consumer and producer prices for some agricultural goods in the Dominican Republic (SEA, 1977) show a wide variation from one year to another and between the two prices. In 1975 and 1976, these variations were as follows: rice, 128% and 60%, respectively; beans, 101% and 71%; bananas, 175% and 50%; ganduls,² 316% and 105%; yuca, 35% and 102%, and sweet potatoes, 67% and 32%, respectively. In Peru in 1975 the difference for some products was: potatoes, 195%; onions, 213%; tomatoes, 218%; bananas 219%; and apples, 206% (DESCO, 1977). In Brazil, the mark-up for rice in the state of São Paulo in 1975 and 1976 fluctuated between 40% and 36%, while the figures for beans were 60% and 68%, respectively (Coelho and Cavalini, 1981).

In most of the countries, government concern to resolve inflationary problems gradually led to the establishment of price-setting policies. At the same time, however, all the credit and financing policies for agriculture and marketing were based on the idea that people should pro-

vide real collateral in order to obtain credit from public institutions. Small-scale merchants and producers were not eligible for credit; owing to the structural circumstances and conditions of their businesses and farms, neither of these groups was able to gain access to the financing designed to rationalize and expand their businesses. Large-scale intermediaries, merchants and landowners, however, could obtain credit because they were able to provide proof of their creditworthiness. This was the situation which shaped the food supply system in Latin America under the rule of the free market. Economic agents increased their wealth with public credit, thereby consolidating oligopolistic intermediation practices which benefited national and foreign enterprises and businessmen whose structural conditions already lent themselves to the concentration of economic and financial power.

With policies which set maximum prices for agricultural products and credit policies such as those described above, marketing channels atrophied even further, thus bringing about a large-scale redistribution of income among consumers, intermediaries and producers.

In this free-market atmosphere with its lack of controls on prices and bargaining, intermediaries were the sector in the best financial position to impose producer and consumer prices and to establish the largest mark-ups.

4. *The State's planning role*

In the late 1950s and throughout the 1960s, steady progress was made in development planning in Latin America. Attempts were made to orient the evolution of economic and social variables towards the achievement of broad development objectives. The political and institutional conditions were lacking, however, that would have made it possible for planning really to interpret and implement both the aspirations and the power of decision-making and control of a broad social base. The social legitimacy of planning scarcely extended beyond the narrow limits of the weak and incipient ministerial institutions.

Despite the precariousness of its initial conditions, the first steps towards planning were taken in those years and overall development

²The *gandul* is a commonly-eaten legume in tropical and subtropical zones.

plans were prepared in most of the countries. Sectoral plans were also drawn up which in some cases incorporated regional planning components. Planning was predominantly viewed as a normative process for the public sector and indicative for the private sector.

Normative planning has continued to be employed mainly in the public sector and primarily in the programming of investment policies. The public investment programmes contained in development plans have been relatively consistent, and a large number of basic industrial projects, social programmes, and infrastructure for irrigation, transport and marketing in Latin America have been designed and executed under State direction.

Planning as an indicative process for the private sector implied the predominance of mixed economies and the decisive influence of the private sector on economic issues arising within the context of the market.

As regards the urban food supply, this meant that the private sector was dominant in the purchase and sale of foodstuffs. Since the State could only intervene in the market on an indicative basis, intermediary entrepreneurs had complete freedom to conduct their commercial activities as they wished, thus creating imperfections in the markets and in marketing channels.

5. Towards new planning dimensions

An examination of planning experiences in Latin America during the past 20 years reveals that State action made significant economic and social progress possible. A number of countries (generally those at a midway or more advanced stage in their development) carried out social programmes and others concerned with infrastructure, industrialization, education, and science and technology.

Advances in the State's institutional organization were also made and the practice of planning led to a more efficient administration of large areas of public spending. Nevertheless, various political/institutional limitations prevented the execution of policies and programmes designed to bring about structural changes in rural areas, and very few countries were able to make significant changes in the

policies governing land tenure, supply and the provision of support services for the transformation of the rural environment.

During the last few decades global and sectoral planning was generally confined to the sphere of government institutions and served as a formal and rationalizing instrument of State action. Although progress was also made in refining planning instruments at the regional and provincial level, its achievements had no real social significance.

Today, the issue of planning must be seen within a new context. If only 17 cities of over four million inhabitants each in the year 2000 will contain 35% of the urban population (165 million people), then programming in selected cities, if legitimately expressing the potential and needs of large segments of the population, could become a new and powerful tool for rationalizing, orienting and socially controlling the actions of the State. Based on this concept, the programming of rural/urban food supplies could play a vital role in organizing rural and urban communities and in opening up new vistas for their institutionalized participation.

The basis for the social legitimation of planning could be provided by cities and the surrounding rural areas which depend on them; such planning could, in the future, complement the basically centralist planning and development efforts which governments will continue perfecting at the national level.

From the large cities, the planning of the rural/urban food supply could, on a socially legitimate basis, offer programme and policy options and proposals to be decided upon by the national government. The priority task would be to create the conditions needed for national decisions, involving ministerial administration, to be legitimized in the actions taken by the institutions representing the large urban population centres.

In this way, governments would increasingly refine and institutionalize normative planning as a means of rationalizing their actions, but this would involve a new type of planning complemented by specific proposals and controls which would originate in the cities and the families inhabiting them and, from there, would be transmitted first to the municipal government, then to the provincial government and, finally, to

the national institutions, whose specific sphere of activity would be controlled, in social terms, from the large cities.

Amplifying this analysis, one can see that Latin America is currently undergoing an intensive process of political renewal. Democracy is today a social necessity in all the countries, and the more pervasive this process becomes, the greater will be the need for social consultation and participation. This will primarily be manifested in the large urban centres, where the population will have to institutionalize democratic

mechanisms for expressing its aspirations and potential.

At this point, planning will be at the service of the large majorities; the closer they are to the social base, the more legitimate and acceptable will be the results of the planners' work. In this way, processes could take place in the future whereby organized society, in addition to expressing its development proposals through planners, could itself institutionalize community-based mechanisms for the social control of government action.

II

Towards an integrated policy for rural development and urban food supply

In order to move in this direction, new development strategies will have to be designed, their rural and urban components synchronized and co-ordination mechanisms selected for integral rural and urban planning.

1. *Components of a rural development strategy*

Global and specific development strategies will have to be designed for each of the following rural subsectors: settlement and agrarian reform programmes; integral rural development projects; those areas of peasant agriculture not covered by the above categories; capitalist entrepreneurial agriculture; and forestry and fishing, appropriately broken down according to the type of establishment and administrative unit. An analysis of the main agricultural policies in the region reveals that, generally speaking, the governments do not assign a high priority to programmes which affect the peasant sector. The bulk of the available financial resources are channelled to capitalist entrepreneurial agriculture and the other sectors. Furthermore, very few countries follow an integral agricultural policy capable of broadening directives, programmes and projects to include all the subsectors mentioned above.

Despite these facts, it is generally acknow-

ledged that, in the course of their complex processes of execution, the government programmes for agrarian reform and integral rural development brought to light the total inadequacy of the existing institutional and administrative framework for the agricultural sector. In particular, there is clearly a need for effective mechanisms for co-ordinating solutions on an integral basis for the problems of land-ownership, marketing and support services for small-scale farmers (Figueroa, 1977).

Although settlement and integrated rural development programmes have not achieved a significant degree of social and geographical coverage, they are currently the only manifestations of government action politically and socially directed towards the peasantry. It may be assumed that, as a result of the steady improvement of this type of programme and the desirable and necessary expansion of its coverage, the public agricultural sector in most of the countries will eventually interiorize specific methods for meeting the demands and needs of a significant portion of rural peasant society.

In contrast with the continuing refinement of institutional and administrative techniques for promoting and protecting the interests of agricultural export activities (of medium- and large-scale output) the execution of integrated rural

development projects is increasingly revealing the public sector's marked inability to manage, simultaneously and efficiently, the various components needed to improve the infrastructure, production, marketing, agroindustry and social services of a large part of the peasant population.

Latin America has never developed an institutional structure for the agricultural activities of small-scale producers. This structure was designed to serve other interests, primarily in connection with commercial agriculture. In almost all the countries, this type of agriculture has much more highly refined technical/administrative systems at its command: producers form the base of such organizations and control and direct the entire process of production, processing and marketing. Sugar cane, coffee, cocoa and a wide variety of export products are examples of this.

Latin American agricultural policy has left very little room for transforming and modernizing peasant agriculture. As a result, the institutional structure needed to guide this important sector could not develop, and now the execution of integral rural development projects is forcing the governments to create new management systems for the peasantry. This is probably one of the main contributions to Latin American agricultural policy made by these projects.

2. Components of an urban food supply strategy

There is a pressing need to broaden the traditional approaches, which have so far predominated, with respect to the programming of urban food supplies and to recognize the fact that marketing, although a basic element, is only one of the components of the problem. A range of other elements, whose nature and importance is discussed below, must be brought into the picture.

a) Marketing

Orthodox analyses of marketing on a product-by-product basis trace a systematic relationship among all the links—agents and functions—in the chain from production to final consumption. The basic links are: production, the supply

of inputs, distribution of the output,³ transport, bulking, purchasing authorities, co-operatives, classification, quality standards, packaging, storage, supply centres, agroindustrial processing, wholesale distribution, supermarket chains, open-air producer markets, open-air markets for end-consumers, retail distribution, mark-ups and farm insurance. Marketing as a whole has been modernized in recent years through the consolidation of integrated and differentiated structures for commercial agriculture, export agriculture and domestic markets for high-income brackets.

At the present stage in the internationalization of production and agricultural markets, transnational agroindustrial chains have made sweeping changes in the traditional linkages between production and national agroindustries. This has modified the flow of credit in the agricultural sector, concentrating it in those lines of production and producer strata that are intrinsically linked with modern agroindustries having access to international markets and to middle and high-income domestic sectors. In addition, the financial capital which sustains the modern agroindustrial sector also articulates the financing, production and distribution of the inputs needed by producers.

In contrast, the marketing of foodstuffs for mass consumption or for low-income groups continues to be subject to traditional systems. In most countries, the State has encountered tremendous difficulties in breaking down the informal political, economic and financial links which have consolidated the operational machinery for the distribution of these products.

Over the past 20 years, new installations for modern supply centres in large cities have been constructed in a number of Latin American countries.⁴ The centres were conceived as the

³This includes losses after the harvest, reserves for the farmer and for seeds, and the supply available for the market.

⁴In the 1960s and 1970s, Brazil designed and carried out an ambitious programme to modernize the infrastructure of supply. Mexico and Argentina also set up large supply centres for their capital cities. In other countries, despite the great shortcomings of their supply systems, it has not yet been possible to finance the construction of new facilities for their capital cities or to create the necessary infrastructure for the large inland cities.

final components of integrated systems of infrastructure designed to standardize all distribution processes. There would also be a need for rural dispatching markets, bulking centres at junction points for production and, finally, facilities for the co-operative distribution of production and for consumption.

For a variety of reasons, it has not yet been possible to create and maintain integrated systems in any Latin American country. The power of vested interests makes it impossible to modernize marketing systems by State action alone.

b) *The placement of human settlements*

In the human settlements which have spontaneously formed around large cities, vast sectors of the low-income population have settled in marginal areas remote from the central markets and without adequate transport networks to facilitate a normal supply of basic foods; this process will probably intensify, or at least will not abate, in the next few years.

In the absence of specific policies for regulating and directing migratory movements, social pressure continues to be felt in particular areas. The official responses which such pressure eventually elicits usually take the form of authorizations for expanding the networks of public services, transport, schools and low-income housing. Generally speaking, appropriate infrastructure for the supply of foodstuffs is not included in the services provided. Low-income families must therefore obtain their provisions from distant markets or resort to the scattered retail outlets of the marketing chain. Although the latter are very costly and inefficient, their location and mode of operation respond to the needs of the marginal urban population.

The supply of food to the cities is therefore a matter which goes beyond the subject of marketing; an integral analysis of the problem must therefore include other aspects relating to social and demographic conditions and the location of human settlements.

c) *Energy*

In specifying the main components of supply, energy-related aspects of the issue should also be analysed. All the technologies

used in crop-farming and stock-raising, in harvesting, in transporting goods for bulking at central markets and their subsequent distribution and redistribution among urban centres, in agroindustrial processing, in cold chains, in the processing of pre-cooked foods, in family food preparation, and in the distribution of urban wastes are just so many more links in the long energy chain which mobilizes the integral process of food supply. The energy problems confronting Third World countries will make it necessary to restructure and replace a number of links in this energy chain.

A very large amount of energy is used in supplying food to the population of developed countries (and to high-income groups in developing countries) because of its high content of animal proteins and processed products and its dependence on a very complex marketing chain. This is due, firstly, to the conversion of plants by animals (a process during which potential food energy is lost) and, secondly, to the fact that much more commercial energy is used in the processing, transport, marketing and preparation of food than in its initial production on farms.

Estimates of the amount of energy used in the food system of the United States confirm that only a quarter of the total is accounted for by farming. The rest is consumed at intermediate stages in the food chain. The process involved in bringing food from the countryside to the consumer's table required 10.6 million Kcal per person in 1970; this can be broken down into the following figures: 2.5 million Kcal (23.6%) in the countryside; 4.1 million (38.7%) in food processing; and 4.0 million Kcal (37.7%) in marketing and household food preparation (Borgstrom, 1974). In 1970, the food system accounted for 12.8% of total energy use in that country. The items that absorbed the most energy were domestic refrigeration and cooking of food, the food processing industry, commercial refrigeration and cooking, and fuel for transport within the processing industry. Direct fuel use on farms barely reached fifth place.

The supply of 3 300 Kcal of food energy (Borgstrom, 1974) per day for a person living in the United States in 1970 can be broken down into 1 869 calories of plant origin and 1 431 calories of animal origin. However, if the sup-

plementary energy represented by fodder for stock-raising is included in the total balance of primary food calories (an extremely important measurement which is not often calculated), then the total number of calories needed to feed an average person in the United States would actually be 11 886 primary calories, rather than the 3 300 traditionally cited, since 10 017 calories in fodder have to be used in order to produce 1 431 calories of animal origin.

If the same type of calculation is made for an average Mexican citizen, an average of 2 614 calories (2 321 of plant origin and 293 of animal origin) is consumed. A total of 2 051 calories in fodder must be used in order to produce those 293 calories of animal origin, making a total of 4 372 primary calories instead of the figure of 2 614 calories which is usually given.

Thus, the actual difference between the number of calories consumed by an average person in the United States and in Mexico is not 686 calories, but 7 514. In percentage terms, the difference is not 8.7% but 63%.

The United States food system is much more demanding in terms of total energy consumption. Studies conducted by FAO (1977) indicate that feeding the world population by using a system similar to that of the United States would absorb between 40% and 60% of the total amount of commercial energy currently available in the world.

In response to the heavy use of commercial energy involved in this type of production and food system, many agricultural producers—especially in the United States, France, Great Britain, the Federal Republic of Germany, Switzerland and Japan—have been developing what has come to be called organic agriculture. According to recent estimates, some 20 000 farms in the United States, 6 000 in France and many more farmers in Europe have joined the International Federation of Organic Agricultural Movements, which was founded in 1972. Various studies on systems of organic agriculture (United States Department of Agriculture, 1980) indicate that the yield of this type of agriculture is comparable to that of traditional farming and that the income from both types of agriculture is more or less the same owing to the former's lower level of spending on fertilizers and pesticides. This type of agriculture is much better than the

traditional type in so far as the energy balance is concerned. A study conducted in France shows that the cost, in terms of energy, of fertilizers and the maintenance of wheat crops is 3 to 4 times lower than in the traditional system, while in the United States (New York and Pennsylvania), organic farmers growing the same crop used almost 30% less energy per acre than traditional farmers. Research and outreach services in the Latin American countries should delve more deeply into the potential of organic agriculture for small-and medium-scale agricultural producers.

d) *Advertising and collective consumption patterns*

In order to replace certain technologies in the food chain, however, the relative prices of some goods and services would have to be changed and consumption patterns would have to be modified. In many cases, these patterns are the result of specific advertising campaigns financed by large multinational corporations.

Mass consumption patterns change as time goes by. The consumption of carbonated soft drinks, products containing wheat flour and canned goods are only a few examples of such trends. In a number of Third World countries, the introduction of new consumption patterns was initiated by specific legislation, such as law 480 of the United States which promoted food aid based on its wheat surpluses. In other instances, however, such changes were brought about by advertising campaigns launched by international trading companies with a view to the systematic penetration of markets. On the other hand, there has been no deliberate long-term campaign in any country of the region designed to create collective consumption patterns that would be geared to the prevailing income situation in a society or to cultural patterns and local production potential.

The past thirty years have seen the consolidation of a new international system of production, distribution, consumption, control and regulation of agriculture as it relates to food. Transnational corporations are its main operational mechanism; they control and determine decisive components of the dynamics and structure of agricultural production and international trade. Their intervention has gradually been diminishing the room for man-

oeuvre in the formulation and execution of national agricultural policies.

Under the influence of the persistent action of these companies, the countries gear their production more to the demand of the international food system than to the basic needs of their own inhabitants. Entrepreneurial agriculture, which is in the main based on medium-sized and large landholdings, takes part in this process. The large agricultural food industries open up national markets for new agroindustrial products of mass consumption by means of systematic advertising campaigns. By creating or reinforcing domestic and external demand for certain products, it becomes easy to control, indirectly, the production of foodstuffs and raw materials (PROCADES, 1981).

e) *Educating the population about food*

In view of the critical situation of the food supply in most Latin American cities, high priority should be given to educational programmes designed to teach people to recognize the qualities of foods; to develop new consumption patterns; to observe basic rules of hygiene in handling food; to take full advantage of the nutritional value of food; to use appropriate technologies in its preservation and preparation; and to produce food for household use.

Intensive campaigns of social education on a mass scale are needed in order to introduce the practices of associative organization to people in neighbourhoods, schools, factories, work stations, offices, unions, etc. Such campaigns could foster a greater critical awareness among the population; families could band together in order to stay within their budgets, adopt hygienic practices in the handling of food, control weights and measures, and monitor price control programmes.

The education and organization of families could serve as a basis for adopting new strategies for an integral treatment of the issues of urban food supplies.⁵

⁵There is insufficient information about this important aspect. PROCADES in compiling a systematic bibliography on existing cases of the formation of urban associations in various Latin American cities devoted to improving the food supply.

f) *Hygiene and soil use*

Mass campaigns should draw attention to the importance of problems of hygiene and should pressure the public authorities to allocate more funds to the adoption of strict sanitary regulations in order to minimize the high social cost in terms of health of current food practices. Poor public health conditions stemming from improper food handling harm both individuals and society and are currently a major problem in most Latin American cities.

Inadequate basic sanitation, especially as regards the water supply for large urban populations, is one of the main causes of health problems. This issue cannot be addressed without due consideration being given to soil use in urban areas and in the rural zones surrounding large cities, as well as the pollution of rivers and lakes which provide the water supply for large cities. The water used to irrigate the valleys surrounding urban centres are often sources of pollution and of the transmission of parasitic diseases, especially among the low-income population.

Civil legislation and specific codes have been enacted to regulate and supervise soil use. Unfortunately, in most large cities of Latin America, they are not enforced, and there is inadequate supervision of sanitary practices and of the ways in which individuals use and abuse natural resources. For example, very fertile valleys are gradually given over to land speculation and construction with alarming frequency. Because of their proximity to urban centres, these resources could provide an important means of solving some of the food supply problems affecting large cities. In addition, anachronistic systems of land tenure and the migratory flows which they produce have led, in many cities, to the establishment of makeshift human settlements on the hills surrounding urban areas. The pressing social needs prevailing in these settlements lead to the destruction of natural preserves, indiscriminate logging, the degradation of river basins and the gradual deterioration of ecosystems.

g) *Nutrition*

The nutritional status of the population may be unsatisfactory even when food prices and markets are completely normal. A population's nutritional status is largely determined by in-

come levels and distribution, cultural habits and the extent of general knowledge about ways of using and preserving food.

The food supply in Latin America has gradually increased in relation to need as a result of a slight growth in total food production and a considerable rise in the per capita volume of food imports. In 1969-1971, the daily ration of calories per person in relation to the amount required was 107.7% and reached 109% in 1977-1979; this puts the region in second place, following the Near East among developing countries.

Data provided by FAO (1982) concerning the period 1975-1977 indicate that, out of a total of 22 Latin American countries, seven have caloric intake indexes of over 110%, six of between 100% and 109%, and nine of under 100%. The first group consists of Argentina, Costa Rica, Cuba, Jamaica, Mexico, Paraguay and Uruguay; among these, Argentina and Paraguay have the highest levels (127% and 120%, respectively). The six countries in the second group are Brazil, Chile, Guyana, Nicaragua, Panama and Venezuela, with Chile, Nicaragua and Brazil having the highest levels. The remaining countries, which have indexes of under 100%, make up the third group; Bolivia and Haiti, with 89% and 90% respectively, have the lowest levels among this group of countries. In general, almost all the countries have raised their caloric intake levels during the 1970s, the largest increases being achieved by those which were initially in the worst position.

With regard to the amount of food consumed and the diet of the population, great differences exist not only from one country to another but also within a single country, as a result of ecological factors, unequal income levels and the location of the population (in rural or urban areas) which combine to create different consumption structures.

Generally speaking, the diet of the urban population is more varied than that of people in rural areas; it includes more animal products (meat, dairy products, eggs and fish) and more fruits and vegetables, being a diet less affected by seasonal fluctuations. In terms of calories, there is less consumption of traditional grains, these having been replaced by wheat products. The consumption of dried legumes, roots and tubers is declining, while the number of calories sup-

plied by sugars is rising. Vegetable oils and processed goods produced by agroindustries are used more in the cities, as are carbonated beverages and other processed foods of little nutritional value.

The way in which the urban consumption pattern has changed has been influenced by the social and cultural environment of the population, through the effects of the advertising done by food companies and by national and transnational agroindustries, supermarkets and the imitation of the consumption patterns of high-income groups. More and more people have lunch and dinner outside the home; however, because of the prices charged at restaurants and cafeterias, the food and beverages consumed are usually of little nutritional value.

The size of a city also has an impact on the urban consumption pattern. In small and medium-sized cities the prevailing diet is of a type midway between the diet consumed in large metropolises and that of rural areas.

The nutritional status of the urban population is generally higher than that of the rural. The most vulnerable groups in respect of nutrition are found in rural areas and on the outskirts of large cities (where emigrant peasants settle). In such areas environmental and health conditions, sanitary infrastructure and training are much too inadequate to give rise to a better use of foodstuffs. The main nutritional diseases in Latin America are protein-caloric malnutrition, anemia brought on by iron deficiency, endemic goiters, avitaminosis A, dental caries, cardiovascular diseases, diabetes and obesity.

h) *Economic policy*

The political and social implications of food supply problems are a matter of constant concern to economic policy agents in the countries of the region. In order to ease the immediate supply crisis, governments usually resort to a series of instruments related to short-term economic policies. It is infrequent, however, for the supply problem to be addressed in conjunction with long-term economic policy.

The rural development styles of most of the countries in the region thus continue to favour agricultural production for exports, concentration of land-ownership and of rural credit, tech-

nological modernization among medium-sized and large-scale producers, integrated production and agroindustrial processing chains for meeting the consumer demand of the high-income population, the adoption of international consumption patterns and the increasing involvement of transnational corporations in the processing and marketing of agricultural inputs and products. The perpetuation of dependent rural development styles prevents the application of short-term economic policy measures which would have a real effect on soil use, the destination of production, rural employment levels, agricultural technologies, the rural population's income, migration to urban centres and the chronic shortage of jobs and income in urban centres.

The policy measures taken by governments to provide food for the growing population, especially in urban areas, are often in direct conflict with the promotion of local food production and urban supply systems. The policies established in order to benefit the low-income population are confined to opening up imports or laying down retail price controls, to the detriment of employment and agricultural production, which are of special importance in inflationary and recessive situations. Some countries employ direct consumer-price subsidies in order to maintain the consumption of certain essential foods in the diet of the population.

In addition to the application of subsidy policies, many governments have created State marketing firms in order to hold down retail prices; these companies, which are financed out

of the public budget, buy and sell specific commodities in competition with private enterprise (IDEMA in Colombia, CONASUPO in Mexico, EMPROVIT in Ecuador and COBAL in Brazil).

In general, there is a tendency to favour government intervention aimed at improving the systems of urban food supply, especially as regards measures designed to protect producers and consumers from domestic oligopolies and monopolies, foreign dumping and other forms of unfair competition which benefit some intermediaries.

Other policy measures taken by governments have included subsidies for technological inputs; the establishment of preferential credit lines for food production, processing and marketing; the planning and construction of physical marketing infrastructure; the provision of special support financing for private investment in this area; the creation and development of price and marketing information systems; the management of some wholesale markets, especially of perishable goods; and controls on quality, weights and measures with respect to the food products sold.

Governments distribute food rations to selected groups of the population on a permanent basis (milk for pregnant women, fortified dairy products for nursing or school-age children). These initiatives are usually part of national food and nutrition programmes. As a point of reference, mention should be made of the experiences of Chile, Brazil, Mexico and Colombia in this respect.

III

Problems of institutional and administrative organization in executing an integrated policy

1. *Institutional and administrative organization for rural development*

In a large number of Third World countries, integrated rural development policies have shown up the weakness of the technical and

administrative institutions in charge of peasant agriculture. In general, the Latin American countries lack a sufficiently strong tradition for addressing the many problems posed by the development of this type of society. The simultaneous execution of more than 15 or 20 dif-

ferent types of activities (the promotion of production, natural resource conservation, preventive health measures, technical assistance, agronomic research, credit, mechanization, input distribution, marketing, education, housing, basic sanitation, health, nutrition, infrastructure, co-operativism) demonstrated the need in these countries to upgrade institutions of their own in order to deal on an integrated basis with the main problems limiting the development of broad segments of the peasant population.

In the quest for feasible solutions, a variety of options have been tried out in the region; these can be summed up in terms of two different models.

In the first model, the complexity of the problem points to the need to strengthen intersectoral-planning mechanisms in national and regional planning bodies. These institutions must complete all the stages of co-ordination necessary to ensure the technical formulation and efficient assesment of projects. To complement this effort at the regional level, special administrative units are created to co-ordinate the heterogeneous activities of different institutions, thus guaranteeing an adequate linkage among the numerous executing agencies. In this model, co-ordination assumes a deliberate effort on the part of these institutions, induced by a high level of awareness among their principal directors.

In order for this model to be reasonable effective, it must be coupled with an efficient operational planning system capable of plotting out a course for the institutions while also defining the goals, activities and inputs which must be mobilized in co-ordination with other institutions and the programmes for achieving integrated rural development.

Experience has shown that interinstitutional co-ordination mechanisms often do not work because their authorities do not rightly know which activities of the various bodies should be co-ordinated, and how and when, in order to achieve their shared objectives. The frequency with which this type of situation arises has pointed to the need to create alternative concepts which recognize in advance that interinstitutional co-ordination, through the deliberate decision of its authorities, does not al-

ways keep to the rules and thus jeopardizes the achievement of the objectives of integrated rural development.

In the second model, the assumption is that agriculture requires a simultaneous and efficient supply of many services and activities involving a considerable volume of financial resources if it is to become profitable. Because of their importance, the management of these services could not be left in the hands of the traditional agricultural public administration, regardless of the co-ordinated action that might have been proposed by its authorities.

According to this concept, agriculture conducted by peasant and by small-and medium-scale producers could become a profitable enterprise, but it would have to be professionally managed as an efficient business, for which the co-ordination of different activities and services is a requirement inherent in entrepreneurial management and not the result of individual will. This would apply, for example, in the administration of the purchasing of production, transport, bulking, storage, sorting, agroindustries, input distribution, technical assistance, mechanization, distribution to markets and credit.

It would exclude, however, the permanent social services such as agronomic research, sanitation, farming reorganization programmes and large-scale irrigation projects, which should continue to be administered by the State.

Efficient co-operatives would be necessary in order to handle the integrated management of the former category of services; if such co-operatives did not exist or were very weak, State companies would have to be created which could assume responsibility for the direct and integrated administration of the main activities and services needed for agriculture and for the material progress of peasant families (Figueroa, 1977).

In time, with the gradual consolidation of such co-operatives, they could open the way for a subsequent change-over to private ownership on the basis of associative management.

According to this model, a portion of any financial surplus generated by production as a result of efficient entrepreneurial activity could be placed in a rural social development fund

which would be used to supplement the government resources provided for this purpose.

The model is based on the following principles:

a) State involvement in the provision of capital for the companies as well as in managing their operations should give rise to deliberate initiatives as regards policy decisions which demonstrate its interest in contributing to the integral development of peasant societies.

b) Operations and professional administration should be on a large scale in order to ensure good management.

c) State management firms should see to it that the surpluses generated by the peasant economy are retained in the area and are used to speed up the economic and social progress of producers.

d) A sufficiently large scale of operations creates new conditions which allow the peasant economy to penetrate into the cycles of agroindustrial processing, financing and marketing.

e) The existence of State management firms makes it possible to adopt some components of the first institutional model, inasmuch as the units in charge of regional co-ordination for integrated rural development would perform the functions of planning units while delegating a large part of the specific measures of implementation to the companies.

In both models, the aim is to improve the management of rural development.

The experience which many countries have had with integrated rural development projects is gradually leading to efficient solutions. Meanwhile, capitalist, commercial and entrepreneurial agriculture based on medium-sized and large landholdings, which makes no distinction between the domestic and external markets in the placement of its output, is rapidly modernizing its organization and is borrowing the most efficient managerial techniques and procedures from the national or multinational modern entrepreneurial private sector in order to achieve its economic and financial objectives.

Ministries of agriculture ceased to play a part in the management of this type of agriculture some considerable time ago. Specialized institutes and research departments have been created in order to perform this function. Ministries of planning, finance, economic affairs,

industry and commerce, as well as development banks, central banks and interministerial councils are the bodies directly in charge of running large agricultural and agroindustrial businesses, possibly because of the very important role they play in international economic relations. The private agricultural sector, with its large associations and links with multinational corporations, has created such a great operational and managerial capacity that it has outstripped all possibility of negotiation and discussion with the technical services of ministries of agriculture.

Many countries are setting up programmes to modernize the organization of agriculture. First an attempt was made to restructure agronomic research services, then rural outreach services, and then the agricultural development banks, as well as local and regional units of the ministries of agriculture, input-supply and seed-production services, and mechanized patrols. An attempt is being made in Latin America to create an appropriate institutional framework for the current structures and dynamics of its agriculture. The traditional organizations within the public agricultural sector no longer serve to promote the development of entrepreneurial and modern agriculture, and they were never able to make a real contribution to the transformation of traditional agriculture.

There is still no appropriate institutional framework for agricultural planning as an organizational tool of State involvement in agriculture. It cannot be supplied by ministries of agriculture since, in most countries, the ministries have ceased to control the programmes and policies which influence the main processes of development. Sectors such as credit, prices, taxes, exchange rates and external trade, and export subsectors such as those of sugar cane, coffee, cocoa, meat and basic grains are usually either administered by specialized institutes that are indirectly linked to the Ministry of Agriculture or fall within the sphere of influence of other ministries.

Agricultural planning cannot be assigned to planning ministries either, since these are more concerned with budget management and the co-ordination of sectoral plans. In many cases, they only have a few agricultural specialists to run specific programmes. One could say that agricultural planning is still in search of a ministry.

All this does not mean that the countries lack clearly-defined concepts and programmes concerning the agrarian policies that are of interest to the main sectors of production, processing and marketing. The corresponding units for coordinating relevant decisions, compiling necessary technical data and obtaining the required institutional certifications are always to be had, although in a number of cases agricultural planning offices have cut back on their work programmes and primarily serve the needs of entrepreneurial agriculture.

Once again, this leads to the same conclusion: organized social sectors, powerful private entrepreneurs with the ability to exert pressure and take decisions are always to be found behind agrarian policies that are well run and efficient from the standpoint of those who formulate them. The public sector offices which look after such interest present a different picture; they have modern facilities and their technical and administrative personnel appear optimistic.

In contrast, the technicians and authorities associated with integrated rural development projects and agricultural policy directed towards traditional agriculture or domestic consumers usually express daily frustration with the many obstacles which hinder programme execution. There are no powerful social organizations representing producers, consumers or rural workers which, through organized action, could bring real pressure to bear on behalf of their interests and aspirations. The poor physical working conditions usually to be found in the public offices in charge of such programmes and the situation of their technical and administrative staff are a clear indication of the status of planning as regards this type of agricultural policy.

It should be noted, however, that social needs and pressure in rural and urban areas are intensifying as time goes by; the awareness and persistence of eminent national specialists in the service of this type of programme and the systematic efforts of missions of international experts associated with financing institutions have, little by little, been improving the government's capacity to apply solutions designed to improve the results of this type of agrarian policy. Furthermore, the gradual growth of social movements is speeding up the formation of a greater collective awareness of the need to consolidate com-

munity social organizations in order to support, guide and expedite new social development policies at the rural level.

It must be stressed that the above observations are of a general nature and that important exceptions exist, since the convergence of all these factors, in addition to others that cannot be detailed here, gives rise to different situations in the various Latin American countries. In only a few countries, in fact, have the governments made a deliberate attempt to give a high national priority to rural social development issues.

In those cases, the various measures taken by the public sector reflect the validity and social legitimacy of such guidelines.

2. Institutional and administrative organization to ensure the food supply

What lessons can be learned from prevailing practices in the cities of Latin America? What should be the orientation of our search for appropriate solutions? It is surprising that very few countries in Latin America have tried out appropriate strategies for an integral treatment of the urban supply problem in all its complexity. As a result, it has not been possible to structure or refine a specific institutional structure for dealing with the supply issue on an integrated basis.

Public sector supply programmes are broken down into many different activities, which are undertaken by various ministries and their provincial and municipal offices. Each of the main components of the private sector has also organized various chambers, trade unions, federations and associations at the national and regional levels. The only groups not represented in this throng of institutions are the rural and urban families that are actually concerned, the permanent protagonist of the drama that daily feeding represents today.

Mexico, with its Mexican Food System, and Colombia, with its programmes for integrated rural development and for food and nutrition, are two examples of countries in which the governments have upgraded their concern for the food supply problem to an official policy.

Brazil, with its programmes for regional development, integrated rural development, metropolitan areas, supply centres, and nutrition, and with the activities of large institutions such as

the Companhia Brasileira de Alimentos, the Companhia Brasileira de Armazenamento and the Comissão de Financiamento da Produção, is the country which appears to have the most public machinery devoted to finding solutions to the urban supply problem.

Mention should also be made of Cuba, Chile, Venezuela, Peru, the Dominican Republic and some Central American countries where urban growth and food supply problems have given rise to specific governmental measures, especially with respect to the nutrition of vulnerable groups.

Nevertheless, no public initiatives have been taken to define and supply consistent strategies for providing an integral solution to the supply problem which incorporate guidelines for co-ordinating a wide range of programmes, such as the following:

- food production;
- the rationalization of the energy chains involved in supply processes;
- sanitary controls on food;
- basic sanitation;
- soil use regulation;
- pollution control of water for irrigation and human consumption;
- inspection of weights and measures;
- marketing infrastructure;
- small- and medium-scale agroindustries;
- foreign trade;
- prices and subsidies;
- human settlements in marginal zones;
- income and employment;
- instruction on nutrition and food technologies;
- mass communications for re-establishing collective consumption patterns;
- urban agricultural development;⁶
- the promotion of rural and urban associations for food supply purposes;
- the organization, regulation and monitoring of the operations of the retail food trade, open-air markets, supply markets in densely

populated areas, central markets and super-markets;

- technological research in areas relating to cold storage, transport, product sorting, packaging, domestic food preparation and integral domestic utilization of food;
- price and market information;
- the creation of data banks on food supplies to aid in the achievement of a variety of objectives, including the improved organization of transport and the reduction of intra-city traffic of food transport vehicles;
- the creation of special infrastructure for marketing, cold storage and outlets in densely-populated marginal areas;
- storage, strategic stockpiles and the regulation of food stocks on an intra- an inter-city basis.

Virtually all of these programmes are being carried out in almost all the countries by a variety of national, provincial and municipal institutions; a large number of private associations, which are attempting to standardize their activities within the complex good supply processes, are also active in this area.

If the isolated, unplanned action of public and private institutions had been enough to resolve the supply problem, there would be no point in underscoring the necessity of defining a unified strategy for co-ordinating the programmes affecting its main components. A number of questions, however, arise in this respect: Which institutions should co-ordinate the main programmes relating to supply? Should this take place at the municipal, provincial or national level? Should a system of co-ordination be organized in conjunction with one national, one provincial and one municipal institution within a large city? If the idea of creating such a system were to be accepted, would it or would it not be advisable to set up a technical base in each major city for urban food supply programming? What would be the scope of such programming?

At present, most of the Latin American countries have not institutionalized agricultural planning practices as a starting point for the design of all agricultural development policies. The mechanisms for short-term agricultural planning have not been finalized, and very few countries have systematically developed annual operating plans. Some specialized marketing and sup-

⁶This includes food cultivation in urban zones, in household gardens, in the green belts along railway lines, in vacant lots, greenhouses, technical schools, and unused land in semi-urban areas belonging to the government, private institutions or the church.

ply institutions, however, do systematically deal with specific components of annual operational programming, especially in connection with buffer stocks, harvest estimates, demand goals for certain products, transport flows, price information and foreign trade balances.

There is no technical team in any large Latin American City, however, that is equipped with information for programming the food supply on a daily, weekly, monthly, bimonthly, biannual and annual basis. Although there are technical teams in many national, provincial or municipal institutions which compile, process and programme some isolated components of the process, so far it has not been possible to carry out integrated food supply programming for each of the short-term periods for which this type of information is needed.

Brazil is one of the countries which currently has the necessary technical infrastructure for each of its 26 major cities. Over the last 15 years, it has made a systematic effort to organize State agricultural planning commissions in each of its states and put them into operation; these commissions are truly interdisciplinary teams made up, on average, of 30 to 50 specialists in planning, programming and rural development projects.

Over the last few years, Colombia has established 20 interdisciplinary technical teams in each of its departments. The regional agricultural planning units were created as permanent bodies. With political determination, financial support and technical assistance, they could become a basic mechanism for designing and executing integrated rural development and food supply programmes.

IV

Final considerations

Even if we make very optimistic assumptions with respect to economic growth, the population dynamics of the region will probably limit the possibilities of significantly reducing current levels of urban unemployment and underemployment unless governments adopt specific employment policies which include concrete programmes for redirecting migratory flows away from the cities and into rural areas.

This could become a reality if the governments take the decision to restructure the rural zones surrounding major cities and to rationalize the production of food for rural and urban populations.⁷

Meanwhile, and for many years, food supply policies will have to be structured on the basis of highly concentrated populations centres in a small number of large and medium-sized cities where income is low and there are great social

needs in the areas of basic sanitation, health, housing, education, consumption and nutrition. In this context, it is possible to foresee that in the coming years the governments will really need to mobilize and orient mass movements of opinion in order to sustain the basis for social organization in urban and rural areas. To this end, it will be necessary to institutionalize the governmental practice of simultaneously directing the planning processes connected with development policy and training as part of extensive social communication programmes.

Because of their extreme complexity, these problems can only be solved once the grassroots communities in urban and rural areas multiply and exert organized pressure for the solution of their particular problems. A growing awareness among these communities and their increased organization will set the stage for governments to design and execute programmes under which true food supply corridors can function that will link the main centres of production and consumption. Programmes of this type may be an essential element in minimizing the social cost of a nutritionally controlled food supply for mil-

⁷In some regions of Brazil, there are already some signs pointing to the application of this type of programme. The pilot colonies being tried out on the outskirts of the city of Curitiba, Paraná State, which have been established for the specific purpose of stemming migration, are one example.

lions of people in rural areas and urban centres.⁸ They will also make it possible to organize the activities of the various public and private institutions at all intermediate stages in the marketing process and to unify, in new strategies of concerted action, the different elements of the food supply problem.

In the near future, the basic pillars for the functioning of the new food supply policies will, of course, be the governments, private companies and organized social communities. In this context, the technical specialists working in food programmes and projects can play a role of great social significance; their work will be essential in order to eliminate the weak points in the decision-making process as it relates to the food supply. At the State or regional level, as well as in major cities, planning departments must co-ordinate the basic processes involved in programming rural development and urban food supplies.

There may be some debate as to whether the food supply is necessarily the central element in the study of urban/rural interrelationships in Latin America, but the cogency of one particular

fact should be accepted: the people, in their search for solutions to their daily food problems, will gradually consolidate their own organizational courses.

As more and more is learned about this subject, theoretical interpretations will be put forward which will contribute to an understanding of the historical nature of rural/urban relationships and the links among the many components which determine the structure and dynamics of these relationships. We should not, however, neglect to study the unique characteristic of institutional and administrative organization in each country. The greater concern for practical aspects may help to define more clearly the theoretical work to be done by focusing it as far as possible on topics that will lead to concrete solutions.

From this standpoint, major Latin American cities are faced with the new challenge of conceiving, formulating and carrying out long-term investment programmes to provide an integrated solution to the problems of rural development, production and food supply.

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⁸This idea is based on an experiment made in Brazil during the 1970s involving export corridors through which all the public and private institutions interested in maximizing exports pooled their efforts and created specific mechanisms for co-ordinating their activities.

Dependent societies and crisis in Latin America: the challenges of social and political transformation

Germán W. Rama
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The authors propose an analysis of dependent economies and societies in Latin America. They begin by discussing current forms of dependency, both in terms of the internationalization of the domestic market and in terms of structure of dependent capitalism. They present certain hypotheses concerning the economic crisis, relating it to the problems of growth and development when these depend on technological renovation and on financing from the centres.

They then discuss the structural changes that have taken place in the region as a result of its dependent development, relations between included and marginal sectors, and transformations in the groups belonging to the "modern" social structure, especially the subordinate ones, since their orientations are especially important when it comes to deciding on options for dealing with the crisis.

In the third place, they examine the question of the political crisis in the light of the social crystallization of dependencies of previous periods. Populist and reformist efforts and revolutions from above have shown up the contradictions that must be dealt with by dependent capitalism in trying to stabilize the social system and create conditions for social and political citizenship.

Finally, turning to the political problems of a new development option, they discuss the different relationships between the State and the social actors who must transform themselves in order to make it possible for an alternative project to be developed which includes not only the contradictions arising from the interaction between the rationale of accumulation and that of distribution but also the transformation of society itself.

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I

Current forms of dependency

1. *Internationalization of the domestic market*¹

It is generally agreed that the most significant phenomenon of dependency during the period beginning around 1965 has to do with the fact that the economic centre acts not only through its control of the import and export system, but also through its direct or indirect investments in national markets. Since then, in many countries, the pace of development has been set by foreign investment; one of the most important sectors in which this has happened has been the industrial sector.

The presence of foreign capital linked to the domestic market was reflected in the strong influence of the centre over capital movements, as well as over basic economic decisions. Moreover, although production and marketing took place within the sphere of the dependent economy, their main effect was to increase the mass of capital available for the central economies. By the same token, there is no question that investment decisions were closely linked to external decisions and pressures. The phenomenon of transnationalization significantly influenced the reinvestment of profits generated on the national markets. Corporations had the option of choosing to transform their economic benefits into capital, which could then be invested in the central economies or in dependent economies other than those which had generated the profits.

The expansion of capitalism was also affected by the introduction of a style of industrialization that was based on labour-saving technology. In addition, domestic investment seemed inadequate, either because the domestic

¹See Cardoso and Faletto (1979). For purposes of analysis, and in order to give an idea of the complexity of the process in Latin American societies, the authors have decided to divide their comments into three areas, i.e., the economic, the social and the political aspects of dependent societies. The authors are aware of the conceptual problems involved in this approach, but feel it is the most suited to this attempt to reconstruct the scenarios of the crisis of dependency of Latin American societies.

savings capacity was weak or because the sector which should have been accumulating or investing was more inclined towards consumption.

These arguments were refuted with the allegation that, however real the aforementioned problems might be, most of them had originated in the contradictions that were inherent to capitalist growth, as reflected in the "dependent capitalist" form of development. It was noted that the existence of contradictions was not an obstacle to capitalist development, but rather a condition of that development. What was stressed was that, given the progressive and cumulative nature of the capitalist system, and the price paid for destroying important generations and sectors of the exploited classes, the specific feature of this system was its capacity to grow in a spiral, transforming social relations of production as a result of the increases in the level of accumulation and the development of the forces of production (Cardoso, 1980a).

Nevertheless, a simple look at the Latin American situation will reveal that several issues are involved. The annual growth rate of the GDP for the period 1950-1978 was 7.0% for Brazil, 5.8% for Venezuela, and 5.2% for Mexico; however, it was 2.6% for Chile, 2.4% for Argentina and 1.6% for Uruguay. The growth rate of the industrial GDP for the same period was 8.5% for Brazil, 6.4% for Venezuela, 7.3% for Mexico, 3.7% for Chile, 4.1% for Argentina and 2.7% for Uruguay. In Argentina, Chile and Uruguay, it tends to go down or to remain stagnant (Fajnzylber, 1983).

As always, when one sees the specific results of dependency, one is led to analyse the domestic context in which it occurs, since any response to the problems of dependent development will depend, to a certain extent, on how the different local units are articulated; in other words, one must determine what are the specific elements of dependency, although this still does not answer the question of what dependent capitalism is in general.

Development related to this type of dependency entailed heteronomy and partial development—despite the growth of the domestic market—and it thus became possible to speak of industrialized and dependent peripheral countries. What is important is that the relationship between the national economy and the dynamic

centres of the central economies was established within the domestic market itself.

In many cases, the new linkage did indeed involve the transfer of modern organizational systems and production techniques, but this had implications for the autonomy of the national economic system and development policy decisions. The capital, the techniques and the organization that were transferred from the centres provided a new axis for organizing the national economy. It could be said that, in extreme cases, the mechanisms for controlling the national economy tended to be reduced as a result of the imposition of certain norms pertaining to the functioning of the international production system. This restricted the sphere of action and the autonomous decision-making capacity of local groups.

As regards the political aspect, the dominant groups found it necessary to reorganize the domestic system in order to facilitate the establishment of the new modality of dependency and thus ensure their participation in power.

a) *The controversy about dependency and capitalist development*

As was to be expected, the question of dependency (Cardoso, 1980a) gave rise to heated controversies about the character of and the prospects for the development process in Latin America; many different issues were discussed, including that of the viability of capitalist development in the periphery. Among the elements mentioned as structural obstacles to the expansion of capitalism were those which limited the growth of the domestic market, especially the persistence of a restrictive rural structure and the growing tendency towards a concentration of income.

b) *Dependent industrialization and technological dependency*

Fajnzylber (1983) refers to a sort of "cumulative virtuous causation" in which growth, technical progress and industrialization are all linked together. The driving force of this causation is said to be the sector producing capital goods, to the extent that it is the bearer of technical progress and influences the productivity of labour

and investment and, consequently, the international competitiveness of a national economy. The greater or lesser development of this sector is, in Fajnzylber's opinion, what makes the difference between an advanced industrialized economy and a semi-industrialized one.

Nonetheless, the difference is not an arbitrary phenomenon. Although, as mentioned before, the new dependency is characterized by foreign investment and the presence of foreign capital on the domestic market and in the industrialization process, this does not mean that there will be every type of industrialization in every case. In terms of the international economy, the central economies tend to concentrate on high-technology sectors, and this means that technology is not controlled by the periphery; more important, however, is the fact that the industries that are set up in Latin America are technologically dependent on the more advanced ones.

The very existence of technological dependency has several implications. Usually, labour-saving technologies are used and this obviously affects the absorption of the labour force and encourages the dissemination of styles of consumption that follow the patterns of the international market. Indeed, in the less developed countries, this type of market is limited to certain sectors of the population, i.e., the middle and higher-income sectors.

Two phenomena are worth mentioning in this respect. The first one has to do with how dependent industrialization is related to the economy as a whole. By its very nature, industrial capitalism entails the creation of new economic and social relations, i.e., the development of the bourgeoisie, the transformation of the middle sectors, the emergence and development of the proletariat, etc.; this may be seen in several Latin American countries. Inherent to it also, however, is the capacity to transform the economic system as a whole. Nonetheless, this modality of dependent industrialization tends to limit transformation to the so-called "privileged consumer society". Moreover, the industrial sector is still a sort of satellite of the centre, since the latter, through its control over technology also controls the dynamics of the former.

The second aspect has to do with the fact that the expansion of the industrial sector no only

increases technological dependency but usually entails a strong financial dependency as well. In order to acquire the necessary technology, a country must have access to capital and quite often, this can only be obtained through external credit and indebtedness. The linkage of the national entrepreneurial sector with foreign enterprises thus tends to be reinforced, since it is from the foreign enterprises that the local ones obtain the desired technological renovation and, particularly, the financing they need in order to have access to that technology.

c) *Financial dependency*

There is no need to discuss again the various mechanisms which worked together to create a strong external dependency on credit, both public and private; we have already mentioned the relationship between technological dependency and indebtedness, but the liquidity of the international market, the recirculation of petrodollars and similar events also played a part. Tavares (1972, pp. 214 and 215), in referring to the case of Brazil, mentions the expansion and diversification of debt and credit relationships among the more dynamic sectors of the economy, an expansion which was much greater than the growth of the means of payment. What happened in Brazil has also happened in many other countries. Indebtedness occurred: i) within the private sector (enterprises and consumers), as a result of the indirect intermediation of financial enterprises; ii) between the private sector and the public sector; iii) between the private sector and the exterior, with the heavy influx of short-term capital and with public and private financial intermediation.

The same author, basing her arguments on Hilferding, describes the effects of the predominance of financial capitalism on the economy as a whole. These would be as follows:

i) Financial accumulation is made possible by the creation of fictitious capital through the issuance of securities whose value depends on speculative transactions, in connection both with their issuance and with their circulation on the secondary securities markets.

ii) The functions of the entrepreneur as such are separated from those of the capitalist, who acquires rights of ownership over the rent pro-

duced and takes charge of its accumulation. Using it as financial capital, he can either recon-vert it into productive capital or apply it in more profitable sectors, one of which may be the financial sector itself.

As the hegemony of financial capital over industrial, commercial and bank capital is established, there is a greater centralization and, consequently, financial capital tends to accentuate the monopolistic bent of capitalism and control the overall accumulation process. Hence, this type of capitalism is speculative in nature, the production sector is subordinated and there is a trend towards oligopolistic concentration; in addition, most of the financial capital usually comes from abroad.

Another important fact is worth mentioning. S. Lichtensztejn (1983) stresses that in capitalism, the economy evolves from a monetary to a credit economy. In this regard, he states, it can be said that the financial markets are relatively independent as regards the amount of money needed for mercantile circulation and the circulation of rents; on the other hand, they become increasingly dependent as regards the needs originating in the circulation, concentration and centralization of money-capital as such. Control over high-powered money, be it pesos, cruzeiros or dollars, thus becomes an apparent and often anachronistic symbol of autonomous national monetary power. It is easy to surmise what effect this phenomenon has on the State's capacity to regulate the economic process.

2. Structure of dependent capitalism and crisis

There is some consensus that the problems of the development of dependent capitalism are closely related, on the one hand, to dependency in the strict sense of the word, as noted in the areas of finance (loans, debt, credit, etc.) and technological dependency (production goods that must be imported). On the other hand, this type of capitalism tends to form a domestic market which is strongly influenced by the demand of the high-income sectors, so that pressure is generated for the production structure to be geared towards the production of goods that will meet that demand; the financial mechanisms—credit and others—very often help con-

centrate the supply for trade in the same direction. To this is added the traditional dependency of the export sector.

Because they are so closely linked to the exterior, the dependent economies are extremely vulnerable and any interruption in the process of circulation, within the context of the internationalized economy with which it is integrated, can affect the entire economy. Nevertheless, although vulnerability is in itself an important problem, it is not the only one. The internal structure of a country often has much to do with the particular nature of the crisis it experiences.

The part that is played by the profit motive in a capitalist economy cannot be overlooked. If the differences in the profitability of the different sectors of the economy are substantial, the logical reaction is to transfer capital to the most lucrative sector. In many Latin American countries, interest in money as such grew more than the profitability of some sectors of production; capitalists withdrew the money they had placed in those sectors and reinvestment was thus postponed. Factors conducive to crisis were thus generated in the production sector; their effect may have been concealed somewhat because of the high profits gained, particularly in the financial sector. Moreover, financial speculation, which became international in scope, fostered the massive transfer of capital to the exterior.

Simply stated, financial speculation discourages investment and this leads to crisis. It is sometimes thought that depression is the remedy for such maladies. Depression, which brings in its wake unemployment, a drop in wages and a depreciation of capital values (e.g., a decline in the value of stocks) can promote reinvestment in the production sector, thus reinitiating the cycle.

It should be borne in mind that the problem of lack of profitability in the production sector is caused mainly by the cost of money or of equipment and machinery. Financial dependency and the internationalization of this sector make it difficult to act on the value of money; the same may be said of technological dependency with respect to the value of machinery and equipment. The only mechanism on which it is possible to act, particularly at the entrepreneurial level, is that of wages, but a reduction of wages is fundamentally a mechanism used to compensate for the dif-

faculty of acting in respect of the other mechanisms mentioned above.

A second aspect of the phenomenon of crisis has to do with the longstanding controversy concerning the danger inherent in unplanned capitalist production. In Latin America, it was usually the State which helped, with its policies, to maintain a certain balance between the different sectors of economic activity, or at least tried to correct the errors and attenuate the effects of the disequilibria. During the 1970s, for various reasons—some ideological and some relating to more structural aspects, such as the increased independence of entrepreneurs in respect of State policies (an independence gained by having direct access to external and domestic credits)—the regulatory capacity of the State was diminished in many countries. In addition, many countries began to use the United States dollar as a second currency in their domestic economies. Thus, it was very difficult for the State, to implement, through its monetary policies, measures that would act on the economy. Moreover, because of the magnitude of the dollar area, there were many cases in which forced reconversion would lead not only to economic conflict but to serious political conflict as well.

Evidently, the problem of making a country's economy function is not only one of maintaining the necessary balance between different factors and components; economic growth also involves increasing consumption, constant capital and the labour force, to mention only a few of the most obvious factors. This means that more means of production and of consumption must be pro-

duced than those required for replacement. When there is no planning, or when the signals of the market are confusing, maladjustments between the different components of the economy can lead to friction and untenable contradictions. The problem is much more serious when many of the decisions which affect the economy are made outside the country and are beyond its control.

The problems mentioned above are important, but it must not be forgotten that the key issue in an economy is always that of its potential for growth. If the dynamics of Latin American capitalism is closely linked to the dynamics of central capitalism, one would expect—and some do—that the recovery of the centre would make it possible to resume the cycle, even though the social cost might be high during the recessive period. But other, more autonomous options may also be considered. One possibility is that offered by new forms of insertion in the external markets, despite the difficulties this entails. As regards the domestic market, it would appear that consideration should be given to reorienting production with a view to meeting the demand of groups which were not favoured under the previous system, i.e., mainly the popular groups, the working class and the middle sectors. This obviously presents a great challenge, both because it becomes necessary to reorient the structure of production and because the issue of State management becomes a crucial one. In addition to presenting an economic problem, this presents a serious political problem and requires the articulation of social groups and classes.

II

New dependency, structural transition and social groups

1. *Transformation of the social structure. Towards a new dualism?*

In the structural transition of the region, the dependent type of development has conditioned the capitalist modality of transformation and has created social groups that shape both the social structure and the power structure.

As a result of the rapid decline of mortality and the slow rate at which natality changes (due to the persistence of previous cultural patterns), the population of the region has doubled during the thirty years following 1950. At the same time, as a result of production and urban consumption patterns and of the impact of capitalism on agriculture, by 1980, the urban population

accounted for two-thirds of the total population.

The per capita gross domestic product, in 1970 dollars, rose from US\$ 439 in 1950 to 1 007 in 1980. The growth rate for Central America, Bolivia, Haiti and Peru, whose levels had already been quite low, was minimal; the Southern Cone countries, which had started at a high level, also grew at a low rate; Costa Rica, Panama, Venezuela and Mexico experienced a considerable increase, and Brazil, Ecuador and Colombia, starting at low levels, saw their per capita GDP grow rapidly.

During the period 1950-1980, agricultural occupations fell from 53.7% to 33.7% of the total—even in countries having a high degree of urbanization, such as Argentina, where the absolute volumes fell to 14%—while secondary occupations rose by seven points and tertiary occupations by twelve points (see table).

At the same time, the participation of manual wage-earners in the transformation industry has fallen with respect to that of non-manual wage-earners in the secondary and tertiary sectors. In Brazil, the latter increased from 80 to 99 out of every 100 non-agricultural manual wage-earners and in Argentina, it rose from 76 to 98. In Chile, the figure jumped from 57 to 105 and in Peru, from 78 to 160. In some cases, the explanation is to be found in the advance of technology in the production of durable consumer goods; in others, the phenomenon is a specific result of policies leading to de-industrialization and spurious tertiarization.

The situation is different in the top occupational categories. In Brazil, the categories of employers, managers, professionals and technical workers rose from a minimum of 2.2% of the entire economically active population in 1950 to 10% in 1980; in countries having a modern employment structure, such as Argentina, they rose from 12.2% to 15.6%.

These changes have gone hand in hand with the expansion of secondary and higher education, which has been influenced by the dynamics of the economy and the gains made by certain social groups. In 1960, 1.6% of the population between 20 and 24 years of age was enrolled in universities; in 1980, one out of every six young people was a student. The structural transformation has been very different from one country to another, but in no case were poverty and

marginality eliminated. Fifty percent of the population lived in poverty in 1960 and in 1980, 35% were still poverty stricken, despite the fact that the per capita GDP had almost doubled during that time.

Policies aimed at raising income through wages did not reach large strata of the informal sector; peasants living on *minifundia* and occasional wage-earners continued to live in poverty and their relative standing fell; when they eventually entered modern production sectors, they did so in unskilled occupations producing extremely low incomes. The same exclusion prevailed in respect of education: the illiteracy of rural youth and little schooling (devoid of true educational content) of their urban counterparts tended to reinforce the segregation caused by cultural barriers.

2. *The marginal sector. A reserve army or a condition of social reproduction?*

The controversy about the meaning of marginality has been widely discussed in Latin America and we need not go into it again here. It is interesting, however, to recall the comments made by F.H. Cardoso (1980b) concerning the relationship between marginality and accumulation, particularly if the notion of marginality is extended to cover all sectors not directly connected with the modern sector. Cardoso points out that under certain conditions, an abundance of cheap labour can affect accumulation; this argument can even be used by certain sectors to attract investors. Nevertheless, capitalist expansion depends not only on competition among workers, but also on the cost of reproducing the labour force, on profitability, on competition among capitalists and on technological renovation. He also states that in order for marginality to bring down the cost of replacement, not only must its magnitude force a worker to accept paid work at around the minimum cost of reproduction (a normal function of reserve armies), but also this cost must depend on his being able to make a living outside the industrial capitalist system. Thus, the existence of production for consumption outside the system can help lower the cost of replacing the labour force.

What is important is how social and production structures are articulated with each other.

Table
LATIN AMERICA: INDICATORS OF CHANGES IN SOCIAL STRATIFICATION, 1950-1980

Country groupings	Non-agricultural economically active population		Non-agricultural non-manual EAP		Non-manual secondary and tertiary wage-earners			Own-account non-manual workers		Secondary and tertiary non-manual wage earners						
	(Period)	(Percentages)	Non-agricultural manual EAP		Manual secondary wage-earners			Secondary manual wage-earners		Secondary and tertiary non-manual own-account workers						
			(Period)		(Period)			(Period)		ca						
										1950	1960	1970	1980			
"A"																
Argentina	1947-80	72.8	85.5	1947-80	62	75	1960-80	76	98	1960-80	43	47	157	178	227	208
Costa Rica	1950-82	43.2	70.4	1950-82	45	73	1960-82	100	111	1960-82	35	38	236	282	459	295
Cuba	1953-80	57.8	76.0	...	...	...	...	...	...	...	...	...	...	...	...	...
Chile	1952-80	63.7	81.4	1952-80	42	80	1960-80	57	105	1960-80	20	50	162	285	286	210
Panama	1950-80	44.3	68.3	1950-80	41	82	1960-80	109	127	1960-80	20	11	371	556	765	1 122
Uruguay	1963-75	80.2	82.3	1963-75	73	67	1963-75	88	96	1963-75	39	37	...	227	258	...
Venezuela	1961-80	65.2	82.8	1950-70	37	77	1961-70	75	122	1961-70	35	33	143	214	376	...
"B"																
Brazil	1950-80	39.9	68.9	1950-80	54	63	1960-80	80	99	1960-80	19	25	181	418	329	390
Colombia	1951-70	42.4	55.0	1951-70	39	65	1960-70	90	84	1960-70	43	43	116	209	193	...
Mexico	1950-80	44.3	63.0	1960-70	79	80	1960-70	59	82	1960-70	56	47	...	105	174	...
"C"																
Ecuador	1950-82	34.5	64.9	1950-82	25	105	1962-82	65	101	1962-82	92	40	194	125	112	164
Paraguay	1950-82	44.5	54.9	1950-70	37	44	1960-70	66	67	1960-70	40	39	152	164	173	...
Peru	1950-81	40.3	58.4	1960-81	56	109	1960-81	78	160	1960-81	57	74	...	138	235	216
Dominican Rep.	1950-80	30.0	50.0	1960-70	58	75	1960-70	74	119	1960-70	44	43	...	168	278	...
"D"																
Bolivia	1950-80	24.2	50.0	1950-76	34	60	-76	...	90	-76	...	41	162	...	222	...
El Salvador	1950-80	35.1	49.0	1950-71	32	53	1961-71	52	66	1961-71	34	38	132	153	172	...
Guatemala	1950-81	31.4	43.7	1950-73	19	37	1964-73	60	62	1964-73	19	21	200	309	293	...
Haiti	1950-80	14.9	26.0	...	...	...	...	...	...	...	...	...	...	...	...	...
Honduras	1950-80	18.9	37.0	1950-74	32	61	1961-74	90	77	1961-74	43	43	250	210	179	...
Nicaragua	1950-80	31.3	60.0	1963-71	48	51	1963-71	58	70	1963-71	46	39	...	126	177	...

Source: EAP data according to social-occupational strata for the years 1950 and 1970 were taken from Filgueira and Geneletti (1981), table 2, pp. 32 *et seq.* Data for 1980 were taken from special survey and census tables (Chile, Panama, Brazil, Ecuador) and from household census data publications (Argentina, Costa Rica, Peru). Non-manual EAP include: a) employers; b) public and private managers and administrative staff; c) independent professionals and technical workers; d) dependent professionals and technical workers; e) own-account in commerce; f) office workers, salespeople and similar categories. *Secondary and tertiary non-manual wage earners* include: b), d), f). *Secondary and tertiary non-manual own-account workers* include: a), c) e), *Secondary manual wage-earners* include: craftsmen, machine operators, labourers and day workers in industry, construction and utilities.

Only thus can the notion of dualism without relations be overcome; as Cardoso himself points out, that is how the question of social and political transformation in the periphery should be dealt with. Modes of articulation between the marginal and the modern sectors of the labour force are not the same when one moves from a global interpretation to an analysis of the specific features of the type of dependent development prevailing in a particular country, since the marginal sector is defined by contrasting it with the articulated sector of the dependent economy, and hence depends on what the latter is like.

At one extreme are the sectors that have been expelled from the system, as is the case in Chile, where unemployment transformed labourers and independent producers into *pobladores*, i.e., residents of deteriorating urban areas which are currently characterized not so much by their deficient ecological conditions and services as by the unemployment problem they face. At the other extreme are rural migrants, who, with little or no education, have been partially incorporated into urban life in occupations requiring very few skills and at wages that are not sufficient to insure social reproduction; they are defined not so much by the fact that they are engaged in marginal or informal occupations as by the fact that they are exploited. For the same reason, they fall into the so-called categories of underemployment, defined in terms of the low income of those concerned; hence, the issue of employment is not properly distinguished from the issue of exploitation.

The data for Brazil around 1980, which cover both occupation in modern sectors and in other minimum-income sectors, provide a good example of this. In the intermediate positions, there are many cases in which the inability of the economic system to incorporate the urban masses into the modern production and services sector goes hand-in-hand with the prevailing cultural dualism (indigenous language, rural origin, lack of education), thus making it impossible for the members of this sector to enter the regular job market.

3. *The modern social structure*

This is made up of a number of groups which participate in modern production activities and

services, have access to the new type of consumption generated in dependent development and whose relationships with each other follow a stratified pattern.

a) *The bourgeoisie*

The predominance of transnational monopolistic capital creates a dependent national bourgeoisie, which adopts the production rationale, as well as the values and consumption patterns of those who represent this capital. Predictions that transnationalization would bring about the virtual disappearance of the national bourgeoisie have not been fulfilled. In some cases, the national bourgeoisie competes for control over the larger enterprises; its own activity has been internationalized and, at minor consumption levels, it has become linked to the international bourgeoisie through exports.

At the same time, in those countries where the State is ruled by a bureaucracy of "estates", or "political" bureaucracy, which makes it a centre of power in itself, a State bourgeoisie develops which manages public enterprises as if they were private ones. By the same token, the bourgeoisie, merging with the oligarchy, behaves in a speculative manner. The speculation begins with urban land and the situation is now similar to that which prevailed during the speculative crisis of the nineteenth century, when the State became the private domain of speculators and the neoliberal school of economics was developed.

The internationalization of Latin American financial circuits had its counterpart in the emigration of capital to the central countries; in this case, the attraction was security rather than profit. This meant the internationalization of certain sectors of the bourgeoisie which do not consider themselves linked with national projects.

b) *The middle sectors*

These sectors were formed during the process of dependent capitalist transformation. This does not mean that the original groups disappeared, but rather that they underwent changes or became less important within society as a whole.

i) *Independent or residual workers*. The percentage of non-manual independent workers has

declined throughout the region —regressing during the 1970s in Argentina, Chile and Peru— and in some countries, such as Brazil, there is only one for every four non-manual wage-earners. Threatened by the growth of the State and of the large economic organizations, losing in status *vis-à-vis* the educated technical middle sectors, affected in some countries by consumption levels of the modern labour sectors, their social behaviour is similar to that of the *Poujadistes*. Specifically, they support and promote authoritarian solutions, particularly if these reintroduce the social hierarchy; they also support certain populist movements which tend to expand the consumer market, and, on the whole, they react negatively towards the modernization of capitalism and society, particularly as regards its cultural aspects and those pertaining to scientific and technological rationalization.

ii) *Dependent workers or wage-earners*. This group has grown considerably and new strata have appeared within it. The first of these developed as the administrative functions of the State increased and commercial services for an expanding urban consumption were developed. As regards their educational and social profile, the members of these strata are not very different from the independent middle sectors; among others, this group includes minor officials of the growing populist State and persons working in sales. The second developed as a result of the expansion of social and community services, particularly in the area of education and health, and is made up of persons who have completed their secondary and higher education. Their orientation and behaviour are determined more by their educational socialization than by their social origin and most of them have only recently come into the middle sectors. In countries where industrialization is weaker and social integration policies stronger (Costa Rica, Peru), they are the largest and most organized group of non-manual wage-earners, and in most countries they represent more than 25% of State employees. As services expand, wages fall, and the cadres of social workers are gradually feminized, this phenomenon affects their role in politics.

These groups will, and in some cases already do, play a very important role at the ideological level, because through them the intellectual and political culture of the universities is extended to

all the middle sectors. This process is a cyclical one: firstly, there are great expectations of social transformation, with a major role being assigned to the State, based on populist and social reform movements; secondly, there is disappointment and the political vanguards adopt ideologies ranging from opposition to the *status quo* to revolutionary mobilization for total change in society, and from anticapitalist trends characteristic of the independent middle sectors to peasant-intellectual and worker-intellectual alliances for the establishment of some type of popular socialist model. Finally, there is a third stage in which ideological and professional roles tend to merge parallel to the constitution of national political options embodied in parties having a reformist or social democratic orientation, where they again play a part in promoting change, in connection with the rationalization of the services in which they act. Their vanguards turn into strategic groups which, within the sector, mobilize without producing new social breakdowns, and, within the social system, establish negotiations with parties and social groups with a view to reaching agreement on the functioning of the system so as to articulate individual interests with the general interest of society.

The third stratum is established with the emergence and growth of technical and scientific cadres. As regards their educational background, the members of this stratum have usually studied in technical and scientific fields. Their intellectual frame of reference is beginning to be the same as that of the corresponding sectors in the developed countries and they follow—either through their scientific or technical contacts or through the international markets—the orientations prevailing in those countries as regards efficiency, functional specialization, the requirements of rational organization, the concept of the State as a social articulator and agent of development, the importance of creating conditions conducive to freedom of initiative and innovation. Especially in the case of the business-related sectors, they are conservative as regards ideology and they follow international patterns of consumption.

Where transnational monopolistic capital and dependent local capital have prevailed, the middle classes were usually displaced to the position of a supporting class. They did not play a

significant role in the higher ranks of State management and their bargaining capacity, which in other situations had ensured them a considerable part of the national income, declined. In any event, their solidarity with the system was sometimes decisive, and was often achieved through mechanisms which enabled them to satisfy their consumerist demands.

Nonetheless, in other cases —especially when there was a political party system which enabled them to be represented in government— the middle sectors did not lose their importance. Moreover, they did not always seek purely material advantages, as their behaviour was also determined by other values and this in turn determined their allegiance to a given political system.

The speed at which the make up of the middle sectors changed, as well as the radical differences of orientation among social systems during this period of structural transition, explain why the middle sectors generated or supported political movements ranging from fascist-type to fundamentalist revolutionary movements, from democratic conservative alliances with the bourgeoisie to democratic change-oriented alliances with the proletariat. The cycle has not yet been completed and the fact that there is such a variety of national situations —as regards social structure and power relationships— is an indication that many different political behaviours which will vary depending on the country concerned, are yet to be expected, especially in view of the reactions of fear and threat generated by the current economic crisis.

c) *The industrial proletariat*

During the period under consideration, the absolute volume of the active population in the secondary sector tripled and its share in the total EAP increased considerably. This in itself changed the role which the labour sector had played during the populist periods of the 1950s, when political processes took place in urban enclaves set in a rural world, and behavioural patterns were related to those of other urban groups in which independent middle sectors or minor officials were predominant. At the same time, production evolved from small-scale crafts or

factories to large, technologically advanced enterprises.

The educational profile of workers, particularly those of the large economic organizations, changed radically (craftsmen and small factory workers having lost their usefulness with the advent of modern technology), and the ecological and cultural isolation of worker populations gradually disappeared as they became integrated into the culture of the modern world. In industrial enterprises, there was a steady increase in the percentage of personnel doing administrative, technical, scientific, sales and public relations work, while at the same time internal career-development mechanisms did away with the isolation of workers from other social groups, such as those studied by Halbwachs at the beginning of the century. Many trade unions, at both the factory and the sectoral levels, include office workers as well as labourers and technicians. This is facilitated by cultural communication among them, by their common problems as regards working conditions and by the fact that the trade unions are concerned both with immediate conditions and with the formulation of proposals concerning the organization of society. Independent action by trade unions goes hand-in-hand with their capacity to work with other social groups in formulating political projects.

The productive and technological heterogeneity which characterizes Latin American industry and the impact which the industrial transnational corporations have had on it have accentuated a process which leads not so much to a differentiation of production as to heterogeneity (if not segmentation) of the various units making up the industrial and economic system. Hence, the very concept of the working class seems somewhat outdated; one can at least point to a division between a new working class whose members are engaged in advanced technological activities and work in satellite companies belonging to large conglomerates, and another working class composed of workers of smaller-scale companies using inferior technology and traditional production methods. The latter group is made up of a less educated proletariat, trained through on-the-job apprenticeship and scattered throughout a large number of small-scale enterprises, who receive much lower wages than the

proletariat working with advanced technologies.

These phenomena pose the question of the worker's identity, on the one hand, and, on the other, the question of the worker's political articulation with the social system. As regards the first question, because the wide variety of situations involved makes it very difficult to mobilize workers in terms of common demands, trade unions that are organized according to activity sector or enterprise are able to act with greater flexibility than large centralized ones. As regards the second question, it is becoming increasingly difficult to speak of the working class as a privileged and dominant actor of social transformation; the Latin American society has not been a predominantly proletarian one and will not become proletarian because of the technological stage in which its industrialization is taking place. Consequently, projects for organizing society on the basis of the working class will either represent some isolated action amounting to an imposition on society or will involve the establishment of pluralistic agreements with groups from the middle sectors and others originating in the modernization of agriculture.

The dependent capitalist growth model was based on a high-income type of market which, to a large extent, worked against populist demands. To the sectors or groups in power, even the possibility of involvement by the popular sectors jeopardized the operation of the system. The policy of containing wages which was applied often, usually called for repressive control of trade-union organizations. An effort was made to restrict their action to purely bureaucratic, administrative and welfare functions; nevertheless, this curtailment of trade unions also entailed risks for the dominant sector, inasmuch as, in the event of a conflict, legal regulatory mechanisms could quickly be set aside.

It should be borne in mind that the conflict of the popular sectors, and particularly of the worker groups, is not always only a matter of protesting against excessively severe economic conditions. These movements are often headed by worker groups whose own economic situation is not so bad, but who demand better working conditions and some degree of participation, not only in the enterprise but in society as well. What is interesting is that in the type of conflict they initiate, they find no one with whom they can

have a valid dialogue; consequently, they find no channels through which to settle the problem. Because power is inflexible, any conflict has general political implication and thus other groups, equally frustrated by the lack of channels of participation, also join the fray.

4. *New dependency and power structure*

The relationship between the new forms of dependency and the political and social power system has been viewed in terms of the authoritarian-bureaucratic State as initially described by Guillermo O'Donnell and other authors who adopted and followed up on this concept. Although this approach was originally based on a limited number of experiences, the idea was put forth that there was a close correspondence between a given economic form and a given political form. Whether or not this broad generalization is valid, one can agree on the significance of three main actors, i.e., the transnational corporations, the local bourgeoisies associated with them and the State.

As regards the State, what is important is the role it played as an organization and, consequently, as a bureaucracy; in addition, however, it often acted as an enterprise in the production sector, thus turning into a *sui generis* type of capitalist State or perhaps, in certain circumstances, fostering a State capitalism. One important aspect was the State's capacity to serve the interests of large capital, both multinational and local; the strong presence of these capitals and their relationship with the State gave rise to a phenomenon whereby politics was displaced by economics and often economics was the only politics. Hence, in the opinion of those who have studied the phenomenon, the State appears to have been almost like an executive committee of the dominant sectors, i.e., State officials (military or civil), executives of State enterprises, large private entrepreneurs, both national and foreign, and the new middle classes linked to those enterprises.

In some countries, the presence of bank and financial capital was more evident; under official policies, these groups were granted all kinds of royalties and facilities. In many cases, because of the limitations imposed on organized parties and

major trends of opinion, or their virtual exclusion, the State became an almost direct spokesman for the interest groups mentioned.

Perhaps one of the most important phenomena of the new power structure was the

strong and often decisive influence of the armed forces. The behaviour of the military may be mainly accounted for by their concern with subversion, but their intervention is associated with the crisis between the State and society.

III

The political crisis

1. *The failure to establish a modern political system*

An analysis differentiating the economic system from the political system is particularly valid in Latin America, because there are inconsistencies between the two dimensions: to a large extent, capitalist forms penetrate the society from outside, whereas in the political sphere, the contradictions of the crisis of the oligarchy are not resolved in such a way as to allow for the development of capitalistic class relations. Dependency and the projection of historical structures are variables in the constitution of an incomplete bourgeois order whose political expression has two main elements, i.e., a State which is not a construction of society, and the lack of political resolution of the crisis of the oligarchy.

a) *A State which is not a construction of society*

Historically, in the construction of society and the State in Latin America, the State first appeared as a substitute for Portuguese or Spanish imperial power. In the case of Brazil, imperial domination persisted well into the nineteenth century and its counterpart in society was the slave-and-master system. In countries with a subjugated indigenous population, the local oligarchy retained its power, and dominated the population through the hacienda system and the linguistic exclusion of the people under their control. Finally, in countries having a free population, the struggle for national construction ended with the imposition of the State and the oligarchy.

This imposition of the State on a society that

is not able to organize itself or express itself was the model which continued in force up to the mid-twentieth century, except in those countries in which the commodity-export stage went hand-in-hand with national ownership of the means of production and a shortage of labour which made it necessary to resort to international migrations of free men.

b) *The lack of political resolution of the crisis of the oligarchy*

The crisis which began during the 1930s had a decisive impact on the economic model of domination by the oligarchy. Capitalist forms gradually emerged, leading eventually to the internationalization of the Latin American markets and to the new forms of dependency which characterize the current crisis. Despite all this, the social power and the values which legitimated the previous domination by the oligarchy did not entirely disappear.

Capitalism developed within the context of a crisis of the oligarchy which in some countries has lasted for half a century. The bourgeoisie, as a class, has not had a rationalizing influence on capitalist expansion, disseminated values relating to accumulation and distribution or developed a capacity to stabilize the political system with a hegemony that would legitimate an alliance of power.

The bourgeois sectors opted for different forms of political construction such as populism, reformism or reconstruction of the oligarchy. In the first two cases, they tried to establish an articulation between the society and the State by means of a political system in which the society was to take part in orienting the development

system and establish a social and legal order, as well as a collective identity of belonging to the nation; this involved the dissemination of new values in respect of personal equality and rights, as well as a common culture. Populism stressed the creation of a social citizenship, understood as a set of social rights that are the same for the entire population, without any distinction being made between different social levels; to this end, policies relating to the distribution of social incomes—education, health, social security—provides for the transferal to the collective population of an increasing share of the family costs of social reproduction. Reformism, on the other hand, stressed political citizenship. This included the extension of suffrage and its use as a mechanism for the society to regulate the State, the establishment or extension of a common legislation to all members of the society and the development of mechanisms for preventing the State from acting illegally or using its power arbitrarily (justice, autonomy, separation of powers).

For the purposes of this analysis, we shall stress two characteristics of these options:

i) Groups of the bourgeoisie take part in both processes; in populism, they participate along with urban worker or popular sectors, and in reformism, with middle sectors. Nonetheless, neither of these can define itself because of the control exercised by the bourgeoisie itself.

ii) These processes only brought a part of society (urban residents who took part in the newly emerging activities) into modern social relations and often did so in a corporate manner. For the remaining (majority) population—a fundamentally rural one—there was no such thing as social and political rights. Such rights continued to be controlled and repressed through the classical procedures of the oligarchical republic; hence, a double standard was applied in relations between the State and the two forms of society. In many countries of the region, the oligarchy managed to retain its control over the State well into the second half of this century; in others, it influenced the orientation of society by managing rural society and the less developed regions. It provided a point of reference for the attitudes of the bourgeoisie, on the one hand, and, on the other, it reintroduced its regressive projects into populist and mesocratic alliances.

Nevertheless, as a result of the gradual

urbanization of society, the changing levels of education of the population, and its social mobility, the oligarchy no longer had a population it could fit neatly into a frame. The bourgeoisie, for its part, noting that most groups had been integrated into modern life, found in the oligarchical points of reference and neoliberal economic models the way to exercise exclusive dominance. The State was once again separated from society, but this time, given the development and mobilization of society, the State's relationship to the society became an adversary one.

2. *The contradictions of the political process*

The present crisis of dependent economies, although widespread throughout the region, is superimposed on and intertwined with the widely varying crises of the political and social systems of Latin America; hence, the future scenarios will necessarily be quite different from one country to another.

Without claiming to cover every possible situation, the following examples show some of the different situations that arise in the region.

a) *The crisis in modern societies*²

In the Southern Cone countries, where the economic crisis has been more serious and where the neoliberal economic model was applied more forcefully, the breakdown between the society and State occurred sooner. It is reflected in the disintegration of relations between development and modernization, participation and nationhood, which constituted the variables of its historical process.

As the cycle of urbanization and incorporation of the various groups into the cultural aspects of modern life—education, communications, symbolic participation—was completed and the cycle of horizontal mobility and structural change was concluded, there arose a conflict between accumulation and distribution and a crisis in connection with the incorporation of previously excluded groups or those which

² Part of this analysis takes up the positions expounded by Delich (1983) and Oszlak (1983).

had no capacity for autonomous political action within the political system.

As social citizenship became generalized, the bourgeoisie seemed to have exhausted its capacity to manage incorporation through the reformist and populist options, as well as its capacity for economic development, which it did not succeed in activating through the adoption of technology and the expansion of the external and domestic markets. Thus, it joined the oligarchical groups in its traditional resistance to the idea of the State representing society (Alfonsín, 1980).

In Argentina, Chile and Uruguay, there was an attempt at transformation from above; thus, the State, which had been put into private hands by those groups, was separated from society, suppressed political life, suspended most of the previous norms and established the will of the authority. It curtailed the functions of the judicial system as a protector of the civil society and used special agencies to impose the power of the State. At the same time, it attempted to dissolve the system of values which had previously established the link between the State and society—i.e., the nation—replacing it by a market. The educational system—often viewed as an agent of subversion because of its role in mobilizing and promoting the autonomy of social groups—, and a policy of breaking apart the health and social security systems were also used to dissolve social citizenship. The State adopted the principle of subsidiarity and declared that the market would regulate social assignments, thus restoring a hierarchical system of classes and groups. The dissolution of the social contract—mentioned by Oszlak—provided the basis for an unregulated market in which the orientation of production, entrepreneurial behaviour, accumulation and the rationale of capitalism disappeared. Legal and economic standards were affected considerably. Speculation as a form of economic appropriation was often due to appropriation by the State.

b) *The crisis in traditional societies*³

The cases of Bolivia, Ecuador and Peru illustrate the continuity of an oligarchical colonial

³ This part takes into account the work done by Cotler (1983).

heritage reinforced by the segmentation of the indigenous population. The oligarchy was not able to establish the State, to achieve economic growth, to articulate the territory into a market system or even to integrate the population into a national society.

Under such circumstances, the bourgeoisie did not develop, either at the end of the nineteenth century or at the beginning of this century, except in certain mining and agricultural export activities which operated in an enclave situation. The weakness of social structures increased external dependency; this in turn strengthened the social demand for nation-building, which was reflected in military sectors in terms of the frustrations caused by national wars (e.g., the Chaco and Pacific wars, the loss of the Ecuadoran Amazon region). This gave rise to certain military interventions aimed at achieving national integration by simultaneously modernizing the State and society. This other type of revolution from above involved mobilizing the society in order to transform it, blocking the old oligarchical power structure, and avoiding external dependency.

The subordinate classes are not constituted as such; the urban middle classes are of the traditional type, the industrial proletariat is minimal in size, the peasantry is mostly indigenous, and it is only in Bolivia that the mining sector is involved in politics.

The prevailing orientation is a populist one, sometimes under military leadership, and it will be stronger when the integration capacity of the economic system is weaker and the bourgeoisie less significant.

The economic crisis of the 1980s has occurred in societies whose development processes have led to widely differing results. In one case, a country's petroleum resources, together with its capitalistic export-oriented agriculture, have enabled the State to become a major agent of change. The State is able to develop large dependent middle sectors, create a new industrial proletariat and consolidate a bourgeoisie of strong oligarchical content. Despite the efforts at national and cultural integration, there are still dualities, the most important of which is the indigenous one. The political system articulates the modernized society and the State, and gives rise to the confrontation between the mesocratic re-

formist option, the populist option and the bourgeois neoliberal option.

In a second society, the weakness of the economic structure, along with the reluctance of the oligarchy and the bourgeoisie to go along with a State-directed development process, led initially to the failure of this process and, subsequently, to their regaining control of the State apparatus so as to bring it in line with a neoliberal model which led to the disintegration of the economy and of society. There is a crisis with respect to the social incorporation of a mobilized society which is more readily defined in terms of the people than in terms of class, and which, through the political system, promotes State control and a model for development, modernization and national integration in which survival itself is at stake, given the other type of crisis which in turn affects the indigenous society. Finally, because of its unique history, the third society has an incomplete class structure. The national popular revolution eliminated the oligarchy and a mining bourgeoisie that was small in size but had international economic dimensions. Workers and peasants, biased by their indigenous identity, became either supporters or antagonists of a very weak State which was articulated by the military or political bureaucracies. As it grew, the bourgeoisie still did not manage to control the State and the political system reflects the fragile alliances of a society undergoing a process of revolution, whose adversary in the international capitalist system, and which, on the domestic scene, has not succeeded in making the State the agent of accumulation.

c) *The affirmation of the State and of the capitalist system*⁴

In the case of Brazil, there were several structural conditions which made the State the articulator of a capitalist development which postponed the conflicts between State and society and provided certain channels for working them out.

i) This is the only case in Latin America where the European type of State persisted and

where the old régime, with its monarchical government and slave base continued to the end of the nineteenth century. From the beginning, the State was not oligarchical but bureaucratic in nature; it had to face the problem of how to control an enormous social space with centrifugal tendencies, and resorted to a system of reaching agreements with local powers while at the same time promoting national integration based on the restoration of popular cultural forms along with political exclusion and exclusion in the area of income.

ii) The crisis of the 1930s affected domination, but in a society which was overwhelmingly rural and in which participation in the electoral process was minimal, the import-substitution process was carried out under a populist option which was limited to the central and southern cities and was strongly influenced both by the oligarchy and by a stratified State bureaucracy.

iii) Substitutionary industrialization and the export-oriented industrialization which followed it still excluded the rural and urban masses while at the same time the consumption capacity of the integrated urban sector was increasing. The bourgeoisie, which developed along with agrarian capital, followed the lines of the revolution from the State, which had been carried out by the groups comprising the State, with military support, for the purpose of promoting capitalism through the internationalization of the market and the massive incorporation of technology. The triad composed of private capitalism, international capitalism and the State operated around the latter, which set the boundaries of the three entrepreneurial sectors (public activities are also entrepreneurial). The "bureaucratic rings" (mentioned by Cardoso) gave rise to agreements and tension among the three sectors and these were sometimes accentuated by the bureaucracy's trend towards State capitalism.

iv) With the populist and reformist options out of the picture, social integration was determined by the very high rate at which the rural and urban marginal masses were incorporated into the modern sector; although their wages were very low, the increase in the product brought about an improvement in their income, their motivation being social mobility. The middle classes grew and, by way of their consumption habits, were incorporated as a body.

⁴ This part takes into account the studies by Cardoso (1971, 1975 and 1983), Faria (1983), Filgueira (1983), Castro and others (1983).

v) The model which prevailed was a sort of State ideology which led to political demobilization and brought about integration by means of structural mobility and bourgeois consumer values. It achieved a very effective symbolic integration by bringing together the nationalized elements of popular culture and a nationalism based on the historical destiny of a country that had become an industrial power.

vi) The relationships between the society and the State are now different. The scope of traditional control and management mechanisms has been narrowed as traditional society itself has been sharply reduced. (In 1950, the agricultural EAP was 60% of the total EAP; in 1980, not only had it fallen to 31%, but it had also been affected by modernization.) In the modern society, the differentiation of classes and groups is one which is characteristic of advanced capitalism and calls for State control and a development policy aimed at fostering the growth of capitalism; this involves social and political citizenship and a dynamics of accumulation and distribution. The choice is between continuing with the separation of State and society, whereby only the bureaucratic—bourgeois—multinational rings would operate, and promoting societal action whereby the State would be controlled by a bourgeois-mesocratic alliance with proletarian support.

d) *The State as an agent of social political consensus*

The cases of Mexico, Costa Rica and Venezuela are especially interesting because these countries have shown a remarkable capacity to carry out transitions and make corrections in the development process without causing as extensive a breakdown of the political system as has been noted in other countries. What is particularly interesting is the role that has been played by the State, both in the sphere of economics and in the search for mechanisms—political or otherwise—to ensure effective articulation between the different social groups. This does not mean that there are no conflicts, but rather that they have been resolved, thus ensuring the stability of the system.

Although foreign participation in the economy has been substantial in all three cases, the State as such has played a strong role in entrepre-

neurial activity, particularly in national private enterprise. In Mexico, for example, most of the large State enterprises are involved in credit, (e.g., the very important Nacional Financiera), utilities (telephone, electricity) or infrastructure (steel production). Consequently, the State does not compete with the private sector.

In the case of Venezuela, the fact that the State controls petroleum, steel and other important items clearly makes it the most important direct producer of the economy, although its activity is associated with the private sector. It has also promoted industry and agriculture, encouraging the private sector. The purpose and, to a great extent, the achievement of the agrarian reform was to generate a middle agrarian sector which, moreover, would provide a good base for political stability.

In Costa Rica, since the early 1950s, the State has played an important role in the diversification of the economy, creating infrastructure in the areas of energy, roads and social welfare. With the nationalization of the banking sector, credit was directed to new sectors, such as industry, which were favoured by subsidized rates, soft credit and tariff protection. Moreover, the policy has been to support the middle agrarian sectors, which are a unique feature of Costa Rica not only with respect to other Central American countries but also with respect to the Latin American region as a whole. Most analysts agree that the existence of an agrarian middle class is a factor of stability in the social and political environment of Costa Rica.

In all three cases, the State has become a significant source of employment and has contributed, with its policies, towards a broad redistribution of income, although this is more true of Venezuela and Costa Rica than of Mexico, whose rural area still presents problems in this respect. Nonetheless, it is worthwhile noting that in all three countries, the State has attached special importance to social policies, particularly in the areas of education, health and, to a certain extent, housing.

Obviously, there is a close association between the role of the State and the political system prevailing in the three countries. Most foreign observers find the Mexican system not only unique, but also somewhat mysterious.

Nevertheless, it is generally agreed that political pluralism has been somewhat limited and that the opposition usually functions merely as symbolic competition, although this situation has changed somewhat in the last few years. The real competition takes place within the government party, not necessarily among the blocks composing it (the peasant block, the worker block and the popular block)⁵ but rather among the sectors following individual leaders. It is well known that there is usually a complicated mechanism of negotiation and balance among the different groups, which neither annihilate nor eliminate each other, but rather seek some form of compromise. The result is an intricate system of agreements, relationships and compensations.

Venezuela's political system began in 1959. At first, there were serious problems, including outbursts of violence, such as guerrilla attacks. Nevertheless, a laborious system of political agreements was developed which brought about the establishment of a virtual two-party system, which does not, however, exclude other parties. In some areas of the country, in fact, orientations other than those of the two dominant parties are very well represented and have a significant amount of power. It would appear that the coun-

try's oil income explains everything; it is important, however, to bear in mind the political context in which this income is used. The State invests in basic sectors but enters into association with or encourages private groups, it makes expenditures to transfer income to the poorer sectors, redistributes income through wages and services, uses agricultural credit to the benefit of small and medium-sized farmers and applies broad employment policies. In brief, the formation of a social consensus is a basic principle. Something similar has happened in Costa Rica, where the State plays an important economic role and where its main concern is to construct the bases for social political consensus.

In brief, the cases mentioned above are interesting because they demonstrate a capacity to produce social consensus, for which State action has been fundamental. This policy has often been attributed to the availability of resources, but it seems that not only does consensus result from a relatively efficient or stable economy, but the social political consensus guarantees the stability of the economy even during periods of slow growth. Clearly, the impact of the crisis will be telling in this regard, but so far nothing has happened to contradict this.

IV

The political problems of a new development option⁶

If under the new development option the social actors are considered to be the popular sectors, the working class, the middle sectors and part of the bourgeoisie, the challenge is how to bring together the interests of these groups, which are often corporate in nature, in an option that will allow for consensus, if not of all the groups concerned, at least of a large majority. Essentially, democracy synthesizes the interests of the consensus groups of society.

One fact is undeniable: we are dealing with capitalist societies which are characterized by an

antithesis between the rationale of capital, the objective of which is to increase its value, and the rationale of labour, the objective of which is to improve conditions for the reproduction of the labour force. Consequently, the conflict has to do with the operation of capitalism.

In many Latin American countries, some parties have tried or are trying to present themselves as the party of one of the sides in the capitalist conflict, and particularly, as a party which, within the State, stands up for the rationale of labour against the rationale of capi-

⁵ In the terminology of the Mexican Institutional Revolutionary Party (PRI), the popular block is made up of the middle sectors and the bourgeoisie.

⁶ Many of the ideas discussed here were first stated by Altvater in connection with social democracy in Europe.

tal. In a way, the developmentalist option which prevailed from the 1950s onwards represented an effort to seek a compromise between the two rationales by forming an institutional State network; this might be called the "compromise State", to use a term coined by F. Weffort. In addition, certain current political experiences, such as those of Mexico, Venezuela and Costa Rica, still have something of this characteristic which distinguishes them from other modalities.

What is significant is the fact that when the conflict or the compromise between the two rationales occurs within the State, the action does not take place at the level of classes, i.e., with reference to the mode of production; rather, it takes place within the sphere of social formation, which involves dominance that is politically and ideologically mediated. The main objective is to ensure that the worker becomes a citizen with the same rights as the bourgeois citizen. But at the same time a separation between the economic and the political levels is introduced.

The populist and reformist discourses were often incomplete, but they were discourses on the citizen endowed with rights which are met by the State. When the worker claims the same rights as those of the bourgeois citizen, the economic sphere is being separated from the political sphere; while it is true that the worker is also a citizen, he is never the same as a member of the bourgeoisie.

Nonetheless, when there is an intervening State—and that was the case during the developmentalist experiment and will probably be the case under a future option—the links between the economic and the political spheres are re-established, although preferably in the area of circulation and realization rather than in the area of production. The means for articulating the economic and the political spheres at the level of circulation are the law and money.

The conflict between capital and labour remains and it is reflected in problems with wages, working conditions and forms of management; efforts are made to solve these problems through State mediation. Nonetheless, State intervention introduces two serious questions:

a) Work stops (partly) being a merchandise; it is not governed solely by market conditions and this changes one of the principles of capitalism, i.e., the free labour market. (It is not a coinci-

dence that this is one of the first things that neoliberal policies try to recover.)

b) Wages become the citizen's wages and thus capitalism becomes less flexible. It becomes more difficult to lower wages.

In difficult situations, capitalists will reject political intervention in the operation of the economy and will try to establish pure capitalist relations, resorting to force in order to destroy the sphere of policies. This explains why it is so risky to try to solve the contradiction of interests only in the political sphere, without touching the sphere of production.

The question now comes to mind whether we are faced with a problem which cannot be solved in the context of capitalism, since, essentially, what is involved is simply the contradiction between capitalism and democracy. Capitalism itself, in some cases, has managed to dynamize this contradiction in terms of the expansion of modernization and of rationalization. But in most Latin American countries, and particularly during this time of crisis, that is very difficult unless the objective is also to transform the capitalist society as it exists today.

As has been noted, under the new development option, the State should be the subject of transformation and it should be imbued with a willingness to change, which means that the political project for transformation must be drawn up.

The challenge is to articulate two dimensions, political emancipation and economic emancipation. This means there must be some socialization of economic action by way of co-management, a more or less similar process must take place in the sphere of politics.

In this dimension, groups act upon their own situation, transforming themselves. The alternative project represents not only an attempt to transform the mode of managing society, but an attempt to transform society itself.

It is not sufficient, therefore, to analyse the characteristics of the social groups we have mentioned, which can support a new option in their present form. Although this is very important, what is fundamental is their capacity to change themselves, and objective conditions now exist which make this possible.

In addition, despite the importance of the State the alternative project as an option of soci-

ety must not be seen as merely a State project. We have stressed that the challenge to Latin America is that of achieving the true integration of State and society. In any attempt to provide a new

orientation for the society as a whole, there must also be a willingness on the part of the State, which must have the capacity to construct the many dimensions of its future form.

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Culture, discourse (self-expression) and social development in the Caribbean

*Jean Casimir**

Cultural domination is an important phenomenon throughout the developing world, but it is even more so in those countries which, like most of the Caribbean nations, are still going through the first stages of decolonization. In this connection, the author sustains that the constitution of empires, through which the conquered territories are converted into "fragments of the colonial powers", is also characterized by the imposition of imperial cultures which reduce or eliminate the native cultures, thus restricting the possibility of development, consolidation and self-expression of the dominated peoples. Political decolonization has not eliminated this situation, since the relationship of cultural domination would persist even in the absence of the colonial élites. The author's conclusion is evident: there should be a strengthening and revaluation of the autonomus capacities of the new nations for cultural expression, since this makes it possible for them to build up their own identity and devise indigenous strategies for future development. Following this line of thought, he presents the problem of cultural decolonization in the Caribbean countries, reviewing the problems posed by the diversity of languages, the cultural ambiguity of the middle classes, and others which acquire a particular connotation owing to the multilingual and multicultural nature of the Caribbean area.

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Introduction

The history of the impact of a given population on the physical and social environment in which it has settled explains its size, its growth rate, its differentiation into social groups, strata and classes, as well as the sum of material and spiritual means which ensure its regeneration. The daily practices of the population in question represent an enactment of this history and establish, on the basis of its accumulated experience, what options are viable for the future.

From the day when the Europeans set foot on Caribbean soil, these elementary principles of social life have been in abeyance. The efforts made by the colonized populations to react to their environment have been thwarted or subjected to the colonizers' interests. The geography of the insular or quasi-insular societies which were established following "the European discovery", their demography, sociology, anthropology and economy have to a certain extent become a product of the construction of the great colonial empires—in other words, of the relationship between the colonizers and the "discovered" physical and social environment. Thus, the course of the colonized population's community life, and even that of the private lives of the individuals in the community, have been traced without those involved seeing the other side of the picture; that is, their intimate link with another history and distinctive and indigenous cultural features.

The birth and rebirth of autonomous national entities, often opposed to the colonial empire, was an unforeseen and unavoidable consequence of the imperialistic adventures. The aim of social science is to determine how, amid colonial dependence and control of the environment, the conditions and aptitudes necessary to achieve this rebirth, this "counter-discovery", are created.

Slowly but surely, the colonizers are losing ground. The progress made by colonized peoples in gaining control over their living conditions takes place within the context of the history of the metropolitan countries and sometimes in opposition to it. In order that this process may be accelerated, it is imperative not only to discover alternatives for survival in a world which is indeed dominated by the metropolitan countries, but also to occupy and control the institutional strongholds built by the people in

response to this domination. In other words, it is necessary to take stock of the autonomous aptitudes for collective initiative and develop them without losing sight of the context in which (and against which) these aptitudes are demonstrated.

The relationship between culture and development generally includes the problems of discourse on culture and development. Such a relationship is similar to that observed between history and historiography. Obviously, the manner in which we write (and perceive) history reflects and guides the part we play in what is to become history. *Mutatis mutandis*, our development strategies are reciprocally conditioned by the verbal expression of our development experiences.

In the Caribbean, however, this problem is further complicated because of the peculiarities of cultural and linguistic structures. The Caribbean is multilingual and multicultural. And between its languages and cultures obtain relations

of asymmetry and domination.

Let us first say that all deliberate participation in what is to become history and in development strategies takes place, in our times, in the dominant languages and cultures. Moreover, the history of the social classes and élites capable of influencing collective projects for the future is a continuation of colonial history, whereas the greater part of the population (and of its élites of artists, priests, healers, village chiefs, etc.) represents the other aspect of this evolution. Finally, and to complicate matters further, the population as a whole, beyond class distinctions, operates in differing degrees and, except in the cases of Haiti and Suriname, in both the dominant and dominated cultures and languages. To suggest an equation between the terms culture, discourse and development, and to offer a demonstration of it, is a far-reaching enterprise; here, we seek only to establish the need for such a venture.

I

Awareness of the issue

I shall use three texts by two of the greatest intellectuals of the Caribbean to define the issues as I see them. These texts, which date back to the late twenties and fifties, are excerpts from the works of Jean Price-Mars and Eric Williams. Far be it from me, I would hasten to add, to consider analysing here the literary production of these authors. I have selected these texts in order to identify the terms of the equation and, at the same time, to show that these issues have been discussed for several decades.

Eric Williams (1959) maintains that the basis of Greek democracy was "the recognition of the political leader as a man of culture, not of culture in the abstract or of intellectual refinement, but of the culture of a whole people, of an entire city, of which he was the representative". In another passage from the same text, he adds: "As a second example of the relation between politics and culture and their interpenetration in Ancient Greece, I would recall Demosthenes in his attack on Aeschines before the Jury of Athens.

The powerful political exhortation was intended for the common man of Athens, the ordinary citizen, integrated into a single electoral body, government and culture".

Williams denies the existence of an indigenous Caribbean culture. In his opinion, the problem of the West Indies lies with the destruction of pre-Columbian culture; except for a few surviving practices, African culture brought by persons reduced to slavery left few traces. He categorically claims that "the West Indian way of life and values are European or American at all levels".

Therefore, according to him, one of the main duties of the political leader is in some manner to create the national culture, either by promoting "all cultural productions which, though not indigenous, are based on an adaptation of European and American legacies", or by making a conscious effort to bring together "the dissimilar threads of culture which make up the West Indies —European, African, Indian,

Chinese, Syrian". "Today", he adds, "the struggle for a national culture is not only part of the struggle for political independence, but also the struggle for bringing about a new social order".

According to Williams, the absence of a specifically Caribbean language constitutes an important obstacle to decolonization which, in his statesman's vision, he sees as the result of a wide integration, "a cultural, economic, commercial and even political confederation of West Indian territories". To him, "this is the greatest nationalism". The following passage, with its numerous inaccuracies, serves as an example of the importance of the problems of social dialogue in the Caribbean and of the enormous difficulties of conceiving and systematizing a linguistic policy within the confines of the objectives of social development: "The main difference between the West Indies and Africa or India in their nationalist struggles is that there is no indigenous language in the West Indies. The language of the imperial power has become the mother-tongue—English in Trinidad, French in Guadeloupe and Haiti, Spanish in Cuba and Puerto Rico, Dutch in Curaçao and Suriname. But because the process started in the days of slavery, these imperial languages have so degenerated as to become, in each territory, a kind of patois, or Creole as it is sometimes called. Whereas Creole is the *lingua franca* of each West Indian territory, there is, by the very nature of this region, no Creole language of the West Indies as a whole. This raises a dual problem: there is no rallying point for the nationalist movements of each territory; the absence of a common language is not only a barrier to contacts and communications between the islands... but also an impediment to a wider co-operation, on the cultural level, among all the West Indian territories".

Price-Mars wrote his famous book *Ainsi parla l'oncle* in 1928 during the occupation of Haiti by the United States. Contrary to Williams, he considers that a Haitian culture does exist. Whether or not it is equipped to control the social environment is a separate question. The difficulty he seems to face is that of increasing the perceptibility and worth of this culture. His concern is apparent from the first sentence of his book: "We have for a long time nourished the ambition of building up the image, in the eyes of the Haitian people, of the value of its folklore". And by folk-

lore, he means the knowledge of the people. In the same range of ideas, the existence of a language is not even questioned, let alone the problem of its relative value. Since Price-Mars does not envisage Caribbean integration in 1928 he has fewer variables to deal with than Williams, and therefore can be more assertive: "In any event, one would easily agree that, as it is, our Creole is a collective creation resulting from the need felt by masters and slaves in former times to communicate their thoughts to one another... For the time being, it is the only instrument used by the masses and by ourselves to express our mutual thoughts. ... As such, jargon, dialect, or *patois*, its social role is a fact which we cannot escape. Thanks to Creole, our oral traditions still exist, live on and evolve, and it is through Creole that we may hope one day to bridge the gap which makes of us and the people two apparently distinct and often antagonistic entities".

However, twenty years later (1948), in a discussion on the problem of the society's political structure, Price-Mars is assailed by the same anguish as Williams: cultural expression is restricted. He identifies the bases of authoritarianism in Haiti and raises the issue of collective thinking as the touchstone of national unity and development. One is tempted to conclude, as he does, that it is essential to build up, in the eyes of the people, the image of the value of the language. He compares the Haitian society towards the end of the last century with that of 1948 in the following terms: "Thus, since the Haitian nation continues to exist, it must be its immaturity that prevents it from expressing its political existence. Is it not therefore more correct to borrow from the North Americans their designation of this state and call ourselves *an inarticulate people*?¹

"Inarticulate people": a term which is supposed to describe a people powerless to express its thought, powerless to express and to assert its will, and reduced, as a result, to a 'confused bunch of individuals', paralysed by ignorance, a herd ready to follow any leader, so long as he is clever enough to impose himself. Such was the situation in 1870-1880, which actually has not changed much since..." (Price-Mars, 1948, pp. 22-23).

¹In English in the original text.

II

The terms of the equation

There are thus three terms to the equation of Caribbean social development: i) the existence of a culture for the encounter of the leader and his people (Williams); ii) the existence of a language to bridge the gap between élites and masses (Price-Mars) and to ensure greater solidarity among the nationalist forces (Williams); and iii) the realization (or science) of the value of this culture and this language (Price-Mars).

On the first point, we could establish, contrary to what is stated by Williams and in agreement with Price-Mars, that there exists a culture (or cultures) in the Caribbean, distinct from that of the colonizers, and that its existence should be distinguished from its capacity to assert itself in all spheres of social life. But rather than delineating these distinctions, our task will be to identify the area which Western culture cannot cover, despite its indisputably dominant position, and which thus become the sphere of collective initiatives, and of the rules by which these are created and enhanced.

As for the second point, Williams' opinion regarding the mother-tongue of the Caribbean peoples is now outdated. We must also set aside the notion that the absence of a Caribbean language represents an obstacle to regional integration. We retain the fact that within each country of the region there is one, and only one, *lingua franca*. Nonetheless, some countries have no national language proper, inasmuch as they use that of the original colonizing country. If it is proven that a specific area exists for the development of a national culture, the fundamental problem of the relationship between culture and development is not altered by the fact that there is no Creole language in the countries formerly under Spanish rule. In their case, the problem of social discourse is apparently simplified, or at least it does not present itself in the same way as

in the rest of the Caribbean.

This problem, in conjunction with that of the value of the national cultures and languages, calls for a distinction between culture and the "discourse" which arises from a given culture. The value of a culture (and a language) is defined by the ability it affords its creators to overcome the obstacles they face. By national discourse or self-expression, we mean the formulas for meeting the challenges of the environment, embodied in the local culture. It will be seen that the value of local cultures and languages is a matter of (class) perception, and, as a result, is an aspect of the logic of the corresponding human sciences. The question to be clarified is that of the conditions in which indigenous creations may be put to a practical use, thus allowing their "value" to be appreciated.

Once that question has been solved, the course of scientific development (knowledge or awareness of the value of national languages and cultures) will have been defined and we shall not pursue the subject further here. Suffice it to say that the development of human sciences aims at the optimum use of the means of social action controlled by the populations concerned, and by them alone. There is thus a need for greater visibility of national cultures and for ensuring exclusive control over the Caribbean environment; such control may be gained by providing the national cultures with the tools indispensable to deal with the context within which and against which they evolve. Interpenetration of politics and culture—that is, the culmination of the democratization processes as described by Williams—will follow. In other words, the control—knowledge and understanding—of the national culture and its value, as the setting in which the politician becomes a man of culture, will be achieved.

III

The fragments of the colonial powers

In order fully to understand the difficulties of achieving an "interpretation of politics and culture" in the Caribbean, it is essential to distinguish, at the risk of repeating commonplace ideas, between two superimposed levels of history in the region (and in every colonized land): that of politics or the State on the one hand, and that of culture or the nation on the other.

The first concept to note is that of national territory which, in the generally insular Caribbean societies, appears to pose no problem. Within the framework of a sociological discussion, a territory is not the arena in which particular relationships arise; the arena is created by these relationships. It is human relations that limit the space and not *vice versa*. This is why the territory of the Carib-Indians, though made up of the same islands that we inhabit today, differs so profoundly from ours.

Hence, when a foreign army and its accompanying institutions (moral persons) take over a territory, that territory and its constituent parts receive a new definition. The redefinition varies according to the nature of the dominant classes of the colonizing nations. An "overseas territory" is created which can exist only within the geography of the colonial power. In fact, one observes an expansion of the conquering nation's territory which, together with that of other colonial empires, ends up by encompassing the whole world.

As for the habitat of the conquered nations, this is presented as a distinct subgroup within the imperial geographies. New meanings, belonging to alien thought-patterns, are imposed upon these territories and their constituent parts. It evidently follows that in the collective thinking of the conquered nations there is an overlapping of two systems of definitions, superimposed upon two systems of social relationships. (In order to facilitate the discussion which follows, it will be understood that the term "conquered nation" refers to all those now existing within borders traced by the colonizers.)

For the past five centuries, the army and other institutions of colonialism have come be-

tween the subjugated nation and its physical and social environment, thus preventing it from giving real expression to its internal differentiation (and therefore to its particular history). They have made it part of a new totality and converted it into one fragment, homogeneous in its essential ignorance and backwardness. A nation has thus become "a people powerless to express its thought, powerless to express and assert its will". It has lost its self-expression and may well be physically destroyed, to the conquering nation's advantage and, more precisely, to the benefit of the latter's dominant classes.

The self-expression or discourse of a nation means the expression of its future, as upheld by the institutions (moral entities, norms, laws and customs) which make up its individuality. A nation ensures its regeneration by means of the institutions through which it gives meaning and form to the environment. Its discourse is this shaping of its continuity, the design of its future physiognomy as a sequence and consequence of a common past. The concept of the discourse or self-expression of a nation is more limited than that of culture; it is an attempt at defining a projection of the national culture into the future. This leads to the observation that a conquered nation may lose the means of deliberately expressing itself while not necessarily losing its culture.

The expansion of the conquered nation's territory brings with it the universalization of its class structure. A bridge is created between two groups, as different from one another as two national societies can be, and the oppressed nation as a whole becomes the most oppressed class of the colonial empire. "The confused bunch of individuals" occupying the new geography is a concrete achievement of the colonizers, and not a mere optical illusion or methodological aspect of the question. This "confused bunch" is the result of a new individuation system, and of its cleavages. A single path to evolution is open to the colonized peoples; there arise the *New Englands* (in which the colonized people are massacred) or the *New Spains* (in which the survivors are sub-

jected to one or another form of oppression). In the first case, the national way of thinking disappears; in the second, the means of expression of this thinking are forever obstructed.

The absence or near-absence of indigenous populations in the Caribbean represents little difference between the region and Latin America as regards conflicts between colonized and colonizers. Blacks transplanted into the Caribbean and elsewhere in America established themselves as conquered nations. The problem is to discover what will become of these conquered nations, Black or Amerindian, in the framework of the development process planned by the metropolitan powers, and how they will free themselves from their new condition as oppressed classes.

As everyone knows, the partitioning of the world by the colonial empires did not take place in an atmosphere of friendship and the powers of that time have met with differing fortunes. The fragments of metropolitan societies responsible for administering and exploiting the colonies suffered the consequences of these rivalries. The difference between the interests of these agents and those of their mother-country became more and more evident. Under the pressure of the local dominant classes (Creoles), these fragments emancipated themselves and formed new countries, called independent "nations".

Two aspects are worth noting. These class struggles imply a certain mobilization of the colonial populations, and are reflected in nationalist struggles. The alliances of classes against the colonial power are expressed in the opposition between the Creoles and the agents of the colonial power. What is more, before these secessions occurred, the independent nation concept did not exist in the vocabulary of Creole America. The great Aztec, Inca and Maya States or Empires, and the *quilombos*, *palenques* or *bush societies* did not regard themselves as independent nations or States.

The nineteenth century independent nation—or more accurately, emancipated nation—is encumbered with aberrations inherited from colonial times. The simple fact was that overseas territories could not, in the eyes of the colonizers, establish themselves as countries, as could the groups that severed their links with the colonial empire; it was inconceivable that the conquered

peoples (independently of the degree of destruction of their own structures) should be considered nations in their own right. The subjugated indigenous nations were not involved in the conflict between Creoles and colonials.²

Both in the colonization process and in the transition from the colonial to the national State, we find double crossroads: on the one hand, those of nations and social classes, and on the other, those of two conflicting ideological positions—two modes of self-expression—each attempting to transform (or change the form of) the existing reality.

The establishment of the emancipated State follows the colonial pattern: the aim of its nation-building process is to transform the natives into a series of identical units of political expression. To achieve this it is necessary to stifle any vision of the future which does not coincide with that of the dominant classes. There is thus no difference between the emancipated national State and the colony, as far as the functioning of the official ideology is concerned. This explains why, when the colonial powers lost their immediate hold on their overseas territories, the institutions they had set up could survive these revolutions and remain as remote as ever from the attitudes of the local populations.

Nevertheless, the country of the Creole differs from the colony, inasmuch as it attempts a form of nation-building which implies both constant conflict and constant dialogue with the former colonial power. Indeed, it is this double implication which characterizes this special type of nation. The destruction of the conquered peoples is now pursued with a view to their integration into a large national family. The State claims to "educate" the native in order to endow him with a new identity: the official self-expression, the *Creole* word.

States born of the break-up of colonial empires differ from those which created such empires in two essential ways: in the rigidity of their borders and in the nature of their class

²"La patria del criollo... no era de modo alguno la patria del indio... La tierra ganada, involucra al indio. Y cuando el criollo tiene la vivencia del legado recibido de sus mayores, de 'lo que hoy gozamos', el indio está allí como algo que existe junto a la tierra y existe para trabajarla." (Martínez Peláez, pp. 254-255).

relations. It is seldom pointed out that they are in fact the only States confined to a single fixed territory. Not only do the colonizing countries own the so-called overseas territories, but their political activities have worldwide importance, as in the best years of the earlier centuries.

What is more, a metropolitan country is a national unit in which a gradual process of class differentiation took place. An emancipated State is a set of social classes which is always in the process of becoming a nation. Even though the behaviour of the dominant classes may be identical in the two cases, there is still a basic distinction between them, as far as concerns the result of their behaviour: the dominant classes of the metropolitan countries cater for the needs of the State and must thus maintain the national cohesion which gave rise to their own existence; in the emancipated States, the dominant classes, in order to safeguard the peculiar political apparatus under their control, have to ensure that the nation-building process never reaches a stage of evolution that can complete it. The country of the Creole is a project which is constantly being regenerated as a further project. It is this regeneration which creates the *Creole*, and serves as a basis for the limited cohesion from which the dominant local classes arise.

In sum, the emancipated State is confined within a territory inherited from colonialism and within a future which is part of that of the former metropolitan country. The national territory remains in fact a fragment of the metropolitan country's territory, and the future of the independent State forms part of the future designed by the metropolitan country.

The context of the indigenous nations is in contrast with this situation. Colonial exploitation, by silencing their self-expression, keeps their dai-

ly practices within the boundaries of their visible environment and short-term time horizon. The problem is further complicated by the fact that, as time goes on, and as the metropolitan countries tighten their control on the environment, the social category formed by the Creoles becomes obsolete. The original division of this group into social classes becomes increasingly visible and the dominated sectors find themselves in a situation ever closer to that of the indigenous population. In other words, the number of citizens actually able to control or simply influence the emancipated State is steadily reduced.

At the same time, the nation-building project deteriorates at each reformulation. The Creole nation and its emancipated State lose their *raison d'être*, as their control over the environment diminishes. It becomes increasingly difficult to recognize the limits of the national territory and to safeguard the State's capacity to define a plan for the future, even in the medium term. More and more, the national economies and emancipated governments find themselves operating within confines of time and space delimited by the metropolitan country's proposals for the future.

To remedy this uncomfortable situation, the former colonies, or, shall we say, the underdeveloped countries, have taken action on two fronts: on the one hand, we see the creation of regional integration projects and the mobilization of the non-aligned in quest of the establishment of a new international order; on the other hand, we have the emergence of nationalist movements, or the creation of new class alliances aimed at redefining both State and nation. It is in this latter context that the issue of the relationship between culture, discourse (self-expression) and development arises.

IV

National interests and class interests

Very often in sociological literature reference is made to the relationship between national and class interests, or to the transformation of the interests of a particular sector of the society into

interests of the society as a whole. For European countries, it does not seem necessary to analyse this transfer systematically. Attention is very rarely paid to the links between the primary units

of a social formation (the family and the community) and the macro-units (the classes) which determine their evolution. Discussion is limited to advances in forms of work, types of enterprises and remuneration, and, in general, to the improvement of the population's living standards.

If it is granted that underdeveloped countries are groups of social classes in the process of becoming nations, it would appear that the problem should be analysed in reverse. It would be a matter of determining the conditions in which national interests become class interests. The answer seems obvious: namely, when the oppressed majority class comes into power; but it is not as simple as that. Without claiming to solve such a far-reaching problem, we would like to show that nowadays, granted that all social classes in the Caribbean share similar characteristics and, as a result, similar national interests, the vested interests of the dominant classes lie in stifling the specific national characteristics which they themselves display.

In the same order of ideas, we would recall that the oppressed classes, in our wide-open societies, have found a way to safeguard their national characteristics, which in no way signifies an open struggle in defence of their economic interests or the assumption of any power in the foreseeable future. The difficulty of transforming national interests into class interests or *vice versa* is precisely, to our mind, the stumbling block in the democratization of the Caribbean, especially if we insist on considering the question of power in terms of a State confined within a given territory.

In the Caribbean, as in every colonized region, certain phenomena appear at the local level, then disappear from the social consciousness (from the standpoint of the dominant classes and the dominant view) to open the way to realities coming from worldwide spheres which, to the oppressed people, are only fads and weird illusions. I would mention two examples of this, one of which will be examined in more detail later.

The Creole dialect based on French was, as indicated by Price-Mars, born of the need for communication between the (first) masters (petty Whites) and their slaves. At the beginning of colonization, it was the language of the so-called French islands. Everyone spoke it and, in general, spoke nothing else. Then French became in-

stitutionalized in France, the Court began to use it; a section of the colonialists drew apart from the local population and, along with other members of the public administration and the newly arrived *grands blancs*, adopted French (Prudent, 1980 and Bernabé).

It is obvious that the substitution was dictated by class interests. It is also evident that the transfer did not happen overnight. The odd thing is that, as if by miracle and in fulfilment of the dreams of the dominant classes, the so-called French islands became French-speaking. And centuries have gone by, and it is still mistakenly believed that in the French Caribbean colonies French is spoken as well as a sub-product (a degenerated version, as Williams would call it) of this language. The ill-informed think that chronologically French came first, and Creole second. Upon this fallacy (of class), has been built a whole series of agencies and institutions (schools, for example) which, logically, can never rid themselves of the abusive imputation.

In the formation of Caribbean societies as well as the upbringing of Caribbean individuals Creole comes before French (and before any other official language for that matter).

The second example, that we shall only touch on, refers to the family. There are few fields of observation as disconcerting as this for the local sociologists. In our artificially articulated societies, the family represents a social innovation. The Caribbean society is not made up of the sum or combination of individual families. On the contrary, the society was formed, chronologically speaking, before the family; and as regards the nuclear family, this emerges only after an improvement, always liable to setbacks, in living standards.

In the case of the Whites, whether pirates, buccaneers or convicts, they formed societies of males who later received cargoes of women, most of them prostitutes, whom they purchased for cash and with whom they organized the so-called family units. As for the Blacks, they were not in a position to create such units. Not only were they mated against their will (and whole islands were entirely reserved for the breeding of Blacks), but father, mother and children were offered as separate goods in the market and were sold on this basis. To establish a stable procreation unit became a feat and a social conquest, both for the

petty Whites and the enslaved Blacks. And it was upon such a social invention as this that all kinds of legal codes, inspired by one version or another of the Judeo-Christian religions, were superimposed.

Thus, on the one side, neither the history of the language nor the history of the family has common roots with what obtains in Europe or Africa. On the other side, language and family are creations of the dominant classes, as are the foundations of Caribbean nationality. What has been said about language and family goes for education, religion, peasantry, land tenure systems, principles of inheritance, relations with community authorities or colonial/national authorities... in a word, the whole oppressed culture becomes a social conquest, a product of class struggles.

It seems to me that the efforts for economic survival fit into a pattern (a rationality), not yet

mastered by scientific reflection. The search for solutions to class conflicts cannot be limited to mere economic interests, to the mere improvement of living standards, without guaranteeing these social innovations and achievements. I maintain, therefore, that the concept of class consciousness, in the study of oppression in the Caribbean, includes the defence of institutions created to improve living conditions. These institutions had to be invented in order to survive colonial oppression. As a whole, they constitute the basis of the oppressed culture and cannot be separated from the defence of the collective economic interests of the dominated classes. Living standards (the result) and way of life (the institutionalized means of achieving this result) are part of the same indivisible unit. The results and the means of achieving them could certainly be improved and developed; but these two dimensions must be included in the same process.

V

The place of national self-expression

The problem is to show how, in the nation-building or decolonization process, certain social classes set themselves apart from the rest of the population and manage to satisfy their material needs at the expense of endogenous institutions. We shall try to identify the different stages of this process and to prove, by the same token, that the local dominant classes stand to benefit if the effort of nation-building is constantly regenerated as an unfulfilled project: the project (or the self-expression) of the emancipated State.

The transformation of a colonized territory into a fragment of the metropolitan country's geography represents only one aspect of the picture. The ultimate goal of colonial public life is to ensure the greatest possible exploitation of the colonized people. This extreme exploitation tends to reduce to a strict minimum the areas necessary for the reproduction of the life of the colonized people, affecting even the framework of their private lives. By denying them the product of their work and, if possible, the vital minimum for their biological reproduction, the col-

onizer at the same time denies them access to the forms of public and private life of the metropolitan country. The conqueror thus unwittingly provides a space for the formalization of family and community structures and thereby of new cultural structures. These aim, *inter alia*, at an optimum distribution of the little which escapes the colonial monopoly of available resources. While breaking up the dominated groups and imposing on them new forms of individuation, this unrestricted form of exploitation paradoxically gives rise to the creation of new forms of social life and of an oppressed culture. In consequence, the emergence of endogenous solutions is one of the contradictory results of colonial exploitation.

These endogenous ways of perceiving, conceiving and reorganizing the environment, naturally based on the surviving traditions of cultures dating from before the conquest (the dissimilar threads mentioned by E. Williams) are systematically looked down upon or, at best, regarded as trivial by the colonizing nation. It must

be conceded, however, that this attitude is not entirely mistaken because, at first sight, these innovations do not jeopardize the colonial system. On the contrary, in the short term, they ensure its reproduction, by allowing the colonized people to receive less than their vital minimum requirements and still survive, to preserve their sanity despite the folly of their situation (remember the African-born enslaved) and to enjoy social solidarity in spite of dehumanizing oppression.

In a word, colonialism tends to destroy the conquered nations while at the same time establishing the conditions necessary for the birth of a new national entity. In the Caribbean, this tendency is exacerbated. The destruction of the conquered nations takes place in an environment different from the habitat in which the survivors of the massacres had to evolve. The African diaspora is not a tribal emigration, but the transfer of isolated individuals whom the colonial system seeks to deprive of any possibility of controlling even their own individual destiny. We have analysed elsewhere the creation of new nations from this breakup and reassembly (Casimir, 1981).

The effort made by exploited people to reorganize themselves into new nations, around cultures which are themselves new, is the object of odious misrepresentations; since these cultures lack institutions specifically responsible for producing knowledge, they are unable even to protect themselves against the aggression of the dominant cultures. The oppressed people remain powerless to deal with the institutions of the colonial system and with the definitions imposed by that system. As a result, they are unable to participate, within the colonial framework, in a collective struggle for the defence of their class interests.

It should be noted that class exploitation within colonialism gives rise to the contradictions observed, in the long run, in social cohesiveness and cultural creation. The parameters of the class struggle which, in this context, is always a struggle for national liberation, are defined in this way.

The interpenetration of class and cultural conflicts is particularly complex in view of the fact that, in the Caribbean, excluding Haiti and Suriname, the vast majority of people share the

two existing cultural systems. We have already mentioned that underdeveloped countries are composed of a collection of social classes striving with difficulty to build a nation. It therefore seems necessary, at this level of the discussion, to analyse how the gulf between colonizers and colonized is transmitted to the latter, dividing them into "masses" and "élites", converting them often into "antagonistic bodies", and transferring beyond the colonial period a class structure capable of interfering with the decolonization and nation-building processes.

In the colonial system it is particularly effective to show off one's cultural alterity and thus secure the solidarity of ethnic associates, if not of equals, when in want of protection from the misdeeds of the conquerors. But in public life, and especially at one's place of work, to show off one's cultural distinctiveness is a sure way of courting disaster.

The inevitability of acculturation/assimilation practices is rooted in this need to refrain from showing signs of one's ethnic and cultural identity in order to enjoy better prospects in life. Inasmuch as the colonized people as a community are not in a position to put an end to national oppression and class-exploitation, individual emancipation or an effort at assimilation is the only possible option if living standards are to be improved. This gives rise to the native public and private administrators: the first wage-earning employees of the Caribbean. This is the basic nucleus of the middle classes. The oppressed people, aspiring quite naturally to a better life, see in that of these administrators (the public servant being the most privileged of all) an alternative to their condition of poverty. All the customs, standards, principles and values which govern these class transfers are expressions of the local dominant culture, a colonial version of the metropolitan culture.

The dynamism of the local dominant culture is subordinated to the advance of the metropolitan country's economic, political and ideological structures. As a result, the acculturation/assimilation process never comes to an end. The middle classes, freed from slavery, servitude or low-paid manual labour, live haunted by the ghost of a double national identity. They must constantly maintain a safe distance between their social class and the underprivileged; this allows

them to gain the colonizers' favours (social promotion) and to guarantee to their descendants the cultural and ideological means needed to safeguard a minimum of material well-being.

And thus, a set of rules and principles relating, at the outset, to public life, tends to penetrate the spheres of the private lives of certain sectors of the local population. The aspiration, undoubtedly legitimate, for an average living standard, and for the preservation of this living standard, calls for a change of life-style when success is achieved. This is possible because, with less exploitation, these sectors gain access to material conditions which allow them to organize their lives in the European way.

This repudiation of the local heritage should not be confused with a lack of knowledge or information concerning these national cultures. It is precisely by admitting and justifying the prevalence of colonial culture that the middle classes build an insurmountable obstacle to their assimilation into Western culture. Recognition of the pre-eminence of the official dominant culture implies that the oppressed culture is visible. Thus, it is not that the middle class does not perceive the national culture with which it is impregnated—whether it likes it or not—but that it refuses to perceive it. This refusal represents the unequivocal expression of the uselessness of the local culture in the practical circumstances in which the middle class lives and works.

Despite this fact, since the middle class must renew its credentials each time the metropolitan country moves towards new development horizons, its constant efforts to adapt itself produce in the end certain qualitative changes in the relations between the oppressed national culture and the dominant culture. The need to reject the national cultures must be understood as an expression of its class interests, while the indefinite reproduction of these same national cultures constitutes the material basis of its existence as a particular class. The acculturation project, or, more precisely, the westernization of the masses, represents the very *raison d'être* of the middle classes. The end product of their activities is to ensure that the colonized milieu will never cease to be a fragment of the metropolitan country, even after independence or emancipation.

The changes in the relations between domi-

nant and oppressed cultures produced by the full development of the middle classes can be illustrated by a description of the fate of the languages spoken in the Caribbean. It is a known fact that in most of the countries of the region the people are at least bilingual. Or rather, they live in a diglossic situation. The basic characteristic of their linguistic structure is that the two languages are never used indiscriminately. Some activities take place in Creole (they generally relate to private or community life and manual work), whereas others take place in the official language (those concerned with public life, particularly politics, legal matters, administration, schooling, European religion).

Since public and private life are organized in different cultural frameworks, and the former tends to stifle the latter, diglossia illustrates the distinct use of the two cultures. In principle, the official culture and the "imperial language" serve primarily to perpetuate the world of colonialism, whereas the oppressed culture and the national language remain the environment par excellence of endogenous creation.

The improvement of living standards in the colonial milieu is conditional on a mastery of the official culture and language. Thus, this "imperial language" tends to be spoken in certain middle-class families, and the forms of organization and values of private life in the metropolitan country concomitantly take root in the indigenous colonial milieu. Hence, at a given point in time in colonial history, the official languages become the mother-tongue of a certain minority. The result of this is the rise of generations barely exposed to the national culture and able to do without the communal solidarity which defines that culture. This is the class of the "petty bourgeoisie" ready to take the place of the colonialists when independence is gained.

The ill effects of this reduced visibility of the national culture should not, however, be exaggerated. A series of complex phenomena occurs: first, because this petty bourgeoisie is not really a dominant class capable of pursuing its development plans autonomously; second, because to carry out its role of intermediary, it must maintain contact with the colonized (or recently freed from colonialism) manual workers; and finally, because in their comings and goings in the metropolitan countries its members soon be-

come aware of their status as second-class citizens and are forced to resort expressly to forms of national solidarity.

In the region, the existence of Creole languages used as *lingua franca* before and after independence gives vigorous reinforcement to the oppressed cultures and makes a total break impossible between the middle and the exploited classes. Several mechanisms must contribute to this phenomenon. Short of more exhaustive research, we shall limit ourselves to the analysis of the use of the official and national languages.

It may be categorically stated that the children and youth of the Caribbean region amuse themselves solely in Creole, and this creates a fundamental ambiguity in the institution par excellence of cultural domination.

"The analysis of the 'terrorist' role of the French language in school", writes F.L. Prudent (1980, pp. 124-125) "would be incomplete if the other side of the coin were forgotten: school is also the place where a good part of the urban petty bourgeoisie discovers and learns Creole".

It should thus be noted that, even in the case of the minority for whom the official language becomes their mother-tongue, the child obtains an intensive knowledge of the vernacular when its circle of interpersonal relations is widened and when it moves about independently within the community. In effect, it would be interesting to examine the use of the vernacular by the middle classes and the local dominant classes in Caribbean countries, as a ritual of entry and initiation into adult life. The use of the vernacular, the language of the nation, stands out in its relations with the dominant language as the medium of disobedience, of individual initiative, of free-

dom discussed with peers and controlled by them.

The problem is that not much is known about what the vernacular, as used by the classes which have detached themselves from the masses, transmits of the national culture. In any event it may be concluded, on the one hand, that in the Caribbean there are social pressures which oppose the isolation of the supporters of the dominant or official cultures from those of the oppressed cultures. No physical or social distance separates the persons and groups immersed in these cultures, except in the cases of Haiti and Suriname. The pluri-cultural situation of the Caribbean is certainly not that of the Andean or Meso-American countries, where there is a veritable gulf between Amerindians and the rest of the population. It is more like the distance between White or *Mestizo* peasantry in Latin America and the urban classes of these regions.

On the other hand, it is undeniable that the dominant and dominated cultures are distinctly different from one another even though they may be closely related. They maintain asymmetric relations; the dominant colonial culture promotes all kinds of measures aimed at destroying and eradicating the local culture, the basis of national cohesion. This cultural war is no more than an aspect of colonial oppression. The colonial dominant culture becomes the official culture of the independent or emancipated State and the cultural war takes an ambiguous turn, which permits it to develop a basis for the evolution of the middle class and petty bourgeois sectors. The self-expression of the independent State adapts itself to that of the nation, but takes care not to formulate a plan which might destroy its class structure.

VI

Obstacles to the development of national self-expression

The efforts to destroy the endogenous sources of reflection and creation are an aspect of class domination in the region. During the decolonization or national liberation process, the local culture gradually becomes more visible. This trend

is irreversible because it corresponds to the need of the new power élites to legitimize their positions. Just like colonization, the decolonization process involves the defence of the interests of certain social classes. The dominant and middle

classes of the Caribbean do all they can to safeguard their material interests, while advancing along the path of decolonization and regional development. Price-Mars published *Ainsi parla l'oncle* during the second decade of this century; the supporters of the Black Power movement were to turn a deaf ear to his ideas on the use of Creole; and certain of them were even to set themselves up as heralds of a universal French-speaking movement. More recently, once the new élites had gained power in the so-called English-speaking Caribbean, the supporters of the Black Power movement were to oppose White domination and advocate a return to Africa: an Africa as removed from the masses as the culture of the metropolitan countries, and as close to the middle classes as Western culture.

It is therefore necessary fully to understand the deep meaning of the excuses invented by the élites for not adopting the national culture and thus not leaning too far towards a total democratization of social relations, their control and direction. At the same time, the ambiguity and difficulties implicit in any cultural development project aimed at mental decolonization are evident. Such projects help to give legitimacy to the power élites but conflict with their class interests.

Nonetheless, the most difficult point to explain is that the dominated classes do not seem eager to seize the reins of power and to expose the splendour of their national culture for all to see. This is one of the most intimate features of social negotiation in the Caribbean. In contrast with the anxiety felt in some sectors of the middle classes, especially those most susceptible to the brainwashing of the mass media, the calm and carefree attitude of the dominated classes seems to indicate that they do not feel that their national culture is on the verge of losing the war waged on it by the official culture. For the oppressed classes, therefore, it is a question of choosing between, on the one hand, a compromise with the dominant structures, thereby achieving a certain standard of living in the short term and, on the other hand, far-reaching structural reforms, full of glorious prospects for the future, but uncertain.

What differentiates the exploited peoples of the Caribbean from those of most of the South American continent, for example, is that they are

all in touch with the original metropolitan countries and specially with their labour markets. They have access to these opportunities, which should not be underestimated in the light of the levels of unemployment in the region, and are thus assured of a functional control over the components of the official culture and the possibility of emigrating to the metropolitan country.

This results in an overflow of the Caribbean, whose territory covers not only the reduced space where our peoples settled, but also the ghettos and suburbs of almost all the large cities of the North Atlantic. In other words, in the face of the failure of the local dominant classes to halt the increasing decline of the population's standards of living, the latter emigrates and reproduces its cultural forms in the very midst of the capitals of the great empires. As yet there are no endogenous solutions embracing local institutions and cultures to comply with the customs of the masses, while guaranteeing them a better tomorrow. Consequently, with the scattering of the Caribbean nations, it becomes more and more difficult to conceive a project for the future, if the traditional borders inherited from colonialism are to be respected.

For Eric Williams, the politician is a man of culture. However, it is a fact that the inhabitants of the region make no institutionalized effort to carry out the scientific research required to take stock of their cultural heritage and apply it systematically to development. The region has no school of anthropology, still less a centre for cultural research. How could we blame the Caribbean Black Power movement for seeking inspiration in distant Africa, when no work is being done on local culture, as a deliberately chosen subject for scientific reflection and practice, and it remains, in essence, even more distant and inaccessible than African culture?

Price-Mars suggests the use of Creole as being the only bridge between élites and masses. But it is hardly surprising that supporters of the Negritude movement, in spite of their doctrinal stand, should use only French to express themselves. It could certainly be assumed that the national languages of the Caribbean, like any other language, potentially contain all styles of discourse; but it is a fact that these styles have not been developed or codified, much less systemati-

cally taught. The development of a literary, scientific, political or technical form of discourse and, in particular, the creation of a public capable of participating in such discourse, is a collective task which should be institutionalized without delay.

We have tried, in this paper, to show that the oldest form of class exploitation, established with the arrival of the Europeans, consists in depriving oppressed nations of the "power to express their thought". We have recalled that the underdeveloped States of America belong to the same tradition and that the class interests of their dominant sectors are safe only if the national culture has no influence on the creation of options for the future, whereby the anti-colonial tradition would be carried into effect.

We would propose, to paraphrase the Bible, that in the beginning (of the nation) was the Word. The exercise of the nation's right to express its collective thought must be restored. Culture is an experience which is lived, and its agents should be able to use it deliberately to measure up to the problems of private and public life.

We assert that the national culture was created in extraordinarily difficult conditions, so

that the living standards of the oppressed classes might be improved. We suggest, therefore, that, contrary to the strategy of the dominant classes of the Caribbean, the exploited people continue to accept great sacrifices in an attempt to safeguard—if not improve—their living standards, in order to ensure the reproduction of their lifestyle. We also affirm that the best demonstration of this line of behaviour is illustrated in the ensuing immigrations to the large cities of the industrialized countries.

We would conclude that the Caribbean can develop only if it ensures the blossoming of its own way of life and its own culture. It seems to us that this process starts with the institutionalization of a collective effort for systematic research and teaching, at all levels of the local culture, as well as for the development of national languages. The economic problems we face cannot be solved by the manipulation of economic variables. The development of the economy should go hand-in-hand with that of anthropology, because in the Caribbean the daily struggle of the oppressed people shows that, in the formation of their class consciousness, the economic and cultural dimensions are equally important.

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Legal aspects of the Latin American Public debt: Relations with the commercial banks

*Gonzalo Biggs**

In recent years, many studies have been published on the question of the Latin American external debt; almost all of them have focused on economic, financial or political aspects of the issue. The distinguishing feature of this article is that it looks at the much less discussed legal questions involved.

In the first few chapters, the author discusses certain historical developments, including the loans received during the period immediately following independence and some particularly important considerations, such as the principle of "diplomatic protection", the Drago Doctrine and the questions raised in connection with reparations for World War I. He then discusses the question of the international financial responsibility of the State, and goes on to study in depth the legal aspects of the current debt, generated in the Eurodollar market.

In conclusion, the author states that the Latin American countries should stress the political nature of the debt and the need for increasing public credit to the region by increasing the contributions of developed countries to international financing agencies. Emphasis should be placed on the criterion that the debt burden should not exceed the capacity and needs of the debtor countries. Finally, he proposes specific formulas for reducing the debt by transforming it into bonds at fixed prices and interest rates.

*The author is on the staff of the Inter-American Development Bank. This article reflects the personal views of the author and not necessarily those of the organization for which he works.

Introduction

This article refers to the legal aspects of the Latin American public debt with commercial banks. It does not deal with the question of the private debt or that of the Latin American public debt with other governments or with governmental and intergovernmental agencies.

Although the legal issues which arise when a public body stops servicing its debt have been known in Latin America for a long time, there are certain elements in the current crisis which make it different from other situations that have arisen in the past. These include the fact that the financing all comes from the same source, i.e., the Eurodollar market, and the fact that the debt is so high that it has a paralyzing effect on the economic and social development of the region as a whole.

In discussing the question, it is useful to go into some of the historical background and the principles that apply with regard to the financial responsibility of the State. We shall also discuss the rights a creditor has when loan obligations are not met, the characteristics of some of the renegotiations that have already been carried out and certain legal decisions that have been handed down in litigation against Latin American public entities initiated by banks in United States courts.

The Latin American public debt with commercial banks is formally set down in private contracts which are drafted in fairly standard terms reflecting the practices and customs usually followed in respect of Eurodollar financing. Each clause in these contracts has been carefully drafted by highly experienced financiers and lawyers specializing in this field. The main language used is English and both the jurisdiction and the law applicable—usually those of London or New York—to the performance and execution of these contracts are chosen by the creditor banks. Any study of the legal issues arising from the performance and execution of these contracts must take into account Anglo-Saxon law.

As regards the amount owed, the Latin American debt is, both in worldwide and in regional terms, the highest financial obligation ever recorded. Estimated at US\$ 336 billion at the end of 1983 (IDB, 1984a, p. 21), it is constantly increasing and the burden it represents affects, both individually and collectively, the patrimony, the income and the living standards of approximately 350 million persons. Should this crisis be

aggravated, it could have an unprecedented effect on the economy and institutions of the region as a whole and of the individual countries in it.

Inasmuch as the burden of the debt also seriously impairs the State's ability to carry out its basic functions, its impact goes beyond the limits of a purely contractual, civil or commercial relationship to take on a clearly public significance. The considerations set forth below with respect to the implications of the debt for an individual State also apply, to a large extent, to the Latin American region as a whole.

In 1983, the region had to earmark for the service of its debt an amount equivalent to 64.6% of its current foreign-exchange income from exports of goods and services for that year; for the second year in a row, the net inflow of resources, measured as a proportion of gross outlay, showed a negative balance of 35% of disbursements, equivalent to an estimated net outflow in 1983, of US\$ 17 billion (IDB, 1984b, table 59, p. 490) thus making Latin America a net exporter of capital.

In view of the afflictions brought on by the crisis, we must take a new look at the validity of the financing scheme applied, as reflected in the structure of the debt. In 1965, only 12% of the Latin American public external debt was accounted for by loans from private banks, whereas 60% came from bilateral and multilateral official sources (IDB, 1984b, p. 490). In 1982 this structure had changed radically. Official financing had fallen to 30%, whereas commercial banks accounted for 60% of the debt (IDB, 1984b). At the same time, the financing scheme applied from the 1960s onwards allowed for the gross domestic product to grow steadily at annual average rates of no less than 5% and, during the period 1970-1974, as high as 7.3% (IDB, 1984a, pp. 25 and 75). From 1982 onwards, however, as soon as the impact of the debt with commercial banks began to be felt, the growth rates became consistently negative for the region as a whole, to the point that in 1983, the average rate was -3.8% (IDB, 1984a). In our view, these figures show the need for Latin America to insist, at the political level, that official financing be increased in order that it may resume a rate of growth that is suited to its

economic and social development needs.

At present, the bulk of the Latin American public debt is accounted for by the private commercial or transnational banks which have moved beyond the borders of their countries of origin and operate through the Eurodollar market, mainly in London or other cities, and even in some mini-States, where they are not subject to any regulation whatsoever. The establishment of these banking organizations in London coincided with the imposition by the United States of various taxes and restrictions on certain banking operations in order to reduce the outflow of dollars from that country during the 1960s. That policy, however, had the opposite effect, and a significant number of United States banks transferred their operations to London and other places where they were able to make spectacular profits without having to worry about the taxes, restrictions or regulations that normally apply to all banking operations. Although the issue is now a rhetorical one, this lack of regulation allowed the transnational banks to go overboard in their lending operations, increasing their risks to intolerable levels. This had a lot to do with the critical situation now being faced by Latin America and by the international banking system in general.

One of the obvious difficulties posed by the debt problem arise from the fact that the commercial banks and the governments pursue very different objectives. This contradiction in objectives led the Latin American countries to reiterate, in the Cartagena Consensus, the need for political consideration to be given to the question of the debt at the international level and stress that only a meeting of minds of the governments of the debtor and creditor countries will bring about a change.¹

Latin America has repeatedly stressed the need for discussions on the debt to be taken out of the private sphere and dealt with at the highest intergovernmental level. Unfortunately, the governments of creditor countries have not yet agreed to this.

¹Consensus of Cartagena de Indias, 22 June 1984, Declaration No. 9.

I

Historical background

1. *The early loans*

It is interesting to note some similarities between the current crisis and the experience of the Latin American republics in the early years of their history as independent nations.

Although the loans that enable the colonies to become independent from Spain were obtained from private London financiers, they clearly had political implications, inasmuch as they helped to further the British Government's objectives with respect to Spanish America. In many cases, beginning with the negotiations begun by Francisco de Miranda in 1791, the English Government even went so far as to finance the patriots who started the revolutionary process. Once independence had been declared, the new governments, having obtained these loans, were accepted as subjects of international credit even before they were officially recognized as governments. The early legitimacy which British trade and finance conferred on the Latin American nations was used to exert pressure on the British Government through Parliament, which conveyed the demands of those who had vested interests in the region and were pressing for official recognition (Lynch, 1980). Lord Palmerston subsequently stated that it was the financial aid received which had enabled the insurgents to achieve independence (Webster).

This initial Latin American experience with the London financial world was painful for both parties concerned. In the case of the Latin American governments, although the financial aid was very significant from the political standpoint, the terms under which it was granted were extremely harsh. As regards the English lenders, their expectations were also much greater than what could realistically be expected from the Latin American economy. The painful outcome of these transactions was a general suspension of payments which damaged Latin America's credit rating for many years and played a decisive role in the great crisis of 1825, when 36 banks went bankrupt and the Bank of England was forced to intervene in the financial markets, a situation

which gave rise, moreover, to a full parliamentary investigation (Andréadis, 1966, p. 248).

Another element in these loans was the fact that the investing public saw Spanish America as a single country; hence, suspension of payments on one loan affected the credit of the entire region. This explains why, in 1826, Mexico decided—in a manner similar to its most recent action with respect to the Argentine debt—to assist Gran Colombia when the latter country was unable to meet its commitments as a result of the bankruptcy of the Goldschmidt firm. On that occasion, Rocafuerte, the Mexican representative in London, stated that the cause of Spanish American solidarity made it essential for the nations of America to help each other preserve their good credit rating (Rodríguez, 1975) and announced that his country was granting a loan to Gran Colombia. This enabled that country to overcome its crisis but, unfortunately, it did not prevent a subsequent suspension of payments (Rodríguez, 1975, p. 168). As Lord Palmerston later pointed out, by 1837, Latin America had defaulted on the entire amount borrowed from 1822 onwards (8 023 008 pounds sterling) (Webster, Vol. 1, last page).

2. *Diplomatic protection*

During the nineteenth century and the early part of the twentieth century, the countries of the Northern Hemisphere applied, in their relations with other countries and particularly with the Latin American countries, the so-called doctrine of "diplomatic protection", the purpose of which was to assist the person, life or property of their nationals abroad. This principle, which dates back to ancient history, was taken up by Vattel and invoked frequently to justify intervention by one country in the affairs of another, under the argument that any harm done to a citizen of another State was also an offence to the State itself, which was thus entitled to demand reparation.

Latin America's response to the sometimes abusive application of diplomatic protection was

the so-called Calvo Doctrine (1896), according to which a State is not liable for harm suffered by aliens as a result of domestic disturbances or civil wars. Calvo, basing his conclusions on the practice of European States towards one another, held that the same principle applied to the relations of those countries with Latin American countries. With regard to the diplomatic protection doctrine invoked by foreign States, Calvo affirmed that a State had the sovereign right to submit claims by foreigners to its domestic jurisdiction and that, in any event, such foreigners had the duty to exhaust the national jurisdiction before invoking the protection of their governments. The Calvo Doctrine quickly became a Latin American doctrine and was incorporated into the political constitutions and domestic legislation of the countries of the region. At both the first American international conference, held in Washington in 1889-1890, and the second one held in Mexico in 1902, the Latin American countries adopted declarations and conventions which embodied the Calvo Doctrine (García Amador, 1981, p. 348, volume 1). More recently, this doctrine was used as the basis for the famous Tokyo "No", whereby the Latin American countries collectively refused to join the arbitration mechanism sponsored by the World Bank for the settlement of conflicts arising from foreign investments.²

3. *The Drago Doctrine*

The blockade of Venezuelan ports by Great Britain and Germany on 11 December 1902 had legal implications which completely changed relations between creditor and debtor countries with respect to payment of the public debt.

Venezuela had debts arising from indemnity claims for damages suffered by foreigners and from delays in payment of its external debt. In December 1902, the representatives of Great Britain and Germany presented an ultimatum, on behalf of their governments, demanding payment of their claims with no discussion whatsoever. They further stated that refusal to accept the

ultimatum would lead to the beginning of hostilities. Venezuela responded by stating that it was going through a civil war and that once the situation returned to normal, it would deal with the claims. It then proposed that the question should be submitted to arbitration. The European countries, supported by Italy, chose to ignore the offer of arbitration and impose a blockade on Venezuelan ports. On 29 December 1902, after the blockade had begun, the Minister of Foreign Relations of Argentina, Luis María Drago, sent the Argentine Minister in Washington a note in which he expounded what is now known as the Drago Doctrine.

Drago rejected the idea that relations between a private creditor and a private debtor were the same as those existing when the debtor was a sovereign State. In the first place, Drago supported the concept of the absolute sovereignty of the State, according to which a creditor who enters into a contract with a sovereign entity realizes that no executive procedures can be initiated or enforced against it since that would compromise its very existence, doing away with the independence and action of the government in question. In the second place, Drago, quoting Hamilton, held that contracts between a nation and private individuals were binding according to the conscience of the sovereign and could not be the object of compulsive force (Pérez Triana, 1908).

Finally, using the Monroe Doctrine as his basis, Drago argued that the use of military force to secure payment of loans entailed territorial occupation and territorial occupation entailed the suppression or subordination of local governments in those countries in which it was applied (Pérez Triana, 1908).

Drago's note gave rise to intensive diplomatic consultations and was widely commented on by the international press; it did not, however, influence the sentence handed down by the Permanent Court of Arbitration of The Hague on 22 February 1904. As Venezuela and the intervening countries did not reach an agreement with respect to the form of payment of the obligations due, the parties submitted the matter to arbitration by the aforementioned Court. The Court decided that as between those countries which had used force to secure payment of their loans and those which had not done so (at least

²The so-called Tokyo "No" was announced by the Chilean delegate at the Annual Conference of the World Bank, on behalf of the Latin American countries members of the Bank. See Ruiz, 1964.

eight countries were in the latter position), the former had priority. In other words, the Court, in this case, gave legitimacy to the use of force to secure payment of public debt (Scott, 1916, p. 55).

Nevertheless, during the Second Peace Conference, held at The Hague in 1907, the United States presented the "Porter proposition", which embodied the essence of the principles set forth by Drago, with, however, two significant modifications. In the first place, the Porter proposition only applied to contract debts, whereas the Drago Doctrine did not make such a distinction and hence applied to any pecuniary obligation of the State. In the second place, the Porter proposition required that the debtor show good faith and stipulated that such good faith would be deemed to be lacking if the debtor State rejected or failed to respond to an offer of arbitration or, having accepted such an offer, made it impossible for the arbitration to begin or, once the sentence had been handed down, refused to accept it (Pérez Triana, 1908, p. 88).

The Porter proposition was included in the text of the Convention which limited the use of force for the recovery of contract debts adopted by The Hague Conference. Nevertheless, the Latin American countries were not satisfied, inasmuch as the principle as approved was not an absolute one and, moreover, the Convention provided for arbitration to settle matters which, according to the Calvo Doctrine, fell exclusively within the jurisdiction of the debtor country.

On 23 December 1936, the non-intervention protocol was signed in Buenos Aires. This document states that intervention, whether direct or indirect, and for whatever reason, by one contracting party in the internal or external affairs of another party, is inadmissible (Article 1). Acceptance of the principle of non-intervention thus implied acceptance of the Drago Doctrine, inasmuch as it meant absolute rejection of the use of force to secure payment of a public debt. The prohibition against the threat or use of force by one State against another was also set forth, in broader terms, in the United Nations Charter (Article 2, paragraph 4) and in the Bogotá Charter (Article 18).

4. *Reparations claimed after World War I*

There are surprising similarities between the

current debt crisis and the so-called transfer problem of the 1920s, which was associated with the service of the debts arising from World War I (IDB, 1984b). Among the transfer problems, perhaps none was so pertinent to the case of Latin America as that experienced by Germany, which culminated in one of the most serious financial crises ever suffered by any country.

The Versailles Treaty justified the financial obligations imposed on the losing country by stating that Germany was solely responsible for starting the war (Article 231) and establishing that that country must pay compensation for all the damage suffered by the civilian population of the Allied Countries... and their property during the war (Article 232). It further stipulated that Germany must co-operate in the restoration of the economic and industrial life of those countries (Article 235).

Most of the obligations imposed on Germany were not for a specified amount. It was left up to the so-called Reparations Commission created under the Treaty to translate them into liquid sums which could actually be demanded. This was not by accident; the Treaty dealt only with the punitive aspects of the responsibilities established, but failed to determine the country's economic capacity to meet those responsibilities, although it did acknowledge the fact that Germany's resources were inadequate to make complete reparation for all losses and damages (Article 232).

In addition to paying reparations, Germany also had to make payments in kind. On 26 December 1922, the Reparations Commission ruled that Germany had failed to meet its obligation to deliver lumber to France. This circumstance was the basis for the occupation of the Ruhr by Belgian and French troops, beginning on 11 January 1923, for the purpose of extracting timber directly and charging it against the German debt. This effort failed because the German people, supported by their Government, prevented it from being carried out. The Government also suspended payment of reparations, giving rise to one of the most spectacular inflations in the monetary history of the world.³

³In January 1923, one dollar was worth 17 972 marks; on 14 November of the same year, it was worth more than one billion marks (Nussbaum, 1954).

The final amount of the reparations was only established in January 1930, at the equivalent of US\$ 26 billion, to be paid in 60 installments up to 1988 (Flemming, 1983, p. 339). By 1930, however, both the world economic situation and that of Germany made it impossible to service a debt of that magnitude. Some months later, the United States President declared a one-year moratorium of the payment of war debts by the allies and of reparations by Germany (Department of State, 1931).

From the practical standpoint, the payment of reparations was extinguished in June 1932, when the allies agreed to accept bonds in lieu of reparations. An intergovernmental organization—the Bank for International Settlements—was created especially to establish the date and terms of issuance of these bonds and to collect payment on them (Gathorne-Hardy, 1947). In addition, the allies, including Great Britain and France, also stopped making payments on their war debts with the United States. From 1931 onwards, these debts became merely symbolical; they were finally extinguished in 1933 (Flemming, 1938, p. 352).

The German experience provides the following precedents which are applicable to the Latin American debt:

a) There is no point in trying to find out who is to blame for the Latin American crisis; without question, the suggestion that the debtors alone are responsible for it and that only they should suffer the consequences is unacceptable. What is important is not to punish certain countries for the benefit of others—as was done in the case

of Germany—but rather to recognize that both the governments of the creditor countries and those of the debtor countries must share the consequences of the crisis and work together to solve it.

b) There is a limit to the amount of financial resources a country can transfer abroad without seriously upsetting the living standards of its population and its social and political organization. The example of Germany makes it unnecessary to comment on the disruptions which could be caused in Latin American institutions if the current negative transfer of resources were to continue for a long time.

c) The invasion of the Ruhr shows that the use of coercive measures as a method for obtaining payment of a public debt only aggravates relations between countries and does not accomplish the objectives sought. At the present time, coercion may be more subtle (one expert has suggested converting the debt into capital and allowing creditors to become the owners of the productive natural resources of the debtor countries) (*Wall Street Journal*, 1984).

d) The final solution which the creditor countries found to the problem of German reparations, which consisted in replacing reparations by bonds administered by an intergovernmental agency, has positive features which could be studied with a view to applying them to the Latin American case. The possibility of converting a variable and constantly increasing debt into a fixed debt at a term compatible with the payment capacity of the debtor country would appear to have definite advantages (Guerguil, 1984).

II

The international financial responsibility of the State

States meet their financial obligations not because of some binding legal rule requiring them to do so, but rather, according to Einzing (1973), because of their intention to borrow again. What worries creditors now, however, is the fact that there is no certainty this incentive can be maintained. The question is whether those banks that have already repeatedly risked their capital on

loans to Latin America can continue offering the incentive of new loans to the region.

In light of the above, it is important to consider what might happen if a government stopped its payments or refused to fulfil its international financial obligations. As is well known, this question falls within the more general issue of the international responsibility of

States, on which there is wide disagreement in international law. Since the 1930 codification conference held at The Hague, the serious differences in this regard have made it impossible to advance towards the adoption of rules or principles. Moreover, the United Nations International Law Commission, which in 1956 was charged with drawing up a draft convention on State responsibility has not yet fulfilled this mandate.

Despite the fact that there are no imperative norms governing the international financial responsibility of the State or establishing whether its obligations with a foreign private creditor are subject to public or private international law,⁴ as regards changes in the political system, there are some important precedents which are worth mentioning.

1. *Recognition of the obligations of previous governments*

Except in the case of the Cuban revolution and other less important ones, the Latin American countries have, from the time they gained independence and up to the Sandinista revolution, been absolutely consistent in the practice of recognizing the financial obligations undertaken by previous governments.

Latin American practice followed the principles of the first French Republic, which in its Political Constitution stated that it accepted and recognized the debts contracted by the deposed monarchy. The principles applied by France and Latin America are based on the theory of the permanent identity of the State and the continuity which must exist between governments and the obligations they contract. Whenever a government has repudiated the debts of its predecessor, it has applied a casuistic criterion based on the presumption that the debt was an illegitimate one or was used for illegitimate purposes.

Even before their independence had been recognized, the Spanish American republics, through their legislatures, solemnly accepted and

gave priority to the debts previously contracted by Spain in connection with its territories. Subsequently, in the treaties whereby the republics were recognized, they again expressly accepted responsibility for meeting the financial obligations previously contracted by Spain.⁵

The above precedents have been repeated many times. As an illustration we shall only mention the cases of Brazil in 1889 and Nicaragua in 1979.

When the Federal Republic of Brazil was established, rumors were started abroad which affected the new régime's credit and even gave the impression that a new positivistic calendar was to be imposed, thus making it necessary for the government to clarify its position *vis-à-vis* the international banks. The Minister of Finance, Ruy Barbosa, thus sent his historic telegram, which read as follows: "Government has been constituted as the Republic of the United States of Brazil. Monarchy deposed. Imperial family left the country. Provinces join. General peace and satisfaction. Executive branch governing provisionally... Republic strictly respects all commitments, obligations and contracts of the State" (Mangabeira, 1960, p. 43).

The precedent set by Nicaragua is important because the new Government, shortly after taking over, stated that it would not recognize, because of its illegitimate nature, debts contracted by the previous régime for the purchase of weapons or those on which disbursements had not yet entered the country (United Nations, 1979). It later changed this position in favour of the doctrine of complete recognition.

2. *Repudiation of the obligations of a previous government*

The classical example of repudiation is that of

⁵Moore (1906, pp. 342 and 343) quotes Article VII of the Treaty of 16 February 1840 with Ecuador; Article XI of the Treaty of 9 October 1841 with Uruguay; Article IV of the Treaty of 25 April 1844 with Chile; Article V of the Treaty of 30 May 1845 with Venezuela; Articles V of the Treaties of 21 July 1847, 10 May 1850 and 25 July 1850 with Bolivia, Costa Rica and Nicaragua, respectively; Article IV of the Treaty of 9 July 1859 with the Argentine Confederation and of 21 September 1863 with the Argentine Republic; Articles IV of the Treaty of 29 May 1863 with Guatemala and of the Treaty of 24 June 1865 with El Salvador.

⁴Schuster (1973) points out that the law applicable to a contract between a State and a foreign private contractor is not absolutely clear; he quotes Jean-Flavien La Rive (1965, p. 265), who states that the law applicable to an international contract is a controversial and complex matter.

the Soviet Union which, by a decree dated 10 February 1918, declared that:

1. All State loans contracted by the governments of the large landholders and bourgeoisie of Russia... are annulled. The December coupons for those loans will not be honoured;
2. The guarantees granted by those governments for loans made by different enterprises and institutions are also annulled; and
3. All foreign loans are annulled without exception and unconditionally (Langsam).

Nevertheless, the Soviet Government gradually changed its position over the years that followed. During a conference held at Genoa in 1922, the Soviet delegation sent Great Britain a note stating that it could not accept responsibility for the debts of its predecessors so long as its Government was not formally recognized *de jure* by the Powers concerned (Wilson, 1934, p. 26). It thus suggested that payment of its public debts was subject to *de jure* recognition of the Soviet Government by the Western Powers.

The Soviet suggestion was quickly rewarded with recognition by the Labour Government, on the grounds that, although technically separate from the issue of recognition one of the most

important questions was the settlement of outstanding claims between the Governments and nationals of the two countries and the restoration of Russia's credit (Toynbee, 1926).

Payment of the Russian debt to the United States was also conditioned on recognition of the Soviet Union; one of the methods agreed on by the Governments in 1933 to facilitate settlement was the transfer or assignment to the United States Government of the stocks or rights held by the Soviet Government, as a successor to previous Russian Governments, on properties or goods in the United States. The execution of this transfer to the United States Government gave rise to several lawsuits. In one of its decisions, the Supreme Court ruled that recognition of the Soviet Union was retroactive and validated all action and conduct of that Government from the beginning of its existence.⁶

Subsequently, the Foreign Claims Settlement Commission assumed responsibility for collecting all monies owed or potentially owed to the United States Government as assignee of the rights transferred to it under the Litvinoff Agreement of 1933.⁷ In practical terms, however, the bulk of the Russian debt outstanding prior to the repudiation decree remains unpaid and will probably never be paid.

III

Characteristics of the financing obtained from the Eurodollar market

The financing obtained from the London Eurodollar market has certain characteristics which make it different from conventional transactions. This is due to the special nature of the Eurodollar market, to the way in which the participating banks (organized in consortia) operate and to the standard loan contracts used.

1. *The Eurodollar market*

From the legal point of view, there are three characteristics of this market which are worth stressing.

In the first place, there is a complete lack of regulation on the part of any governmental or intergovernmental body; this is, in fact, the very reason why this market exists. The absence of regulation extends not only to individual operations but also to the operations of associated banks.

In practical terms, the lack of regulation means that a bank is not subject to the restrictions

⁶United States v. Belmont (301 U.S. 324) (1937).

⁷*Settlement of International Claims*, Act 96-209 (1980); the original version is dated 1949.

usually imposed on banking activities by national legislation. The most critical such requirement is that which concerns the reserves a bank must keep in respect of its operations; the banks taking part in the Eurodollar market are not subject to this requirement.

In the second place, there is the large volume of interbank loans and deposits which allow for the rapid transfer of resources from one bank to another with no other formality than a telephone call. Thus, when a bank grants a loan, it may use its own resources or, depending on circumstances, resources borrowed from other banks. This flexibility in the mobilization of resources enables the banks to meet a large demand quickly but, at the same time, it means that non-compliance by one single bank can jeopardize the working of the entire system. This vulnerability became evident during the Mexican crisis of 1982, when six banks —Bancomer, Banamex, Banco Serfin, Comermex, Somex and Banco Internacional— which had agencies in the London interbank market, were unable, for several days, to meet their deposit obligations with other banks. According to one journalist, if those accounts had been frozen..., the entire interbank market could have collapsed and the effect in London and, probably, New York would have been devastating (Kraft, 1984). Fortunately, the Mexican crisis was solved, to the great relief of the London and New York financiers.

Finally, the Eurodollar market has its own rules for establishing the London Interbank Offered Rate (LIBOR) of interest. This rate represents the amount which a bank operating on the London interbank market pays to another bank operating on the same market for a Eurodollar deposit for a term of not longer than one year. LIBOR is determined by the quotation given by the so-called reference banks participating in a loan transaction at a given hour on a contractually pre-established date for determining the applicable interest rates, which is usually paid every three or six months. Thus, LIBOR is a variable interest rate which fluctuates according to the market in London. Debtors pay a fixed percentage (spread), which is negotiated in each case, over LIBOR.

This explains why the Latin American debt fluctuates periodically; it has been contracted at the variable LIBOR interest rates or at the United

States prime rate (the interest rate United States banks charge their best customers), which reflect the fluctuations on the London and United States markets.

The Latin American governments would like to see some government assume responsibility for the activities of the creditor banks and act as a counterpart in negotiations pertaining to the debt. As is well known, up to now, the creditor countries have not done anything to satisfy this desire. This is in contrast with what has happened in the case of private-sector obligations in some countries, where, when debtors have had difficulty making payments, the creditors have obtained a government guarantee on the obligations, despite the fact that many of them have involved speculative or fraudulent operations which were harmful to the national economy. The banks have succeeded in obtaining this State guarantee by pressuring the governments, which had initially refused. One particularly effective form of pressure was the reduction or elimination of short-term loans (ECLAC, 1984, p. 74).

2. *The consortia*

The granting of loans by banks organized in consortia —another result of the lack of regulation of the London market— became a widespread practice beginning in 1972, when a total of US\$ 11 billion were loaned under this type of arrangement. The use of this system increased so dramatically that by 1981, syndicated loans totalled US\$ 178 billion (Mac Donald, 1982).

The consortia were successful because they made it possible to channel resources for an amount larger than that which any individual bank could loan, thus proportionally reducing the risk to each member of the consortium. Thus, they were quite successful during the periods of liquidity prior to the crisis and offered advantages to governments which, through this mechanism, found it relatively easy to obtain medium-term (from five to seven years and more) loans for amounts which up to then were unprecedented for Latin America.⁸

Nevertheless, as soon as difficulties began to arise in connection with the service of these loans,

⁸So-called "jumbo" loans were for amounts in excess of US\$ 1 billion.

the debtor governments virtually lost their bargaining power *vis-à-vis* the consortia. A consortium is organized through a mandate-letter from the loan applicant authorizing a bank to act as the lead manager bank in forming the consortium. At the same time, the applicant sends a memorandum giving detailed information on his economic and financial situation; this is very important because if it is later discovered that the memorandum contains false information, the creditors may even demand payment of the total amount outstanding on the loan.⁹ Both documents (the mandate-letter and the information memorandum) enable the lead bank to invite other banks to participate in the formation of a consortium. The consortium establishes a separate legal relationship which is independent of the loan contract between the lead bank and the borrower.

The consortium reflects the sophisticated organizational capability and the institutional solidarity of the banks. Contractually, it is strengthened by a cross-default clause which entitles a creditor to demand payment of the entire balance on the loan whenever the debtor has failed to meet a financial obligation with another creditor. Through this clause, therefore, the banking system obtains additional protection which prevents a debtor from choosing to meet only some obligations and not others. The cross-default clause prevents him from making this choice and forces him to meet each and every one of his obligations.

3. *The loan contract*

Loan contracts granted under the rules of the London interbank market have certain unique features which makes them different from any other contract. They are drafted in standard language which reflects the many years of experience of the banks operating in this market. Consequently, the possibility of modifying these contracts is very remote.

Of the different clauses contained in these loan contracts, we shall now discuss those relating

⁹The so-called "Colocotronis" lawsuit of 1975, between United States banks and the lead bank, European American Bank, involved allegations of falsehood in the information memorandum (Mac Donald, 1982, p. 126).

to the payment of commissions and expenses, jurisdiction and the applicable law.

a) *Commissions and expenses*

In addition to paying interest, a borrower must pay a number of commissions and miscellaneous expenses which considerably increase the cost of financing. Commissions include the management fee, which consists of a fixed percentage over the total amount borrowed and which must be paid to the agent bank at the time of signature of the contract. The purpose of this fee is to cover the expenses and effort involved in organizing the consortium.

The commitment commission is an annual percentage paid on the undisbursed balance of the loan during the entire period in which the bank keeps the resources available. In this regard, it should be noted that the contracts include many prerequisites which must be met before the funds are actually disbursed. The borrower must pay the commitment commission until disbursement is actually made.

The agency fee is paid annually to the agent bank for services provided during the disbursement period. It also is a fixed percentage.

In addition, the borrower must reimburse the banks for specific expenditures incurred in organizing the financing. These include services such as travel expenses, communications, postal expenses, lawyers' fees, advertising, preparation and printing of the information memorandum and others.

b) *Jurisdiction and applicable law*

Depending on where the financing comes from and where the banks have their domicile, the law applicable for purposes of interpreting and executing the contract will usually be that of the United Kingdom or of the State of New York. For the same reasons, the contract stipulates that the courts of those same places shall settle any controversy or dispute arising between the parties, without prejudice to the creditor's always having the option of claiming his rights before the courts of the borrower's country. The jurisdiction clause also includes the designation by the debtor of a representative holding power of attorney to receive claims and a waiver of immunity in respect of the initiation of lawsuits and

the execution of sentences. Difficult questions have arisen as regards the validity of these stipulations on jurisdiction and the applicable law, inasmuch as the constitutional and legal provisions in force in most Latin American countries prohibit, in different ways, the settlement of public affairs by jurisdictions other than the national ones. Infringement of these provisions is usually sanctioned by annulment of the act.

This also gives rise to a political problem which Aldo Ferrer (1984) mentions in stating that negotiations on the external debt should be transferred from London or New York to Buenos Aires, Mexico or Rio de Janeiro. Aside from the political issue involved, it must be recognized that the banks will never agree to a financing contract which grants the debtor the power to decide which law or jurisdiction is applicable. In practical terms, therefore, the debtor has no choice in the matter.

It should also be noted that many of the legal requirements imposed by the Latin American countries in this regard are extreme, considering the realities of contemporary finance. The governments and central banks are undoubtedly aware of this fact and have interpreted the law in such a way as to allow for flexibility in the application of the relevant constitutional norms.

An example of this is the interpretation developed by the Attorney General of Venezuela (1977, pp. 55 ff.), who considered Article 127 of the Constitution to be inapplicable to loan contracts between the public sector and foreign private banks, because those contracts had to do with commercial activities which did not affect the security and sovereignty of the State.

Another example is that of the Federal Court of Comodoro Rivadavia, which reversed the decision of the judge of Río Gallegos preventing the extension of jurisdiction to foreign courts in respect of contracts pertaining to the renegotiation of the external debt of the Argentine Republic.¹⁰ In this significant decision, the Court made a distinction between federal jurisdiction in respect of the party and federal jurisdiction in respect of the matter, and concluded that federal jurisdiction in respect of the party could be extended, even though the party might be the Argentine State. Bidart Campos added, in a footnote, that the extension agreed on was in order because there did not seem to be any federal matter at issue.

Moreover, it is questionable whether a government can free itself of its contractual obligations by invoking non-compliance with its own legislation and arguing, for example, that a contract has violated the constitutional prohibition against submitting to a foreign law or jurisdiction. Once a contract has been signed and disbursements have begun, such a behaviour would be equivalent to repudiation without just cause. On this point, Borchard (1951, p. 120) mentions the case of a loan granted by United States banks to Bolivia and the communication which the United States Secretary of State sent to the Bolivian Minister stating that, leaving aside the question of the legality of the loan, the State Department wished to draw attention to the fact that the Government of Bolivia, after having accepted and used the product of the loan, was hardly in a position to argue later that the loan was illegal.¹¹

IV

Creditor's rights in respect of the Latin American public debt

Without prejudice to collection by legal means, United States legislation grants banks a right which, in practice, is perhaps more expeditious than a lawsuit; it allows creditors to apply the liquid amounts deposited in checking accounts to the payment of amounts owed by their customers for other purposes. This set-off right allows creditor banks to retain and collect directly the

amounts owed them on delinquent loans from the liquid product of the exports of debtor

¹⁰*Revista argentina de jurisprudencia*, decision of 8 October 1983 in lawsuit against Aerolíneas Argentinas. In his decision, the judge of Río Gallegos also ordered the arrest of the President of the Central Bank of Argentina.

¹¹The State Department communication, dated 9 April 1922, is reproduced in *Foreign Relations*, 1923, 1, p. 443.

countries which are on deposit in those same banks (Mayer and Odorrizi, 1982, p. 289).

In the context of the current crisis, both creditors and debtors realize that there are no immediate solutions and that a lawsuit would entail many risks which none of the parties wishes to take.

The Mexican crisis of 1982 showed, moreover, that the problems related to the Latin American debt, and especially those of the larger countries, can affect the viability of the international financial system and that, therefore, the banks cannot be allowed, on their own, to decide how they should be solved. Indeed—although the principle of a political solution has not yet been accepted by the creditor countries—the Mexican crisis was resolved through intergovernmental negotiations which involved, among many others, the United States Treasury Department and Federal Reserve Bank, the Bank of England, the International Monetary Fund and the Bank for International Settlements.

Nevertheless, because the solution to the Mexican crisis of 1982 did not provide a precedent that could be applied to other countries, nor have the creditor countries accepted the proposal set forth in the Cartagena Declaration to the effect that an overall political solution should be sought for the problem of the debt, the banks still have ample room for exercising their rights without taking long- or medium-term political considerations into account.

When a debtor defaults on his financial obligations, the banks have the option of suing for payment or renegotiating the debt. In general, they have co-ordinated their action in exercising these options, going even so far as to set up steering committees organized vertically under the chairmanship of one of the more powerful banks. We shall now look at these two options.

1. *Judicial collection of the public debt*

It is important to determine whether the lawsuit is brought before the courts of the country in which the debt was contracted or payment is to be made, or the courts of the debtor's country. In either case, what makes the situation with respect to the collection of the Latin American debt unique is the high amount involved. Theoretically,

under the private law of most of the countries concerned, when a debtor does not pay, the courts are required to order the attachment and auction of the goods and assets of the debtor the creditor's claim. In other words, in the hypothetical case that the banks should succeed in having the courts order the attachment and auction for the goods and assets of the debtor governments and public entities in order to satisfy the entire amount owed, virtually the entire productive sector of Latin America and a good part of its territory would come under the ownership of the creditor transnational banks. There are many reasons why such a situation cannot arise. Because the State is a member of the international community, its existence or operation cannot validly be discussed or restricted by the jurisdiction of another State and much less so in connection with proceedings to secure payment of private loans.

If a State does not pay its debt, therefore, a creditor cannot initiate execution proceedings that might lead it to bankruptcy. This principle is recognized in the domestic legislation of the individual countries, as well as in international law. United States legislation, for example, expressly makes bankruptcy proceedings inapplicable to States.¹² At the international level, The Hague Court ruled, in the case of Venezuela, that the property of a State could not be the object of proceedings leading to sequestration or attachment and that such a proceeding would be inconsistent with the existence of a State as an independent entity. It further stated that it was obvious, therefore, that bankruptcy proceedings could not be applied to States in the same way as they were applied to individuals or commercial societies.¹³

Although this principle is quite clear, it is difficult to apply it in practice because of the increasing involvement of States in commercial activities and the development, in the United Kingdom and the United States—among other countries—of the doctrine of restricted immunity of jurisdiction.

¹²US Bankruptcy Code, 11 U.S.C., chapter 9, paras. 901-906; supplement iv-1980.

¹³Arbitration between Venezuela and other countries, Permanent Arbitration Court of The Hague, 1903, quoted by Borchard (1951, p. 122).

As a result of these developments, loans contracted by foreign States in those countries are considered to be commercial in nature; hence, it is not possible to invoke immunity of jurisdiction or of execution in lawsuits brought in cases of default. The creditors, however, are able to use all the resources permitted by the legislation of those countries, including the attachment, withholding, sequestration or auction of goods. Nevertheless, if the debtor countries do not have a sufficient amount of goods in the aforementioned countries to satisfy their overdue debts, creditors will not accomplish much through this means. At any rate, the question is a difficult one, since a significant part of Latin American trade is transacted through London and New York banks and thus the bank accounts in question can easily be attached in those countries.¹⁴

The other stage in this hypothesis is a lawsuit before the courts of the debtor countries where, obviously, there are enough goods to justify such a request. This might involve bringing suit before the local courts or requesting enforcement of a decision of a foreign court. In either case, the creditor's request will only succeed to the extent that it is compatible with local legislation. Even so, a distinction would have to be made between an isolated suit for a specific and relatively moderate amount and a suit for large amounts. In the first case, there should be no difficulty in effecting collection, but in the second case, if the amount claimed is beyond the payment capacity of the State, the situation will be different.

For obvious reasons of public order and national sovereignty, the courts of a country cannot make decisions which would affect or restrict the State's ability freely to dispose of its goods or the normal functioning and operation of essential economic activities, in order to favour foreign private creditors. The idea put forth by some creditors of capitalizing the Latin American debt by converting their loans into tangible assets is not, therefore, legally feasible. Nor have the banks considered this feasible; hence they have had to realize that the only valid option is a periodical renegotiation of the debt.

¹⁴Among the many cases that have occurred in recent months, one may mention the attachment of four Bolivian Government accounts in Washington banks (UPI, January 14, 1985).

2. Renegotiation of the debt

It is clear from the above that, in the context of the current crisis, this has been the best alternative available. Without prejudice to this, and despite the adverse circumstances, the exceptional organizational capacity of the banks has enabled them successfully to manage these renegotiations in such a way that, up to now, the crisis has not significantly affected their financial interests.

Up to 1981, the annual average debt of the developing countries with the commercial banks which was restructured was under US\$ 1.5 billion; in 1982 this figure rose to US\$ 5 billion and in 1983, it was over US\$ 60 billion (IMF, 1983, pp. 22 ff.). These figures are an indication of the high priority that has been attached, from 1983 onwards, to questions pertaining to the renegotiation of the debt of developing countries, and particularly of the Latin American debt.

The question arises whether, in view of the tremendous importance of the renegotiation process, the countries have received or are receiving the technical and professional advice they need in order to handle these complicated operations successfully. We believe that in the case of many Latin American countries, this has definitely not been the case. This is confirmed by a commentary in the *Financial Times*, which states that the developing countries have great advantages *vis-à-vis* the private banks, but have shown little imagination in using them.¹⁵ Whether or not this is true, the suggestion that the countries should request international technical cooperation in order to strengthen their bargaining capacity *vis-à-vis* the banks would seem to be fully justified.

The banks, on the other hand, have used to advantage many resources, including the following: acting under the leadership of a single committee presided over by one of the more powerful banks; keeping negotiations separate, dealing with them on a case-by-case basis; conducting negotiations and signing contracts at the sites of their main offices (London or New York); using English as the official language for renegotiations and contracts; using highly sophisticated

¹⁵Editorial entitled "Third World Leverage", dated 12 February 1983, quoted by Devlin (1983).

legal and financial advice at practically no cost; and applying as a precedent for the terms and financial conditions of their negotiations with other countries those agreed on with Mexico in 1982.

Recent studies show that the renegotiations carried out by the countries of the region between 1978 and 1983 have several characteristics in common (IMF, 1983; Devlin, 1983; and ECLAC, 1984).

That is why the rescheduling of the Mexican debt in 1982 is so important as a model applied to other countries. Nevertheless, what was acceptable to Mexico in 1982 is not necessarily acceptable now to countries with serious structural problems, whose possibilities for achieving a true recovery—contrary to the case of Mexico—are remote. Hence, it does not seem right for precedents or models that are not based on the specific economic circumstances of each debtor country to be applied to current renegotiations. The recommendation made by the United States Congress upon approving the last increase in IMF capital is consistent with this view. The Congress stated that the annual service of the external debt required of a given country should represent a wise and reasonable percentage of the estimated annual export income of the country in question.¹⁶

As we shall see, however, in the past few years, renegotiations have been based exclusively on the conditions prevailing on the international markets and not on those existing in the debtor countries.

Some of the main features of the renegotiation are the following:

a) *Concepts*

The banks consider that the debt should be refinanced and defined as a separate transaction from the original one, thus replacing the previous obligation by a new one. This strategy allows the banks to obtain more favourable terms because of the obvious reduction in the bargaining power of the debtor—who is virtually in default—and the great reduction in the supply of credit to Latin America (ECLAC, 1984).

“Rescheduling” or “restructuring”, on the

other hand, consists of extending or delaying the periods allowed for amortization and interest payments or reducing the amount of a particular obligation. The difference between these latter arrangements and that described as refinancing is not purely semantic; rather, there is a fundamental difference for both parties concerned. Up to now, the banks have managed to impose the concept of refinancing so that loans which originally were only marginally profitable have become highly profitable transactions.

Following the oil crisis of 1973, when there was an excess supply, and the banks were rushing to lend to the Latin American countries, these countries could practically choose the best offer, thus forcing the banks to reduce the interest spread—in other words, their profits—to minimal amounts. Since 1982, when the supply of credit ended, countries coming to the bargaining table have simply had to do whatever the banks tell them to. Through refinancing, the banks are now able to increase the spread and thus obtain profits which up to then had only been dubious. Refinancing also favours the banks because it allows them to again charge commissions and reimbursement of miscellaneous expenditures on the amount of obligations refinanced.

b) *Relationship with the Fund*

After an unsuccessful experiment in which a consortium of banks tried, in 1976, to engage in direct supervision of an economic stabilization plan for Peru, debt renegotiations have been subject to the signature, by the country concerned, of an economic stabilization plan with the International Monetary Fund (Dammers, 1984, p. 83; Akhund, 1978, pp. 66-72).

At present, renegotiations with the banks even consider non-compliance with the Fund agreement as grounds for claiming non-compliance with the loan agreement.

Since the Mexican crisis of 1982, Fund intervention in debt renegotiation has become even more significant. On that occasion, the Fund took the bold step of requiring the banks to participate and, in practice, it required the banks to grant new loans to Mexico amounting to 7% of the amount they had already committed; the total amount loaned in this way was US\$ 5 billion.

¹⁶Public Act 98/181, quoted in ECLAC, 1984, p. 73.

At the same time, the banks had to renegotiate US\$ 20 billion of the debt which matured in 1983 and 1984 (Kraft, 1984, p. 49). Although the new loans and the renegotiation had been granted at the instigation of the Fund, or, to be more exact, of its Director, Mr. Larosiére, this did not mean that the banks did not get a fabulous deal; they earned from 70 to 90% over their capital, so that the restructuring turned into a very good business for them.¹⁷

c) *Exclusion of interest*

For many reasons, the banks have systematically refused to include interest payments—either currently due or future—in debt renegotiations. They have no problem, however, with refinancing capital payments. In proceeding thus, they are following a banking tradition, i.e., to keep money in circulation. Moreover, if under the present circumstances, the entire amount of the debt were to be paid, the banks would have serious difficulties in relending that money. As long as countries continue paying interest, the banks are able to reassure their stockholders and the authorities that everything is normal.

Non-payment of interest on a bank loan has different administrative and legal implications in the United States. From a bookkeeping point of view, the transaction must necessarily be recorded as non-performing and withdrawn from assets. Generally, this also means that there will be no dividend payment, a fact which must be reflected in quarterly reports to stockholders. Hence, the banks need to give an appearance of normality to their operations; this is why they prefer to grant new loans rather than to include interest payments in a refinancing arrangement. As a result, despite the fact that defaults have occurred on a large scale, the banks have seen to it that interest payments continue without interruption. Thus, they have established a sort of perpetual rent in their favour which, theoretically, could continue indefinitely, since, as far as the banks are concerned, they are not interested in seeing interest payments suspended and, as far as the debtors are concerned, up to now they have had no choice.

¹⁷Attributed to one of the Mexican negotiations (see Kraft, 1984, p. 52).

d) *Maturities included*

One of the fictions which the banks have insisted on maintaining is that of the temporary and exceptional nature of debt rescheduling. Thus, each case of non-performance is treated individually, without taking into account the overall crisis affecting the region. This strategy is designed to gain time, on the assumption that in a few years, an overall recovery will enable the debtor to meet his obligations in a normal manner. According to this criterion, the reschedulings that have actually been carried out only include maturities falling within periods of no more than 12 months. Naturally, this means ignoring the structural aspects of the crisis and, moreover, helps to aggravate it; after two years, the debtors will be in even deeper troubles, since they will then have to meet new maturities, as well as the old ones.

e) *Financial conditions in recent negotiations*

A study was recently made of 43 negotiations on debt restructuring with 28 countries. This study, carried out from 1978 to October 1983, showed that the negotiations all had the following features in common:¹⁸

—The renegotiations were closely linked to IMF adjustment programmes and the banks were organized into directing committees.

—The long- and medium-term debt contracted or guaranteed by the public sector was included; in exceptional cases, the long- or medium-term private debt was included.

—The short-term debt was only included in half the cases.

—The interbank debt was excluded, as regards both deposits and loans.

—In some cases, notes or floating interest rates were included; in others, the agreement only included bonds and notes at floating interest rates of financial institutions.

—The agreements usually covered maturities (capital) falling within the 12 months after the initiation of negotiations.

—Except in two cases, the agreements excluded from negotiation interest already due or future interest.

¹⁸Information taken from IMF (1983, pp. 25 ff.). The information refers to debt renegotiations of 28 countries, 15 of which are in Latin America.

—Debt consolidation periods, understood as the period between the maturity of the original debt being restructured and the payment date of the future debt, ranged between one and two years; in the case of the debt that was already due, repayment periods were extended up to a little over three years.

—With only four exceptions, the agreements covered 80% of the capital maturing during the consolidation period and, in more than half the cases, 100% of the capital.

—Amortization terms for payment of the restructured debt ranged between 5 and 7 years.

—In most cases, interest rates were based on the three- or six-month dollar rates under LIBOR. In some cases, however, interest rates were based on the LIBOR rate or on the United States prime rate, the choice being up to the creditor.

—The margin applied to the basic LIBOR interest rate or to the prime rate ranged between 1.75% and 2.25% (only in one case was it 2.5%).

Restructuring commissions were estimated on the basis of limited information. They ranged between 1% and 1.5% of the amounts restructured.

f) *The case of Nicaragua*

The renegotiation of the Nicaraguan debt, which was carried out in 1980, has certain unique features which make it different from all other cases. In almost every regard, the agreement breaks with all precedents in matters of renegotiation.

The fear that the new government might repudiate the previous government's debt was

quite justified in 1979. Thus, when, in December 1979, at a meeting held at the Mexican Ministry for Foreign Affairs, the Minister of the International Reconstruction Fund of Nicaragua acknowledged the debt, the bankers were relieved (Ugarteche, 1983, p. 192).

For purposes of renegotiation, the debt was divided into four parts and, contrary to custom, negotiations were begun in Mexico and concluded in Panama. None of the meetings were held in New York or London. Although the banks wished to impose market conditions and market interest rates (Ugarteche, 1983, p. 193), they recognized that the situation was such that it was both necessary and right to allow for conditions that were less harsh than *usual*.¹⁹

The banks' original proposal was to grant a two-year grace period and a five-year amortization period, at a rate of 1.75% over LIBOR. Nicaragua's counter-offer was 23 years for amortization.

The final agreement represents one of the most favourable renegotiations obtained by a debtor country in recent years. The refinancing included interest due since 1978, calculated at a rate of 10.875%; when the LIBOR rate at that moment was 20%. Nicaragua was to pay an interest rate of 7% during the first five years and the market rate from 1986 onwards.

Another innovation was the provision that, instead of including capital maturities of 1 or 2 years, as was the rule, the entire debt was restructured.

The amortization period was 12 years instead of 5 or 7 and no rescheduling fee was charged (Ugarteche, 1983).

V

Doctrines invoked in lawsuits involving Latin American enterprises

Recent decisions handed down by United States courts in lawsuits brought by transnational banks against Latin American public bodies that had defaulted on their loans make it necessary to mention the doctrines on which these decisions have been based.

These doctrines were developed a long time ago; however, in light of the increase in transnational activity and the conflicts which have in-

¹⁹Ugarteche, 1983, p. 193. The expression is attributed to the economist Richard Weinert.

evitably arisen from the interaction of different systems, they have become increasingly important since the 1964 Supreme Court decision in the Sabbatino case.²⁰

The doctrines on which these court decisions have been based, which are also closely interrelated, are the act of state doctrine and the doctrine of immunity of jurisdiction.

1. *The act of state doctrine*

Under this doctrine, the courts refrain from deciding on a question submitted to them when this would involve qualifying the validity of a public act by a foreign government within its territory and jurisdiction.²¹

The doctrine was originally conceived on grounds of courtesy and international respect for the public acts of other States. Subsequently, however, the courts' refusal to decide on such cases was based on the problems involved in interfering in the area of foreign relations.

In the United States, the concept was first developed in 1897 as a result of a claim brought by a United States citizen before the courts of his country against the military government of Venezuela, because of his arrest and illegal imprisonment.²² His claim was rejected on the grounds that every sovereign State was obliged to respect the independence of all sovereign States and the courts of a country could not devote themselves to judging the acts of other governments carried out within their own territory. It was argued that reparation for damage caused by such acts should be made through the means made available by the sovereign governments between each other.²³

This doctrine was based on international courtesy and was applied without any major variations up to 1954, when the decision in the Bernstein case became the first exception. In this case, the plaintiff tried to recover the remains of

goods confiscated by Germany between 1937 and 1939.²⁴

In its traditional form, the doctrine would also have prevented the courts from deciding on the legality of the decisions of the German Government. In this case, however, the State Department was in favour of reviewing the legality of the acts of the German Government.²⁵ On this basis, the courts, disavowing their previous decisions, ruled that the act of state doctrine was inapplicable and decided on the substance of the issue raised (Delson, 1972, p. 90).

Later on, the Sabbatino case was brought before the courts, leading to what must be the most controversial decision ever made by the United States Supreme Court. One author called it the doctrine of "compulsive irrational abstention" (MacDougal).

In 1960, Farr, a New York broker, bought sugar from C.A.V., a company organized in Cuba with capital belonging to United States citizens. He undertook to pay for the sugar against delivery of the shipping documents in New York. After the sugar had been shipped, C.A.V. was expropriated and became the property of the Banco Nacional de Cuba, which charged its agent in New York with delivering the shipping documents against payment of the price. Farr refused to receive the documents and deposited the price with Sabbatino, the receiver appointed by the New York courts at the request of C.A.V. Banco Nacional's claim was rejected by the courts of first and second instance, which refused to apply the act of state doctrine and considered instead that international law had been violated by the Cuban Government in taking over the sugar by means of a discriminatory and vindictive act and without prior payment of compensation. The Supreme Court rejected the arguments of the lower courts and decided that it was not up to the judiciary branch to review the validity of an appropriation carried out by a foreign government within its territory in the absence of a treaty or agreement setting forth the legal rules applicable to expropriation. In brief, the Court considered that the act of state doctrine

²⁰Banco Nacional de Cuba versus Sabbatino, 376 U.S. 398. (The reference is to the compilation of sentences of the United States Supreme Court).

²¹On the act of state doctrine of the United Kingdom, see Singer (1981).

²²On the act of state doctrine of the United States, see Leigh and Sandler (1976) and Rabinowitz (1977).

²³Underhill v. Hernández, 168 U.S. 250 (1897).

²⁴Bernstein v. N.V. Nederlandsche-Amerikaansche, 210 F. 2d. 375 (2 Cir. 1954); 48A. J.I.L. 499 (1954). See also Delson (1972).

²⁵Department of State Bulletin (May 8 1949).

was applicable and that any decision to the contrary could create a conflict between the executive and the judiciary branches, despite the fact that through the State Department, and in keeping with the Bernstein exception, the executive had stated that it had no objection to the court's reviewing the legality of the Cuban expropriation decrees. Consequently, the act of state doctrine prevented the defendants from attacking the validity of the Cuban expropriation and the title of ownership presented by the plaintiffs.²⁶

In a later decision, the Court²⁷ invoked the act of state doctrine in recognizing the validity of exchange controls and restrictions applied by a government on transactions in national and foreign currency. In this case, an investor had received certificates from the Cuban Government which guaranteed him access to the foreign exchange market at a given rate of exchange. Subsequently, the Government had suspended indefinitely the conversion of those certificates into foreign exchange. The Court refused to reject the validity of that resolution, considering it to be inherent to the essential functions of a government for the purpose of protecting its scanty resources in foreign currency, so that it could not be considered a "confiscation" or "appropriation".²⁸ As will be noted, this decision is in harmony with the experience of foreign investors in the United States when, in 1933, the United States Congress revoked guaranteed metal conversion for the so-called gold clause, with respect to obligations payable in legal United States currency.²⁹ On that occasion, the creditors had to resign themselves to receiving money the value

of which was 59.06% lower than the value of cash before the Congressional resolution.³⁰

2. Immunity of jurisdiction

Recognition of the international personality of a State as a member of the community of nations implies recognition of its equality, dignity, independence and territorial and personal supremacy (Oppenheim). The United Nations Charter, in article 2, para. 1, states that the Organization is based on the principle of the sovereign equality of all its Members. One consequence of the principle of sovereign or juridical equality is that a State cannot exercise jurisdiction over another State nor can it be sued before foreign tribunals unless it voluntarily submits to such jurisdiction.

For many years, the prevailing doctrine was that of the absolute immunity of the State, according to which all acts of the State and of its bodies, the acts and the person of its agents and representatives, its goods and properties could not be judged by courts other than those of the State itself. Nevertheless, in view of the economic activity carried out by the public sector after World War I, the European courts (Belgium and Italy) began to make a distinction between acts of the government as such —*jure imperii*— and acts of a commercial nature —*jure gestionis*— and to refuse immunity for the latter (Brownlie). Despite this, during the same period, a Harvard University study came to the conclusion that the distinction between acts of government and acts of a commercial nature did not justify bringing a claim against a State for matters pertaining to its public debt (*American Journal of International Law*, 1932, p. 597). This conclusion was consistent with the opinion of Luis María Drago, according to whom public loans were sovereign acts (quoted by Borchard, 1951, p. 168), and with the position taken a long time ago by the English courts, when they refused to assume jurisdiction in respect of a claim brought to secure payment from Peruvian Government agents for bonds pertaining to that

²⁶Public reaction to the Sabbatino case led the Congress to approve the two Hickenlooper amendments (77 Stat. 336 (1963) 78 Stat. 1013 (1964)). The first amendment ordered the Executive to suspend foreign aid to countries which had not taken adequate measures in certain cases of expropriation or nationalization or repudiation or annulment of contracts with United States citizens or companies. The second amendment prohibited the courts from applying the act of state doctrine in cases in which the title of ownership invoked was based on a confiscation carried out in violation of the principles of international law.

²⁷*French v. Banco Nacional de Cuba* (23 N.Y., 2d, 63, 295, N.Y., 2d, 449, 242, N.Y., 2d, 751-16).

²⁸*French v. Banco Nacional de Cuba*, *ibid.*

²⁹The joint resolution of Congress is dated 5 June 1933 (48 Stat. 113 (1933, 31 U.S.C.A. 463 (1933))).

³⁰Under decree dated 31 January 1934, the United States President fixed the new price of the gold dollar at a parity of 0.35 dollars per ounce of refined gold (Nussbaum, 1954).

country's public debt.³¹ In that case, it was noted that the bonds were none other than commitments of honour and that the contracts concerned could not be executed before the courts of a foreign country, or even before those of the country which issued the bonds, without the consent of the government of the latter country.

There has been much theoretical discussion about the advisability of including the principles relating to sovereign immunity in a multilateral convention. Except for the 1972 European Convention, which entered into force in 1976,³² however, these efforts have not been successful. Considerable progress has been made, however, in the national legislation of several countries, especially the United States and the United Kingdom, whose laws are similar from both the philosophical and the practical standpoints. In 1952, the United States declared, through the so-called "Tate Letter",³³ that it accepted the restrictive doctrine of immunity and the distinction between acts of government and commercial acts of the State, and that it did not recognize immunity in respect of the latter.

This, however, was not enough, and soon a special law had to be enacted.³⁴ The United Kingdom, for its part, enacted its own special law, on 22 November 1978.³⁵ We shall not go into this legislation in detail here, but will only point out that it restricts the immunity which had traditionally been invoked by Latin American governments and public entities in respect of their activities abroad. The new legislation favours creditors, identifying and expanding on those cases in which they can exercise their rights before the courts of those countries, and restricting the occasions on which foreign defendants may invoke immunity of jurisdiction or of execution with respect to their persons or properties.

In addition to reaffirming the immunity of

jurisdiction and of execution of a foreign State and its agents or enterprises in respect of federal and state courts, the United States law lists several exceptions to this immunity. These include cases when the foreign State expressly or implicitly waives jurisdiction and cases relating to the commercial nature of the act.

One example of an explicit waiver of immunity is the clause usually included in treaties on trade, friendship and shipping which the United States has signed with several countries (Crawford, 1981, p. 826). With regard to tacit or implicit waivers, it was noted, during discussions on the law in Congress, that the courts have considered that immunity is implicitly waived when a foreign State accepts arbitration in another country or when a foreign State agrees that the law of a given country is applicable to the contract.³⁶ As is known, most loan contracts signed by the Latin American public sector include clauses on the application of foreign jurisdictions or laws and this, according to the above interpretation, would constitute an implicit waiver of immunity.

The exception based on the commercial nature of the act includes the following three situations: i) commercial activities carried out in the United States by a foreign State, its agencies or enterprises; ii) acts carried out in the United States in connection with commercial activities carried out in another place by a foreign State, its agencies or enterprises; and iii) acts carried out outside the territory of the United States by a foreign State, its agencies or enterprises, in connection with commercial activities also carried out outside that territory but which produce direct effects in the United States.³⁷

The original bill included a provision in which a distinction was made between the public debt of the central government and that of its political subdivisions, agencies or instrumentalities and immunity of jurisdiction was granted only to the central government but not to the other bodies. Although this provision was eliminated from the final text, the interpretation has been that this means that both the public debt of the

³¹*Twycross v. Dreyfuss*, 5 Ch. D. 605, 616 (C.A. 1877).

³²The text of this convention appears in "17 International Legal Materials", Washington D.C. (1978), p. 1123.

³³Communication from the Deputy Legal Adviser to the Department of State, 19 March 1952 (26 Dept. State Bull. 984, 1952).

³⁴*Foreign Sovereign Immunities Act*, No. 94-583, 21 October 1976.

³⁵The text appears in Lauterpacht (1983).

³⁶Report of the Senate Committee on the Immunities Act (Senate Report No. 1310, 94th Congress, 2d. Sess. 18) (1976).

³⁷Article 1603 (d) of the Foreign Sovereign Immunities Act.

central government and that of its agencies, subdivisions or enterprises constitute commercial transactions and are governed by the same rule and hence excluded from immunity. Delaume (1977, p. 405) points out that this interpretation would be consistent with Article 4 of the European Convention, which states that all contracts, including loans and other financial transactions, between a Contracting State and private persons which are to be performed in another Contracting State, are subject to the non-immunity rule set forth in the Convention.

English law, on the other hand, has been more explicit and has established that a State does not enjoy immunity in respect of its commercial transactions. The concept of "commercial transactions", includes any loan or other transaction for the obtaining of financing and any guarantee or indemnity for such transaction or for any other financial obligation.³⁸

The United States Act also covers the property of a foreign State and declares that it shall not be immune from attachment, sequestration and execution, without prejudice to several exceptions. One exception concerns property being used in commercial activities in the United States, which can be attached by a federal or State court when the foreign State has expressly or tacitly waived its immunity or the property has been or is being used in the commercial activities which gave rise to the lawsuit. In the case of property of agencies or enterprises of a foreign State involved in commercial activity in the United States, the exception is governed by the same rules as above, but is broader and covers

any property of such enterprises or agencies, whether or not they have been used in the aforesaid commercial activity.

Finally, as regards the property of a foreign central bank or monetary authority, there is a special rule according to which such property enjoys immunity from attachment and execution, provided the said central bank or monetary authority holds it on its own account and the government, bank or authority in question has not expressly waived immunity.

The legal provisions mentioned above give rise to difficult problems of interpretation which have to be decided by the courts. We shall not list them all, but it is worth mentioning what has already happened with mixed bank accounts of foreign embassies, agencies and central banks. In a suit against the Embassy of Tanzania,³⁹ the court authorized attachment of the Embassy's bank account because it was being used for the purchase of supplies, and this was considered to be a commercial activity. The court considered that immunity did not apply because the account had been used for other purposes and to decide otherwise would be to weaken the principle of the immunity of official bank accounts by allowing their use for commercial activity (Crawford, pp. 863 and 864).

The obvious risks of the above legal interpretation have led one author to recommend that a foreign central bank in the United States should have a number of banks accounts in order to avoid possible attachment (Patrikis, 1982, p. 287).

VI

Recent decisions of United States courts in lawsuits against Latin American public entities

In 1982, the problems arising from the Latin American financial crisis began to be brought up in New York courts as a result of lawsuits brought by transnational banks against Latin American

public entities which had stopped making payments on their obligations.

The decisions that have been adopted up to

³⁸State Immunity Act, article 3, 3(b).

³⁹*Birch Shipping Corporation v. Embassy of Tanzania*, 507.

now are, as we shall see, confusing and contradictory, and the controversies they have aroused in international circles are fully justified. This is not surprising if one considers the complexity of the issues raised and the fact that national courts are being forced to decide on international affairs. Although from the Latin American point of view, these decisions have already had a significant impact, inasmuch as they reveal the context and modalities within which creditors exercise their rights, we can, at this point, only make some preliminary remarks, inasmuch as judicial review procedures have not yet been concluded and the number of lawsuits that have been brought is still small. Nonetheless, whatever criteria may prevail, what does seem clear is that the act of state doctrine and the doctrine of sovereign immunity will continue to have a decisive influence on the legal decisions that may be taken.

In the judgements we shall discuss, the claim is made by a creditor who demands payment of the debt contracted by a public entity which has defaulted on one or more payments because of the enactment, by its government, of monetary control measures which have prevented it from obtaining foreign exchange to make payment. The events take place in the interval between the cessation of payment and the completion of formalities pertaining to agreements on renegotiation of the debt between the governments concerned and their creditors.

The lawsuits we shall discuss are *Frankel v. Banco Nacional de México* (hereinafter *Frankel*);⁴⁰ *Libra Bank Ltd. v. Banco Nacional de Costa Rica* (hereinafter *Libra Bank*);⁴¹ and *Allied Bank International v. Banco de Crédito Agrícola de Cartago* (hereinafter *Allied Bank*).

1. *Frankel*

This lawsuit arose from the violation of obligations under a deposit contract on the part of Banco Nacional de México, a nationalized entity belonging to the Mexican State. The court accepted the immunity of jurisdiction invoked by

⁴⁰*Frankel v. Banco Nacional de México*, No. 82-6457 slip. op (S.D.N.Y. 1983).

⁴¹*Libra Bank v. Banco Nacional de Costa Rica*, 570 F. Supp. 870 (S.D.N.Y. 1983).

the defendant and held that the acts which were the object of litigation were not related to the certificate of deposit but rather to the norms and regulations enacted by the Mexican Government to control its currency and organize its economy. The court pointed out that the plaintiffs' claim against the behaviour of the defendant bank was none other than that the latter had complied with its country's exchange control norms and regulations. According to the court, the control of its foreign exchange on the part of the Government of Mexico was a public act which could only be carried out by a sovereign State; it added that it was precisely that type of governmental act which could not be the object of judicial review under the doctrine of sovereign immunity.

As we have seen, in a very similar situation, such as the one arising from the devaluation of Cuban investment certificates in the French suit, the court also refused to review the acts of government. Nevertheless, although the result in both cases was the same, the doctrine invoked in French was the act of state doctrine, rather than the doctrine of sovereign immunity, which evidently would also have been the correct one to invoke in the *Frankel* case.

2. *Libra Bank*

In 1981, the Banco Nacional de Costa Rica (hereinafter Banco Nacional), which belonged to the State of Costa Rica, defaulted on payments on loans contracted a year before with Libra Bank. In August 1981, the Banco Central decided that the only amortization payments on external loans that would be authorized would be those owed to multilateral financing agencies. In November, the Government enacted decree No. 13103-H, which prohibited the Republic and the entities of the public sector from making capital or interest payments on the external debt without the prior authorization of the Banco Central, in consultation with the Minister of Finance. Banco Nacional did not obtain the authorization to make payments on its debt with Libra Bank and the latter sued in New York, demanding payment of the entire amount owed, arguing that the notes extended by Banco Nacional stipulated that New York would be the place of payment, and there was a clause in the contract

whereby Banco Nacional expressly accepted to be sued in that city.

Libra Bank asked for a summary judgement and Banco Nacional invoked, in its defence, the act of state doctrine, arguing that it had not been able to make payment because of the imposition of exchange restrictions in Costa Rica which constituted a decision that was not subject to judicial review.

The court accepted the claim and rejected the defence of Banco Nacional with a reasoning which we can only qualify as unusual. The Court stated that the *situs* of the debt was New York and not Costa Rica and then drew an analogy between Costa Rica's action and the confiscation of the goods and property of King Faisal II by the Government of the Republic of Iraq. In the latter case, the courts refused to grant extra-territoriality to Iraq's confiscation decrees in respect of the goods which Faisal possessed in New York, arguing that, although the decrees constituted an act of state, such an act of state only affected the goods located within the territory of Iraq; with respect to those located in the United States, the courts would only enforce the decrees to the extent that they were consistent with the policy and law of the United States.⁴² The court reached the conclusion that the decrees were not consistent with the policy and law of the United States and therefore refused to enforce them. In the case of Costa Rica, the court considered that the 1981 decrees could not have extra-territorial effect but that the acts equivalent to confiscation were not the decrees but rather the government's decision to deprive Libra Bank of the right of receiving the payment owed to it by Banco Nacional. This decision of the Government of Costa Rica was assimilated to the act of confiscation by Iraq, with the only difference, according to the court, that in the latter case the property confiscated was tangible, while in the case of Costa Rica, it was intangible. After concluding that the *situs* of the debt was New York, the court, without analysing the 1981 decrees, considered the act of state doctrine to be inapplicable because the acts of the Government of Costa Rica could only have had extra-territorial effect to the extent that they were consistent with the policy

and law of the United States. Considering that the acts in question were qualified as confiscatory and that no compensation was paid and that they would be repugnant to the constitution and laws of the United States, the Court refused to give validity to the defence of Banco Nacional based on the act of state doctrine and accepted the claim by Libra Bank.

This decision also seems wrong and shows a failure to recognize the reasons of public order which lead a country affected by a severe financial crisis to restrict foreign exchange transactions. The assimilation of a government act prohibiting payment abroad in foreign exchange to the confiscation of the goods of a deposed monarch and the use of this as grounds for a sentence only reveals a regrettable confusion on the part of the court.

3. *Allied Bank*

The events which gave rise to this lawsuit were identical to those of the Libra Bank case. Allied Bank is the leader of a consortium of 39 banks which also brought suit in New York against a group of banks belonging to the Government of Costa Rica which had gone into default because of the 1981 decrees of that Government.

The defendants (hereinafter Banco de Cartago), based their defence on the sovereign immunity and the act of state doctrines. The first defence was rejected because the judge considered that the collection of a note, which was what gave rise to the suit, constituted a commercial act to which immunity did not apply. On the other hand, the judge did accept the defence based on the act of state doctrine because he considered that what had prevented Banco de Cartago from meeting its obligations with Allied were the Banco Central decisions, which the United States courts could not review. The judge added that a decision in favour of Allied in this case would entail a determination that the defendants would have to make a payment which went against the orders of their government. This, according to the judge, would bring the United States judiciary into conflict with a foreign government, and that would upset relations between the executive branch of the United States Government and the Government of Costa Rica.

⁴²Republic of Iraq-First National City Bank (353 F.2d 47 (2d Cir 1965), cert. denied, 382 U.S. 10271 (1966)).

In short, in this case, the court reached different conclusions than the judge in the *Libra Bank* case, despite the fact that the events and the defendants' arguments were the same. Nevertheless, the *Allied* case brought up an interesting side issue.

In July, 1983, the parties abandoned the suit while steps were being taken to reschedule Costa Rica's external debt. On 9 September of the same year, the Government of Costa Rica and the Banco Central signed a refinancing agreement with *Allied* and its representatives; of the 39 banks involved, however, one rejected the agreement: Fidelity Union Trust Company of New Jersey (*Fidelity*), which continued with the suit.

The Court of Appeals rejected *Fidelity's* appeal, but for reasons entirely different from those adduced by the trial judge. The Court took into consideration the fact that the economic crisis of Costa Rica had led the executive and legislative branches of the United States Government to provide economic assistance to that country and that, moreover, in the negotiations of the Club of Paris, the United States had approved the renegotiation of Costa Rica's intergovernmental debt. This circumstance was taken into account by the Court in rejecting *Fidelity's* argument on the inapplicability of the act of State doctrine, on the grounds that the *situs* of the obligation was New York and not Costa Rica. The Court's reasoning was that when the goods or contractual obligations affected by a decision of a foreign

government are located in the United States, the courts will only recognize their validity when that is consistent with the policy and law of the United States.

The court reached the conclusion that the decisions of the Costa Rican Government which resulted in the prohibition to pay the external debt were consistent with the policy and law of the United States and to support this conclusion, it referred to an 1883 decision.⁴³

On that occasion, the Supreme Court rejected a demand for payment brought by United States citizens holding bonds in a Canadian railway company on the grounds that the company was being reorganized and was negotiating an agreement with its creditors. The Court considered this to be in harmony with the spirit of the bankruptcy laws recognized in all civilized countries. Similarly, the Court continued, Costa Rica's prohibition against making payments on its foreign debt was analogous to the reorganization of a business envisaged in the United States Bankruptcy Law⁴⁴ and did not constitute repudiation of its obligations, but rather an extension of payment made in good faith for the purpose of renegotiating its obligations. In brief, the court decided that the decrees and decisions of the Costa Rican Government which prevented Banco de Cartago from paying its obligations in New York were consistent with the policy and law of the United States and that its validity should be recognized by the courts of that country.

VII

Conclusions

It is evident from the above that the legal aspects of negotiations concerning the refinancing or rescheduling of the Latin American public debt are extremely complex. Naturally, the legal aspects are only one part—though a very fundamental one—of the issue, and must be viewed within the broader context of relations between the Latin American governments and public entities and the transnational commercial banks.

In light of the analysis we have made and of the need for these countries to take more suitable

measures to protect their interests, we would like to make the following suggestions:

- a) The debtor countries should contract for permanent consultant services in London and/or New York. The consultant(s) should
 - i) centralize, co-ordinate and make avail-

⁴³Canada Southern Railway Co. and Gebbhard, 109 U.S. 527 (1883).

⁴⁴United States Bankruptcy Law, chapter 11, 11 U.S.C., paras. 1101-74 (1982).

- able to governments the up-to-date information needed for an adequate renegotiation of each country's public debt; and
- ii) provide the legal advice that is essential for the proper conduct of the relevant negotiations.
- b) In emphasizing to the governments of the industrialized countries the importance of recognizing the political nature of the debt, the debtor countries should insist on:
- i) an increase in the contributions of governments of industrialized countries to the international financing agencies, as a means of increasing the supply of public credit to Latin America and counteracting the high cost of private credit and the burden which the service of this type of credit represents for the development of the region;
 - ii) the adoption, in any renegotiation, of the imperative norm that the burden of the debt shall not be in excess of an amount that is compatible with each debtor country's payment capacity and development needs; and
 - iii) consideration of specific formulas for reducing the burden of the debt, which may include conversion into bonds at fixed prices and interest rates, whose collection and management might be entrusted to an existing intergovernmental entity or to one which might be established in future.

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Recent ECLAC publications

Economic Survey of Latin America and the Caribbean 1982 (LC/G. 1320), United Nations, Santiago, Chile, 1984. Two volumes of 693 and 199 pages.

This edition of the *Economic Survey* is divided into two volumes concerning the Latin American and Caribbean economies, respectively.

The first volume begins with a review of the main aspects of the region's economic performance in 1982, such as economic growth, employment, inflation and wages, and the external sector. An analysis is then presented of exchange policy and the renegotiation of the external debt, concluding with a detailed description of the 20 Latin American countries.

The second volume contains a country-by-country analysis of 13 Caribbean economies, preceded by an initial discussion outlining the main overall trends in this sub-region during 1982.

La agricultura campesina y el mercado de alimentos: el caso de Haití y el de la República Dominicana (LC/G. 1319). "Estudios e Informes de la CEPAL" series, No. 39, Santiago, Chile, 1984. 255 pages.

The study on Haiti begins with a description of the origins of the peasantry and the development of this type of agriculture. The analysis is based on the following question: To what extent is the crisis in Haitian agrarian society due to the proliferation of small production units in which non-commercial labour, whose manpower supply is the family, exists side by side with paid labour, mainly as a result of the peasantry's participation in community structures such as communal gardens?

The second part of the study contains an analysis of how the food supply is determined, given the fact that there has been a deterioration in the agricultural situation, by peasant food production and importation, together with their corresponding distribution systems.

Lastly, starting from the hypothesis that the market for food is a polarized one, food demand is examined on the basis of an unequal distribution of national income and according to its urban or rural origin. This section concludes with a description of the prevailing consumption patterns in urban and rural areas along with their implications for the population's nutritional status and the peasant economy.

The study on the Dominican Republic begins by setting out the main characteristics of the country's economy and of the peasantry as a basis for analysing the factors which influence peasant agriculture, the food market and the process of urbanization and marginalization.

One of the author's conclusions is that any measure designed to improve the prices received by peasant farmers must be based on a strategy for raising the income of the families which are potential consumers of these products (the majority of the rural and urban population). Increasing the food supply at higher prices without improving the income of the 75% of the population which is regarded as being marginated could pose serious problems with respect to the marketing of these products and could result in greater losses for producers due to people's inability to purchase such products.

The conflict between the need to keep the population in the countryside in order to curb the expansion of the cities, on the one hand, and the transference of surpluses entailed in holding down the prices of peasants' products so that the working class may be reproduced without exerting pressure for higher wages, on the other hand, demands that the system should find rapid solutions. One proposed solution, although it would be difficult to implement, is to promote peasant agriculture by providing facilities for its development. Such initiatives have thus far been unfruitful; the only thing left to do is to improve prices and influence the market in order to prevent the disintegration of the peasant system.

Estructura del gasto de consumo de los hogares según finalidad del gasto, por grupos de ingreso (LC/G. 1323). "Cuadernos Estadísticos de la CEPAL" series, No. 8. Santiago, Chile, 1984.

The formation of the Household Survey Data File (ADEH) in ECLAC has allowed for the systematic accumulation of information from the household surveys which, for various purposes, are carried out in the region, such as the family budget surveys.

The many demands for information concerning the composition of consumption by different income groups for use in research and forecasting work carried out by ECLAC and other regional and national organizations make it desirable to collect the available statistics on the structure of household expenditure on consumption, broken down by the purpose of the expenditure and by income groups, systematically and on as consistent a basis as possible in a single document, even though the results of each survey may have been published upon its completion by the organization which conducted it. A similar systematization effort had previously been made with respect to the ECIEL programme surveys for the Andean Pact countries,¹ and this issue of the "Cuadernos Estadísticos" has drawn heavily on that experience. Most of the results of the ECIEL programme surveys have also been analysed exhaustively in another study,² to which the reader should refer for a more detailed treatment.

¹Board of the Cartagena Agreement and Joint Programme on Latin American Economic Integration (ECLAC), *Grupo Andino, distribución de ingresos y estructura del consumo (área urbana)* (1/11/68), 15 March 1976 (mimeograph).

²Philip Musgrove and Howard Howe, *Estudio de consumo e ingreso familiar*, Joint Programme on Latin American Economic Integration (ECLAC).

The family budget surveys available in the region include those that were conducted during the period 1967-1970 under the ECIEL programme, those which are carried out systematically by some of the countries in the region as part of ongoing household survey programmes, and some which were conducted as part of specific research projects. The latter include a series of partial-coverage or less reliable surveys which have not been included in this document.

The widest-coverage and most reliable family budget surveys available in each country have been selected; some take in all urban areas, but most cover only the metropolitan area of the capital city or the major cities of the country in question.

In addition to giving the official identification of each survey and the organization which conducted it, a summary is included of its main characteristics as recorded in the corresponding technical entry in the ECLAC Household Survey Data File. In each case, the specific documentary source from which the data were taken is also indicated.

La mujer en el sector popular urbano (LC/G.1326), United Nations, Santiago, Chile, 1984. 349 pages.

The studies contained in this book were presented at the Regional Technical Seminar on Women and Families in the Lower-income Urban Sectors of Latin America (28 November to 2 December 1983), which was organized by ECLAC in co-operation with the International Development Research Centre (IDRC) and the Voluntary Fund for the United Nations Decade for Women.

It is divided into six parts: three relate to research projects, two concern general aspects and statistical input, and one explains the methodology of research-action (participatory research) used in most of the projects described.

Part one deals with general aspects relating to the family, participation and work.

Part two describes projects dealing with participation in Brazil, Chile, the Dominican Republic, Ecuador, Mexico and Peru. The subject matter is approached from a different angle in each one: it is linked to community participation as a learning process for political participation on a broader scale; it is interpreted as an alternative channel for social action and the implementation of strategies for collective survival in situations where the regular channels for pressure are closed off; feminism is presented as a social movement of women in the lower-income sector and specific working methods are defined in this respect; emphasis is placed on women as a major social actor in urban social movements and struggles; the limitations and possibilities of the participation and organization of women in working-class districts are discussed; and projects are described in which organization and participation are based on specific issues which bring people together, such as health and child care, through which a broader mobilization and learning process may be initiated.

Part three covers projects in Argentina, Chile and Mexico which are based on the family as a unit for research and action. One project addresses the social relationships of consumption in the household unit, encompassing the various activities involved in obtaining and distributing goods and services; another study analyses the subject of extended families made up of three generations and examines the

traditional position of women in such families. A monograph describes research on young couples as part of a project on mass education for low-income young people. A final study which grew out of "reflection workshops" involving women from lower-income sectors discusses how the self-devaluation of women is exacerbated by the economic crisis and the present political situation.

The subject of part four is paid labour. Six situations in Colombia, Curaçao, Chile, Puerto Rico and Uruguay are discussed. These studies describe various family survival strategies, especially in the informal sector; housework and its impact; domestic service and its theoretical significance as well as its influence on the functions performed within the family by the other members of the unit; the many forms taken by paid work performed by women in the Caribbean, where urban and rural elements become intermixed and new forms of participation in the labour force are created; and the work done by women manual labourers in the particular case of one foreign company.

An examination of the methodological aspects of research in part five highlights the experience of the IDRC in this connection, in view of the fact that it has supported numerous projects in the region in which this methodology has been used. The idea is advanced that the possibility of delving further into real situations by learning about them directly from those involved gives rise to a deeper commitment on the part of researchers.

The sixth and final part of this publication provides statistics on women in lower-income sectors in five Latin American and Caribbean cities. A profile is presented based on the most recent household surveys, which provide a picture of the settings for the projects described.

La industria siderúrgica latinoamericana: tendencias y potencial (LC/G.1328). "Estudios e Informes de la CEPAL" series, No. 40. Santiago, Chile, 1984.

This publication is the result of a study conducted in order to ascertain the position of the Latin American iron and steel industry with respect to changes that are expected to occur in the development of the iron and steel industry at a worldwide level. It was carried out as part of a research project being conducted under an agreement between the Institute for Economic and Social Planning (IPEA) of Brazil and ECLAC, whose purpose was to look into the problems which the Latin American iron and steel sector will have to face in the future.

It first analyses the trends in the international trade of iron and steel products among world regions from the standpoint of the geographical location of supply and the structure of demand among the main consumer sectors; within that framework, the outlook with respect to supply and demand for Latin America is discussed, with special importance being placed on an analysis of the status of iron and steel projects in each country.

A comparison is then made of some indicators of industrial efficiency in terms of factor payments and the productivity of installed capital. Some comments are also made concerning certain external factors, such as environmental protection laws, which have a major impact on the total costs of plants located in developed countries.

Next, a discussion is presented of the ability of the Latin

American iron and steel industry to adapt to the pace of technological progress in some countries, such as Japan, and to develop a technical capacity for improving upon the technologies that are in use. Stress is placed on research efforts to find solutions for the technical and resource problems faced by the Latin American iron and steel industry and the development of project engineering, which has reduced its dependence on industrialized countries in designing, setting up and modifying iron and steel plants.

Finally, an overview is given of the availability and use of Latin American natural resources in the iron and steel industry. The situation with respect to iron ore, cooking coal, charcoal, natural gas and ferrous alloys is reviewed.

Precios, salarios y empleo en la Argentina. Estadísticas económicas de corto plazo (LC/G.1330). "Estudios e Informes de la CEPAL" series, No. 42, Santiago, Chile, 1984.

This report is a part of the programme being conducted by the ECLAC Office in Buenos Aires on information and short-term analysis relating to the Argentine economy. The programme has three main objectives, the first is to contribute to the systematization and refinement of statistical material in order to increase its usefulness for research and economic policy. The second is to analyse the current economic situation based on descriptive studies; this has resulted in publications on trends in the manufacturing industry and on the prices and costs of a group of industrial activities, the short-term behaviour of international trade and the stock-raising cycle. The third is to formulate hypotheses based on this description and other studies having a similar focus.

The work carried out to date as part of the statistical programmes has made it possible to compile a large volume of data and to gain experience regarding its characteristics and limitations. The material has been organized in the Statistical Series Storage and Processing System (SAPSE), which includes computer programmes for incorporating, recovering and processing statistical data.

This publication includes a group of studies presenting the information contained in SAPSE. For operational reasons, the data are published in separate consecutive volumes; the order of publication is also determined by practical considerations. The content of these publications is as follows: national accounts and the agricultural sector, production sectors, manufacturing industries, construction, energy, prices, wages and employment; the external sector and international markets; currency, credit and public finances.

The contents are divided into four sections. The first is an analysis of general problems of statistics in the sector and the main criteria used in selecting or preparing the series; the second section describes the concepts, sources and methods used according to groups of variables. The third section includes summary tables in which information is provided on an annual basis, while the fourth section gives a detailed presentation of the basic series incorporated in SAPSE.

Políticas de ajuste y renegociación de la deuda externa en América Latina (LC/G.1332). "Cuadernos de la CEPAL" series, No. 48, Santiago, Chile, 1984.

During the past two years, many Latin American countries

have applied adjustment policies and have also begun taking steps to renegotiate their external debt. These two processes have, basically, been a first immediate economic policy response to the challenge posed by the deep and widespread economic crisis which has been affecting the region since 1981.

In some cases, such adjustment policies, which are designed to lessen external imbalances, have also been coupled with stabilization programmes whose purpose is to slow the rate of inflation. Consequently, the actual results reflect the effects of both policies as well as the impact of external factors over which national economic authorities have little or no control.

Thus far, both the adjustment process and the renegotiation of the external debt have been very costly for the countries of the region. Between 1981 and 1983, the current account deficit on the balance of payments was sharply reduced, and the basic objective of these adjustment policies was therefore fulfilled; however, this was almost entirely due to the huge drop in the volume of imports. Under such circumstances, the adjustment has been markedly recessionary and, in many countries, has been accompanied by a considerable decline in domestic economic activity and by a deterioration of the employment situation. For their part, debt renegotiation agreements, which have made it possible to avoid major balance-of-payments crises, have also helped to sharply increase the cost of external financing for the Latin American countries, and the benefits of such financing have therefore been distributed very unevenly between these countries and creditor banks. Finally, in many cases stabilization programmes have managed to bring about only a slight reduction in the rate of inflation.

This issue of the "Cuadernos" series is a first effort to describe and analyse the policies applied and results obtained with respect to the internal adjustment and the renegotiation of external debts. It has been based on the different experiences of the region in these areas, but is not an attempt to provide a specific description of the experience of a given country or group of countries.

The study does not purport to provide widely applicable or precise formulas for eliminating the defects thus far observed in the adjustment and renegotiation processes. It acknowledges the fact that there are no easy solutions for these aspects of the problems faced by the countries of the region and that, in designing and applying economic policies, the individual characteristics—which are often quite varied—of each country must be taken into account.

Throughout the text, two factors which are felt to be of more general validity in relation to the processes of adjustment and renegotiation are stressed.

The first is the severe limitations which the present external situation places on economic policy in the vast majority of countries in the region. Clearly, it will be more difficult and more costly to expand Latin America's exports if international trade does not regain its previous rate of increase; hence, it will also be more difficult and costly to make the transition from the present recessionary adjustment—which is based on an unsustainable reduction in imports—to an expansionary adjustment based on the growth and diversification of exports. It is also evident that so long as external financing remains as scarce as it has been during 1982-1983 and international interest rates stay near their present heights, the region will continue to transfer resources out of the region in real terms and a larger proportion of the current

account deficit will have to be covered by resorting to costly adjustment policies.

The second overall factor relates to the excessive aggregation of the economic policies used to reduce the external imbalance and to their cost in terms of a decrease in economic activity and employment. At least in some cases, the cost could have been lower if economic policy tools had been used more selectively and pragmatically, taking into account the greater rigidity and slowness, especially on the short term, of resource allocation in economies exhibiting such a marked internal structural heterogeneity as the Latin American economies.

Finally, one last comment should be made about the

importance attributed in the study to the topic of adjustment. As is well known, this is a process which is more closely related to short-term policy and problems relating to the current economic situation than to long-term strategy or the broad structural changes which characterize the development process and which make it possible. A careful study of this subject does not, certainly, detract from the importance of these latter aspects—which continue to be basic factors—but is only an attempt to examine and try to understand a problem which constitutes one of the major challenges now being faced and which must be overcome in order to make progress in the future towards a more dynamic, autonomous and equitable type of development.

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